NatWest Group

NatWest Group plc

2021 Annual Report and Accounts

Thrive Together

Contents

Approval of Strategic report

The Strategic report for the year ended 31 December 2021 set out on pages 1 to 81 was approved by the Board of directors on 17 February 2022.

By order of the Board

Jan Cargill
Chief Governance Officer and Company Secretary
17 February 2022

Chairman:
Howard Davies
Executive directors:
Alison Rose (Group CEO)
Katie Murray (Group CFO)
Non-executive directors:
Frank Dangeard
Patrick Flynn
Morten Friis
Robert Gillespie
Yasmin Jetha
Mike Rogers
Mark Seligman
Lena Wilson

Our 2021 reporting suite brings together NatWest Group's financial, non-financial and risk performance for the year. The reports are designed primarily to meet the expectations of our investors (including holders of bonds issued under our green, social and sustainability framework), as well as regulators, and our wider stakeholders, including customers, colleagues and society more broadly. The main reports within this suite and their focus are detailed below:

Available within this report:

Strategic report: an overview of our business, our 2021 financial and non-financial performance and progress against our purpose-led strategy to champion potential, helping people, families and businesses to thrive.

Governance and remuneration report: a review of our corporate governance and remuneration, including the Report of the directors and Annual report on remuneration.

Risk and capital management report: an overview of the management of key risks relating to our business operations and disclosures on our capital, liquidity and funding position.

Financial statements: our financial statements and related notes, including the independent auditor's report.

Mica Johnson,
Owner, Floral Glory

At www.natwestgroup.com

Company announcement and Financial supplement
Our latest company information including our financial performance for the year with a focus on key metrics and measurement.

Climate-related Disclosures Report
Details our progress in 2021 on our climate ambitions including an overview of our approach to climate related governance, strategy (including scenario analysis), risk management, metrics and targets.

ESG Supplement
Provides an overview of our purpose in action and key environmental, social and governance matters including progress in 2021.

Pillar 3 Report
Focuses on our regulatory reporting requirements and provides an explanation of our risk profile, including our capital adequacy, risk appetite and risk management.

NatWest Group champions potential, helping people, families and businesses to thrive.

We are the UK's leading business bank, and we serve 19 million customers across every region of the UK.

As a relationship bank for a digital world, we are helping to break down barriers that hold back our customers and we are helping to build their financial confidence.

Because when people, families and businesses thrive, we all…

Thrive Together

Financial strength enables our purpose

We have delivered a strong operating performance in 2021. Group RoTE was 9.4%, benefiting from a £1.3 billion net impairment release. We achieved our Group cost reduction target of 4.0% and lending growth across our UK and RBSI retail and commercial businesses was 2.6%, excluding UK Government financial support schemes. Our capital and liquidity position remains strong after returning £3.8 billion to shareholders, and default levels have remained low across all our portfolios. The CET1 ratio was 18.2%, reducing to 15.9% on 1 January 2022 following regulatory RWA and capital changes. We have made good progress on our phased withdrawal from the Republic of Ireland and will focus the financial commentary below on the Group excluding Ulster Bank RoI (Go-forward group).

Total income, excluding notable items, in the Go-forward group was 5.6% lower than prior year. Across the UK and RBSI retail and commercial businesses income increased by 1.4% reflecting strong balance sheet growth, principally in our mortgage book. NWM income was below expectations, down by 61.5%, compared with 2020, reflecting continued weakness in Fixed Income, impacted by subdued levels of customer activity and ongoing reshaping of the business, and exceptional levels of market activity in the prior year.

We delivered a cost reduction of £256 million, or 4.0%, in 2021, in line with our target for the year[1]. This has been achieved by transformation across our customer journeys and NWM business, in line with the strategic announcement made in February 2020 and a £68 million reduction in the bank levy charge. Strategic costs of £787 million included £237 million in NWM related to transformation, £124 million of redundancy charges, £88 million of technology spend, and an £85 million goodwill impairment.

A net impairment release of £1,278 million reflects the low levels of realised losses we have seen across the year. Total impairment provisions reduced by £2.4 billion to £3.8 billion during 2021 and as a result ECL coverage ratio decreased from 1.66% to 1.03%.

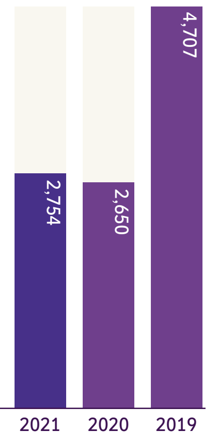
We are pleased to report a 2021 attributable profit of £2,950 million, with earnings per share of 25.4 pence and a RoTE of 9.4%. A final dividend of 7.5 pence per share is proposed, bringing our total 2021 paid and proposed capital distributions to £3.8 billion through a combination of ordinary dividends, directed buybacks of the UK Government stake and our on-market buyback programme.

Across the UK and RBSI retail and commercial businesses, and excluding UK Government support schemes, net lending increased by 2.6%. Mortgage growth exceeded the market, however commercial lending was behind market as we have sought to reduce certain exposures, through targeted sector reductions and capital actions, whilst continuing to focus on supporting customers through sustainable lending. During the second half of the year we completed £8.1 billion Climate and Sustainable Funding and Financing against our £100 billion target.

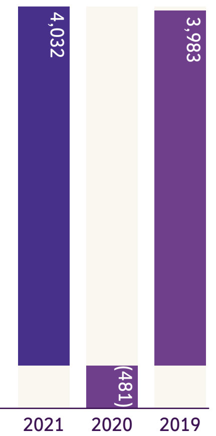
The CET1 ratio remains strong at 18.2%, or 17.8% excluding IFRS 9 transitional relief. The 30 basis points reduction in the year includes capital distributions of c.240 basis points, partially offset by the reduction in RWAs, c.170 basis points, and the attributable profit net of IFRS 9 transitional relief and other capital movements. RWAs of £157.0 billion reduced by £13.3 billion in 2021 mainly reflecting business movements in Commercial Banking, including targeted sector reductions, improvement in risk parameters and active capital management.

On 1 January 2022, the proforma CET1 ratio was 15.9% including the impact of regulatory RWA inflation, 200 basis points, the removal of the software development costs capital benefit, 20 basis points, and the tapering of IFRS 9 transitional relief, 10 basis points. RWAs increased by £18.8 billion, including £14.8 billion associated with mortgage risk weight changes.

Operating profit before impairment losses £m



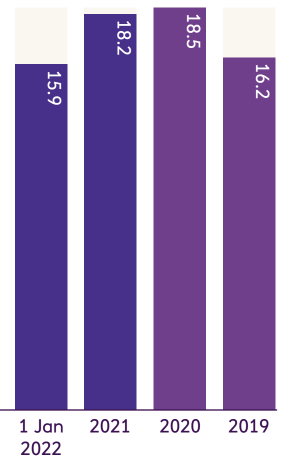
Operating profit/(loss) before tax £m



Profit/(loss) attributable to ordinary shareholders £m

Operating expenses £m

CET1 ratio %



Total capital return to shareholders (paid and proposed) £bn

(1) Total expenses excluding litigation and conduct costs, strategic costs, operating lease depreciation (OLD) and Ulster Bank RoI direct costs.

Operational highlights

	2021	2020	2019
Growth			
UK and RBSI retail and commercial businesses net lending excluding UK Government support schemes	305.7bn	£297.9bn	£289.7bn
Gross new mortgage lending in Retail Banking	36.0bn	£31.5bn	£33.3bn
AUM Net New Money (NNM)	£3.0bn	£1.5bn	£0.6bn
Percentage of customers using digital channels exclusively to interact with us			
Retail Banking	60%	58%	46%
Commercial Banking	83%	82%	76%
Simplification			
Reduction in other operating expenses	£256m	£277m	£310m
Artificial intelligence – retail banking Cora conversations	10.7m	8.4m	5.4m
Video banking interactions per week	10,200	3,300	<100
Capital			
Directed buyback value	£1,125m	–	–
On-market buyback value	£676m	–	–
Dividend per share (paid and proposed)	10.5p	3p	14p
Risk-weighted assets (RWAs)	157.0bn	170.3bn	179.2bn
CET1 ratio	18.2%	18.5%	16.2%
As at 1 Jan 2022	15.9%	–	–
Return on tangible equity	9.4%	(2.4%)	9.4%

Read more about our strategic priorities on pages 18 and 19.

Building a purpose-led bank **to champion potential**

We champion potential; breaking down barriers and building financial confidence so the 19 million people, families and businesses we serve in communities up and down the country can rebuild and thrive.

Howard Davies
Chairman

For much of 2021, there was a growing sense of cautious optimism that we might finally have put the worst of the COVID-19 pandemic behind us. However, towards the end of the year, our resilience was put to the test once more as the spread of new variants necessitated the reintroduction of various restrictions.

That brought particular challenges for our colleagues, our customers and for the bank itself. But it also presented opportunities and NatWest Group's commitment to helping people, families and businesses to thrive has never been more important. We are building from extremely robust foundations as a bank which holds strong market positions, serving 19 million customers throughout the UK.

For the moment, a number of the key economic indicators remain relatively positive – growth has returned, unemployment is low, and the bank is seeing little in the way of significant defaults among its customers.

However, there is no doubt that the rising cost of living is making life difficult for many. It seems certain that inflation will continue to increase in the short term at least – especially as energy prices remain high. And we are yet to see the full impact that the end of government support schemes will have on the employment or housing markets. The uncertainty is not just COVID-19-related, with global, European and domestic political considerations also having an impact.

The Bank of England's response has been limited so far and while the market is anticipating a continued trajectory of rate rises over the next twelve months, the low interest rate environment is set to persist for some time to come.

'The extensive support that the bank has provided to its customers, colleagues and communities throughout the pandemic was a key focus for the Board in 2021. We also spent a significant amount of time ensuring that the implementation of the bank's strategy and transformation agenda was subject to rigorous oversight and scrutiny.'

Against that backdrop, NatWest Group delivered a strong financial performance in 2021, returning to profitability and writing-back some of our pandemic-related impairment provisions as the economic outlook improved. The bank's share price also saw a sharp recovery throughout the year, increasing around 35% and outperforming our UK peers.

As our economy recovers and is reshaped to reflect new and accelerating trends, we are focused on delivering sustainable growth by creating deeper relationships with our customers and giving them the support they need at every stage of their lives – whether that is buying a house, saving for retirement or setting up and growing their own business.

The UK banking industry as a whole has held up well during the pandemic, remaining open for business and well capitalised. NatWest Group retains one of the strongest capital ratios among major European banks and we once again comfortably passed the Bank of England's stress test in December 2021, further demonstrating the resilience of our balance sheet to future crises. This, combined with our continued capital generation, means our bank is well placed to support its customers, invest for growth and drive sustainable returns to shareholders.

£3.8 billion shareholder distributions were announced for the financial year 2021, through buybacks – both directed and on-market – and dividends. We also announced that we would distribute at least £1 billion in dividends each year to 2023 as we continue to optimise our capital ratio.

UK Government Investments (UKGI), which manages the government's shareholding, announced three separate transactions during the course of 2021: the directed buyback by NatWest Group; an on-market placement of shares; and an ongoing trading plan. The government stake reduced from 62% at the start of 2021, to less than 53% by the end of the year.

£3.8 billion

(paid and proposed) shareholder distributions announced for 2021

Final dividend of

7.5p per share

This was welcome progress. And we may take part in further directed buybacks at the next opportunity, subject to agreement from HM Treasury. Any transaction of this nature could take the government's shareholding below 50% for the first time since the financial crisis. And while that would have little impact on our governance or operations, it would be an important symbolic moment for our bank.

NatWest Group's financial performance has also been reflected in the bonus pool for 2021, which has increased from the previous year, where a significant reduction was made to reflect our COVID-19-related losses. It is important to note, however, that the bonus pool is slightly down on pre-pandemic levels.

It has been a period of relative stability in terms of Board composition, with no changes to our membership in 2021. As you would expect, we keep the composition, skills and experience of the Board under review, and over the next year or so we will need to recruit new members to cope with planned retirements. In the main, the Board continued to meet virtually throughout 2021. For 2022, we intend to adopt a hybrid calendar with some meetings being held virtually and some meetings in person, subject to relevant government guidelines. Our virtual meeting technology has served us well during the pandemic and we will continue to use it to support the efficient and effective running of the Board.

The extensive support that the bank has provided to its customers, colleagues and communities throughout the pandemic was a key focus for the Board in 2021. We also spent a significant amount of time scrutinising the implementation of the bank's strategy and transformation agenda as well as enhancing our oversight of the bank's culture.

The progress that Alison Rose and her strong and capable leadership team have delivered in the last two years has helped to ensure that NatWest Group is well placed to succeed and grow as the needs and expectations of our customers evolve. We are delivering on our purpose, underpinned by our strategic priorities, and as a result, generating long-term growth for our business, playing a positive role in our communities and driving sustainable returns to our shareholders. We know that by championing the potential of the 19 million people, families and businesses we serve, we will help them to thrive. And if they thrive, so will we.

Howard Davies
Chairman

We champion potential, helping people, families, **and businesses to thrive**

Our future and our growth are built on this one, clear purpose. It's what drives us, defines us, and guides us. Because getting this right means success – for ourselves and for everyone we serve.

Alison Rose
Group Chief Executive Officer

NatWest Group's execution is centred around our purpose, driving sustainable growth through our strategic priorities. We are a relationship bank for a digital world, building ever deeper and closer connections with our customers throughout their financial lives, enabling people, families and businesses to thrive.

As I look back on 2021, I'm filled with admiration for the resilience and adaptability that our colleagues and customers have demonstrated during the pandemic. Faced with unprecedented and constantly evolving challenges to the UK's public health and economy, the collective response has been nothing short of extraordinary.

As it has been throughout the pandemic, the health and well-being of our colleagues and customers continues to be our highest priority. In particular, for the key workers who have remained in our offices and branches to provide the level of service and support our customers have needed to rebuild and thrive.

NatWest Group is the UK's leading business bank. It is also a truly regional bank, serving 19 million customers throughout the UK. We are proud of the role we play and the relationships we already have across every part of the country. And we are well positioned to deepen these relationships and to help our customers, our economy and our bank to grow because of the actions we have taken in recent years.

Thrive together

In spite of the difficult economic environment and the pressure this continues to place on people, families and businesses up and down the country, the UK remains an attractive and entrepreneurial market, with small and medium-sized enterprises (SMEs) driving around half of UK turnover and employing 60% of the private sector workforce. It is also an increasingly competitive market, where banks have to maintain their relevance to earn their growth.

As the economy starts to recover and grow, customers' expectations of banks are changing faster than ever. So too is the way people live and work. Customers want a simple, engaging experience, designed to anticipate particular needs and reflect their priorities, just as they have in other areas of their lives.

When I first took up my role as Chief Executive, we committed to a purpose that guides all of our decision-making – we champion potential, helping people, families and businesses to thrive. We also set out clear areas of strategic focus to deliver on this purpose in order to drive sustainable returns for our shareholders and build sustainable value in our bank. We are executing well against these areas of focus, delivering growth in key areas while controlling costs, better allocating our capital and accelerating our digital transformation.

As a relationship bank for a digital world, our focus now is on the opportunities we see for future growth. It is a simple principle: if our customers and economy thrive, so will we.

Sustainable growth will come from ever closer and deeper relationships with our customers at every stage of their lives. Relationships that are based on insight and shared goals, delivering a simpler customer experience that removes complexity and frustration. Relationships that reflect customers' values and aspirations for themselves and society. Relationships that start earlier in our customers' lives and which adapt to meet their evolving needs. All of which will be enabled by the strategic partnerships and acquisitions we have made, and by our efforts to simplify how customers interact with our bank so they can enjoy an easier, frictionless banking experience. It will also be driven by a better allocation of our capital – with £3 billion being invested in the business across a three-year period from 2021 to 2023, in addition to the sustainable returns we are delivering to shareholders.

Delivering on our strategy

Of course, we are building from strong foundations. Our operating profit for 2021 of £4.0 billion (£4.3 billion including operating profit from discounted operations[1]) increased from a loss of £481 million (£351 million loss including operating profit from discounted operations[1]) the year before. This included impairment releases of £1.3 billion, which reflected the low levels of realised losses we have seen across the year.

We also continued to make progress against our other financial targets. The bank's net lending – excluding government schemes – grew by £7.8 billion in 2021, primarily driven by growth in mortgages. We removed a further £256 million of costs from the business and retain a capital ratio well above our target range.

At the same time, our digital transformation accelerated as our customers chose to interact with us in different ways. Around 60% of our retail current account holders now only interact with us digitally[1] and we have seen further strong growth in mobile payments and video banking. This digitalisation of customer journeys is crucial to our future growth, and our Net Promoter Scores are improving in key segments as a result. For example, our much-improved online process for renewing mortgages now takes as little as 10 minutes.

We are also using our digital capabilities to keep our customers safe and to build their financial capabilities, with credit scoring now available in our app, dedicated support lines available for customers in vulnerable situations and more than 1 million customers growing their savings with us by £100 or more for the first time.

As the UK's leading business bank and a committed champion of start-ups, we are removing barriers to enterprise, tackling inequality and supporting growth by helping entrepreneurs achieve their ambitions. We offer the UK's largest fully funded business accelerator network, with accelerator hubs across the country providing support for high-growth businesses, especially those led by under-represented groups. During the pandemic, we pivoted this support for entrepreneurs to be delivered digitally, as we did with our 'Dream Bigger' programme which helps 16–18-year-old girls develop transferable entrepreneurial skills. We also helped create the SME Transformation Taskforce to unlock the growth opportunity for the UK economy, identified in our 'Springboard to Sustainable Recovery' report.

(1) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of Non-IFRS financial and performance measures.
(2) Retail Banking current account customers only based as at 31 December 2021 – metric is 87% of our retail customer needs are now met digitally, with 60% of our customers banking entirely digitally. Only activity in the last quarter is considered.

Our investment case: delivering against our strategic priorities to help our customers to thrive and drive sustainable returns for shareholders

A purpose-led company with clear strategic priorities, strong market positions and capacity to grow.	Supporting 19 million customers throughout the UK.	Investing in our digital proposition to better serve customers and reduce cost.	Committed to embedding ESG principles and leading on climate action.	Capital generative business enabling us to reinvest for growth and return excess to investors.	Underpinned by a robust balance sheet and an intelligent approach to risk.
Focused on generating long-term sustainable value and a return on tangible equity of comfortably above 10% for the Group in 2023.	Accelerating growth		Simplification via digital and technology	Disciplined deployment of capital	Long-term sustainable returns and distributions
	Income excluding notable items to be above £11.0 billion in 2022 in the Go-forward group.[1,2]	Provide an **additional £100 billion** of Climate and Sustainable Funding and Financing.[3]	**~3% cost reduction** per annum through to 2023.[1,4]	CET1 ratio of **13-14% by 2023, ~14% by the end of 2022.**	Intention to **distribute a minimum of £1 billion** in each of 2022 and 2023.

(1) Go-forward group excludes Ulster Bank RoI.
(2) Income excluding notable items.
(3) Between 1 July 2021 and the end of 2025.
(4) Go-forward group other operating expenses defined as total expenses excluding litigation and conduct costs.

Turning to our own business, the capital restructuring of NatWest Markets has made substantial progress. It is simpler, less capital intensive and better able to create opportunities for our commercial customers by meeting their financing and risk management needs, and by providing access to global markets as well as leadership in high-growth areas, such as the green and sustainable bond markets. As a result, we are creating a new franchise called Commercial and Institutional by bringing together our Commercial Banking, NatWest Markets and RBS International businesses. The creation of this new franchise is a further step in removing complexity and becoming a simpler bank for customers to deal with.

We continue to make good progress on our phased withdrawal from the Irish market, minimising job losses and protecting services while supporting our customers and colleagues to allow a smooth transition. During the year, we signed two agreements with Allied Irish Banks p.l.c. (AIB) and Permanent TSB p.l.c. (PTSB) which account for about 60% of the Ulster Bank loan book in the Republic of Ireland, including the transfer of colleagues, wholly or mainly supporting the relevant portfolios and 25 branch locations.

These structural changes, along with our strong capital position and continued capital generation, mean that we are well placed to invest for growth, to provide the support our customers need as the economy recovers and to drive sustainable returns to shareholders, with £3.8 billion shareholder distributions announced for 2021 through dividends and buybacks.

The bank's financial performance in 2021 also included a fine following breaches of the Money Laundering Regulations 2007. NatWest Group takes its responsibility to prevent and detect financial crime extremely seriously. We deeply regret that we failed to adequately monitor one of our customers between 2012 and 2016 to prevent money laundering. And while the case has now come to an end, we continue to invest significant resources in the ongoing fight against financial crime and fraud.

We are delivering our strategy through four strategic priorities, with the aim of driving long-term sustainable value and delivering on our 2023 targets, which we are now updating. In 2022, we expect to deliver income excluding notable items of above £11.0 billion in the Go-forward group[1,2]. We are amending our cost reduction target to around 3% per annum for 2022 and 2023[2,3], reflecting higher inflation and our ongoing investment in the business. Nevertheless, we maintain a strong focus on continued cost discipline. We retain our 2023 CET1 ratio of 13–14%, and we have upgraded our return on tangible equity target in 2023 to comfortably above 10% for the Group.

Tackling climate change

One key area where our bank has a critical role to play is in helping to tackle climate change. It is the biggest challenge we face as a society, requiring collaboration and co-operation on a global scale, and NatWest Group was proud to sponsor the COP26 global climate conference which took place in Glasgow in October/November 2021.

Our industry has a responsibility to drive and influence positive change. As such, NatWest Group is committed to getting its own house in order, bringing to an end the most harmful activity and providing the support, advice and products our customers need in order to accelerate the transition to a net-zero economy.

We are one of the few banks to offer a Green Mortgage product, with £728 million of lending to retail customers since its launch in Q4 2020, and we established the Sustainable Homes and Buildings Coalition with British Gas, Worcester Bosch and Shelter to improve the energy efficiency of buildings in the UK. Working with the fintech company CoGo, we were also the first bank to introduce a carbon-tracking feature in our mobile banking app. And we are helping colleagues and customers to move to electric vehicles through a collaboration with Octopus Energy.

Our Springboard to Sustainable Recovery report found that the transition to net zero can create a huge opportunity for SMEs. Close to 40% of our accelerator hubs are dedicated to supporting sustainable businesses to help our most innovative start-ups to take advantage of this opportunity. There is a clear societal responsibility here, but also an obvious commercial imperative in helping our customers to thrive as we transition to net zero.

Building a culture to champion potential

In seeking to make a positive contribution to the communities we serve, we are also building an open, inclusive and progressive place to work, breaking down barriers for our customers and for our colleagues.

We are a learning organisation and our culture is critical to our future success. We have worked with our colleagues as well as with our customers, suppliers and communities to create a new set of values that reflect the organisation we are today. Values that match the ambition, optimism and energy our purpose has given us, and that we can all believe in.

This builds on the progress we have made in recent years as we consider the needs of all our colleagues and stakeholders. In 2021, we launched our global Talent Academy to help identify and develop colleague potential, with almost 4,000 accepted onto the programme. We also offered mental health workshops for our line managers and our 1,300 Wellbeing Champions, as well as seeing strong take up of our virtual GP and physiotherapy offers.

(1) Income excluding notable items.
(2) Go-forward group excludes Ulster Bank RoI.
(3) Go-forward group other operating expenses defined as total of expenses less litigation and conduct

Outside the bank, we launched our 'CareerSense' programme, providing more than 8,200 young people with free access to tools that will develop critical skills and support their employability prospects. We were also recognised by the 'Good Business Pays' campaign for our commitment to paying our suppliers the day after receiving an invoice, in line with the Supplier Charter which we introduced in 2020.

In our top three layers globally, 38% of roles are currently filled by female colleagues, a 9% increase since we first introduced our target to have a full gender balance in these roles by 2030, but a 1% decrease from 31 December 2020. We know we have more to do and we continue to focus on the recruitment, retention and advancement of women to meet our 2030 target.

In 2020, we launched the Racial Equality Taskforce to listen, learn and better understand the barriers faced by colleagues, customers and communities from Black, Asian and Minority Ethnic backgrounds. Of those who disclose their ethnicity, we have an aggregate of 11% Black, Asian and Minority Ethnic colleagues in our top four layers in the UK; a 3% increase since our 14% target was first introduced in 2018.

Living up to our purpose

Over the coming years, we will create a closer and deeper relationship with the people, families and businesses that we serve throughout the UK. From teenagers to retirees, from newlyweds to new homeowners and from start-ups to the largest multinationals, we will understand them better, provide more value to them and help them to thrive.

By playing such a central role throughout the lives of our customers, by taking action on the issues they care about and by retaining their business as their needs and aspirations change, our bank will go from strength to strength.

More than that, it will make a meaningful contribution to our society, helping to grow and transition our economy as we move towards net zero, sustainably growing our business by living up to our purpose.

Alison Rose
Group Chief Executive Officer

Climate change in conversation

Alison Rose talks about the legacy of COP26 and NatWest Group's continued commitment to help reach the 2015 Paris Agreement goals.

What did it mean for NatWest Group to be a principal partner of COP26?

Firstly, it was a huge honour. As one of the UK's biggest banks – and indeed the biggest for business – we have both the ability and the responsibility to take a major role in the fight against climate change.

We wanted to achieve two things at the conference: to demonstrate how we can support our customers; and to ensure that we play a leading role in the global coalition of financial services organisations tackling climate change.

We know the financial sector is a key enabler in the drive towards net-zero emissions, so we invited our customers to COP26 and held events that explained the huge opportunity that climate change can bring to businesses. We formed alliances to help customers 'green' their homes, and collaborated with organisations such as CoGo to help our customers understand their carbon footprint. In this sense, we saw the conference as an incredible chance to showcase and develop the practical support we can offer our retail and business customers to lower their emissions.

With regard to collaborative action, we signed up to the UK Government's joint declaration on accelerating the transition to 100% zero emission vehicles, as well as announcing that we will be one of 27 new members of the Powering Past Coal Alliance, to accelerate the global transition from coal. This follows on from our role as a founding member of the Net Zero Banking Alliance and becoming part of the new coalition of the Glasgow Financial Alliance for Net Zero (GFANZ).

You mention the financial sector is a key enabler, how can banking make a difference?

Banks have a vital role to play – by providing customers with access to the necessary finance, expertise and products, there is the chance to drive real, positive change.

Importantly, I believe this is not only good for the planet, but good for business too. Our 'Springboard to Sustainable Recovery' report clearly highlights this. The report shows that small and medium-sized enterprises (SMEs) can deliver a significant amount of the UK's abatement targets, if they get the right support. And this, we believe, is a huge opportunity for businesses.

Demand for the financing to make this happen is already significant. In 2020, we set out to provide £20 billion of Climate and Sustainable Funding and Financing over two years. I am delighted that we met this initial target in under 18 months, so in October 2021 we committed to an ambitious new goal of providing an additional £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

Education and guidance are also key, which is why we worked with fintech company CoGo in 2021 to introduce a carbon-tracking feature in our mobile banking app helping retail customers reduce the climate impact of their spending. We are also working on similar pilot schemes for our business customers.

What do you think will be the biggest legacies of COP26?

I think history will judge COP26 as the point when serious, collective climate action began across all industries and all countries. In particular, it showed the private sector starting to act together and at scale: putting their own houses in order; taking action on deforestation and biodiversity loss; and focusing on the opportunities of the transition to net zero.

Most of all though, as 100,000 activists walked the streets of Glasgow, it felt like a rallying call to embed climate in all our decisions. Time will tell, but I hope that COP26 will be remembered as the moment where climate change truly became a global priority.

Read more about our Climate-related disclosures on pages 64 to 71.

Our purpose framework

A relationship bank for a digital world

We are guided by our purpose

We champion potential, helping people, families and businesses to thrive

Read more on page 13

We are informed by the needs of our stakeholders

Delivering long-term sustainable value and attractive returns, now and for the next generation

- **Customers**
- **Investors**
- **Colleagues**
- **Communities**
- **Regulators**
- **Suppliers**

Read more on pages 14-17 and 54-63

We have four strategic priorities…

Focused on growth, underpinned by our values and an intelligent approach to risk:

- **Supporting customers at every stage of their lives**
- **Powered by innovation and partnerships**
- **Simple to deal with**
- **Sharpened capital allocation**

Read more on pages 18-19

…creating a positive impact through our areas of focus

- **Climate**
- **Enterprise**
- **Learning**

Read more on pages 30-31

Our purpose

NatWest Group champions potential, helping people, families and businesses to thrive. Because when they thrive, so do we.

Our purpose guides and underpins everything we do. It enables us to build long-term value, to invest for growth, to make a positive contribution to society and to drive sustainable returns for shareholders.

Our stakeholders

We aim to balance the different interests of our stakeholders – customers, investors, colleagues, communities, regulators and suppliers – in all our decision-making, especially when there are difficult choices to be made. We also recognise the need for transparency and openness, regularly engaging and seeking the views of our stakeholders.

Our blueprint for better business

Honest and fair with customers and suppliers

A good citizen

Our purpose:
Deliver long-term sustainable performance by championing potential, helping people, families and businesses to thrive

A responsible and responsive employer

A guardian for future generations

Our robust balance sheet, strong capital position and capital generative businesses mean we are well placed to support our customers and invest for growth, as well as driving sustainable returns to shareholders and creating long-term value for all our stakeholders.

Our strategy

We are a relationship bank for a digital world. Our strategy for growth delivers on our purpose and drives sustainable returns to shareholders through four strategic priorities: we will support our customers at every stage of their lives; we will be powered by innovation and partnerships as we accelerate our digital transformation; we will be simple to deal with; and we will allocate our capital in a way that delivers for customers and shareholders.

Our values

Our values are at the heart of how we deliver our purpose-led strategy. In 2021, responding to feedback from stakeholders, we engaged with colleagues, customers and communities to re-envision a modernised set of values that fully align with our strategic priorities. These collaborative and evolved values will be launched in 2022 and will form an integral part of our cultural identity.

Our positive impact

We recognise the huge responsibilities that our role brings – from supporting the day-to-day financial needs of 19 million customers, to the positive impacts we can have on the environment and wider society.

We have identified three focus areas where we can make a meaningful contribution and build long-term value in our business:

Climate

We have made addressing the climate challenge and supporting our customers in their transition to net zero a key strategic priority.

Enterprise

We are committed to removing barriers to enterprise and providing businesses in the UK the support they need to grow.

Learning

We are helping people to take control of their finances, to make the most of their money, safely and securely – now and in the future.

Stakeholder engagement

How we engage across the company

How we engage at Board level

For further information on how stakeholder considerations influenced the Board's discussions and decision-making, refer to our section 172(1) statement on pages 52 to 53, and our Corporate governance report on page 102.

Our business is made up of a network of relationships. Listening, engaging and partnering with stakeholders helps us to address our business impacts and improve outcomes for customers, society and the environment. Below, we highlight who our key stakeholders are and some examples of how we collaborate with them to create value.

Key ESG topics for our stakeholders

In 2021 we carried out an Environmental, Social and Governance (ESG) materiality assessment, involving a programme of stakeholder engagement to deepen our understanding of the ESG topics that matter most to them. The findings guide our reporting and decision-making, ensuring we remain focused on the right issues. While we have identified climate, enterprise and learning as the three focus areas of our purpose where we can make a meaningful contribution, our 2021 assessment confirmed that our stakeholders believe there are many other important ESG topics for NatWest Group to consider, particularly those related to our core business responsibilities.

Read more about our ESG materiality assessment, including our methodology, in our 2021 Environmental, Social and Governance Supplement.

How we engaged	What we discussed	Outcome of engagements	Challenges we faced
Customers – the people and businesses we serve		(*) Within the scope of EY assurance. Refer to page 78	
– Face to face with retail customers via branches, mobile branches and with our community bankers. Also, through our video banking, telephony and secure messaging services.	– We support customers with their financial wellbeing, goals and plans, our products and services, and with advice on how to avoid fraud and scams.	– In 2021 we delivered 6.1 million[*] financial capability interactions and helped 470,813[*] additional customers start to save. We helped 111,895 people to identify scams and know where to go to get help in 2021.	Several customers reached out to us expressing their dissatisfaction at the closure of their local branch. The way people bank with us has changed dramatically in recent years, with an increased demand for mobile and online services as customers benefit from a faster and easier way to bank. However, we still have more than 800 branches open and 16,000 physical points of presence including our ATM network and our relationship with the Post Office. Closing a branch is a decision we take very seriously – we know it can affect people who are less confident with the alternatives we offer. We will strive to guide those customers through the changes and find the best way to serve them from now on.
– Customer surveys including Net Promoter Scores (NPS), syndicated surveys, focus groups and listening sessions.	– Customer experience and satisfaction, climate change (including COP26), problem debt and financial distress, our youth proposition, and building thriving local communities.	– In terms of customer advocacy in 2021, NPS for Retail Banking improved by six points for NatWest and seven points for Royal Bank of Scotland. In Commercial Banking, NatWest maintained a leading score in the market while Royal Bank of Scotland is one of the leading brands – refer to page 56 for full details.	
– Complaints.	– Examples included service quality, and processes such as fraud blocking and customer due diligence.	– Complaints provided us with the opportunity to improve our journeys for customers and enhance colleague capability.	
– With businesses, through Bankline for our business and commercial customers; our Accelerator, Business Builder and Digital Boost programmes; and our Banking on Business Surveys, polls and discussions.	– COVID-19, Brexit, support for small and medium-sized enterprises (SMEs), removing barriers to enterprise, UK Government's Levelling Up agenda, transition to a net-zero economy.	– Our Digital Boost collaboration has supported SME recovery and helped drive inclusive economic growth. We have committed to support Digital Boost to offer expertise to 500,000 women and 200,000 people from ethnically diverse backgrounds.	
– Customer engagement programme for non-executive directors. – Customer feedback videos.	– Customer experience and how our customers think about us. – Changing customer behaviours and product feedback.	– Non-executive directors were able to observe customer-facing colleagues in action and to hear customer feedback as part of a focus group or customer listening surgery. – Feedback videos were shown to NatWest Group Board as part of the annual Board strategy session and provided useful insights to help inform Board discussions.	
Colleagues – the people who deliver our purpose			
– Our View opinion survey.	– Our View asks for colleague opinion on topics such as purpose, wellbeing, inclusion, leadership and reward.	– Our View September 2021 survey results showed that overall colleague sentiment remains strong, despite the impact of the pandemic.	Over 46,700 colleagues (81%) participated in our September 2021 Our View survey. Despite colleague sentiment on culture, purpose, inclusion and building capability remaining strong, scores in the reward category have declined since 2020, but remain aligned with the Global Financial Services Norm (GFSN) in all but one question. We will seek to address this, subject to performance, in 2022. Across all 15 measured categories, NatWest Group is an average of 11 percentage points above the GFSN and five percentage points above the Global High Performance Norm (GHPN).
– Wellbeing Champions, Inclusion Champions, Our Colleague Experience Squad and employee-led networks.	– Our colleague representative groups are passionate about advancing topics that influence our culture, such as wellbeing; new ways of working; diversity, equity and inclusion; colleague capability; and remuneration.	– Our c.1,300 Wellbeing Champions supported and amplified our wellbeing strategy, signposting colleagues to the right resources at the right time. We continued to support our c.24,000 participant employee-led networks, who empowered colleagues and helped to create an inclusive workplace.	
– Team meetings, town halls and all-colleague webinars.	– Several of the above topics, plus our sustainability aims.	– In 2021, we transformed our approach to mandatory diversity, equity and inclusion learning. With help from some of our c.1,500 Inclusion Champions, we created an e-Learning module featuring videos focusing on lived experiences of colleagues.	
– Junior Management Team (JMT).	– The JMT mirrored the size and shape of the executive leadership team, and supported several strategic goals.	– The JMT created Mystery Meetups – an initiative that encourages connections across NatWest Group, promoting wellbeing and a one-bank mentality.	
– Colleague Advisory Panel.	– Wellbeing, remuneration (including executives and the wider workforce), climate, retail banking strategy, sustainability and purpose.	– The Colleague Advisory Panel continued to provide an important two-way communication channel between the Board and colleagues on key topics of interest.	
– Board and Group Sustainable Banking Committee (SBC) talent sessions with potential Group Executive Committee (ExCo) successors.	– Board: customer behaviour and purpose, sustainability and climate. – SBC: how we can continue to support, build relationships, and grow within the communities we serve.	– Executive talent sessions helped our non-executive directors get to know potential future leaders, through focused debates on strategic topics.	

How we engaged	What we discussed	Outcome of engagements	Challenges we faced
Communities – the places where we have an impact		(*) Within the scope of EY assurance. Refer to page 78	
– We continued to engage with our charity relationships, supporting them through Payroll Giving, colleague fundraising and volunteering, and disaster and emergency appeals. – We supported young people through the delivery of our MoneySense and CareerSense programmes. – NGOs, academia and think tanks.	– We discussed raising awareness of charitable donations, and enabling employee volunteering and fundraising opportunities through our Do Good Feel Good campaign. – MoneySense gave financial advice to young people while our CareerSense programme provided critical employability skills – especially to those from underprivileged backgrounds. – We discussed several climate-related topics, such as our lending policies, Paris Alignment, biodiversity and COP26.	– Our direct community investment in 2021 amounted to £7,266,818(*). Across all of our fundraising and volunteering programmes, our colleagues have given £3,543,533 and 43,003 worktime volunteering hours. – MoneySense has helped 10 million young people learn about money since it was launched in 1994, and is currently supported by over 6000 active volunteer colleagues. CareerSense has seen 8,200 pupil registrations since its launch in June 2021. – We sponsored COP26, published our first Nature and Biodiversity Statement, and signed up to the Net Zero Banking Alliance and other commitments.	During 2021, the COVID-19 pandemic resulted in NatWest Group temporarily closing two popular volunteering programmes – MoneySense for Schools and The Conservation Volunteers (TCV). MoneySense for Schools remained closed throughout 2021, though online resources were still available. However, due to the TCV programme being delivered outdoors, in June we were once again able to offer colleagues the chance to do their bit to help nature and biodiversity to thrive.
– The Chairman, Group CEO, Group CFO and selected non-executive directors attended the COP26 Climate Summit along with members of the executive team.	– Progress against our climate ambitions, goals and targets. – Regulatory and investor expectations in relation to climate.	– Non-executive directors and the executive team spent time talking with customers, colleagues and industry peers at a range of climate-focused events.	
Suppliers – where we source our goods and services			
– Regular review meetings with key suppliers. – Policy due diligence activity. – Audit reviews.	– Environmental and ethical sustainability. – Prompt payment. – Risk management.	– In collaboration with key stakeholders, we completed the first review of our Supplier Charter, which sets out our aims and expectations in several key areas. – We worked with EcoVadis – a leading organisation providing third-party evidence-based assessments of sustainability performance – to measure our own performance and that of our suppliers against the charter, enabling us to identify social, environmental and ethical improvements.	Where suppliers that underwent the EcoVadis assessment performed below the global average, we know there is more we can do to engage and support them in improving their performance on key sustainability topics. To achieve this, we have put in place a strategy for 2022 that aims to enable our suppliers to improve and help us cultivate a more responsible value chain.
– Business reviews (regular Board reports)	– Regular updates on key supplier and partnership relationships and initiatives being undertaken with them.	– Business review updates provided the Board with visibility on key supplier activity and how this supported our purpose, strategy, financial performance and climate ambitions.	
Investors – providers of the capital and funding that supports our business activities			
– Investor spotlight sessions, presentations at industry conferences and meetings with our senior management.	– These presentations provided a deep dive into key areas of the business, progress to date and future priorities.	– Institutional investors and research analysts gained a deeper understanding of our business and were able to ask questions of the wider management team.	COVID-19 restrictions presented a challenge for the 2021 AGM. As a solution to investors being unable to attend the AGM, we held a virtual shareholder event one week prior to the AGM. Investors had the opportunity to hear from Board members and ask questions prior to voting on the AGM resolutions. Answers and a recording of the event were made available on our website. Holding the event demonstrated that engagement with investors is a priority for the Board.
– The Chairman, Group CEO, and Group CFO took part in a programme of engagement through quarterly results presentations and 1-1 meetings with our largest investors. – The Chairman, Group CEO, and other non-executive directors represented the Board at three virtual shareholder events with private shareholders. – The Chairman and a number of non-executive directors hosted a corporate governance forum for investors.	– Progress against strategic priorities, financial performance, capital return policy, environmental, social and governance topics, regulation and the macroeconomic environment. – As above, plus a discussion around dividends and share price performance, supporting enterprise and tackling climate change. – Board succession planning, diversity and inclusion, key areas of Board focus, 'Say on Climate' resolutions.	– The Chairman, Group CEO and Group CFO have an open dialogue with institutional investors, updating investors on progress and keeping the Board informed about their views and priorities throughout the year. – Private shareholders also had the opportunity to raise any concerns directly with Board members at our virtual shareholder events. – Investors received an update on key corporate governance topics and the Board heard their views on evolving practice for Say on Climate resolutions.	
Regulators – who we seek to comply with			
– We engaged in several regulatory consultations.	– Alternative risk-free reference rates (to replace LIBOR). – Credit risk. – Cybersecurity. – Historical conduct issues. – Access to cash. – COVID-19 support measures and recovery. – Environmental, Social and Governance issues.	– We sent bilateral responses to material consultations or other requests for comment/input issued by various government, regulatory and standard setting bodies during 2021. – We engaged with regulators during the policy proposal phase on several occasions to help inform priorities – examples included the independent review of ring-fencing and proprietary trading and the FCA's proposals for a new consumer duty.	In December 2021, NatWest Bank Plc was fined £264.8 million by the FCA for three breaches of the Money Laundering Regulations 2007. We deeply regret that we failed to adequately monitor one of our customers between 2012 and 2016 for the purpose of preventing money laundering. We cooperated fully with the FCA's investigation. As part of its ongoing programme of investment in its people, processes and technology, NatWest Group's financial plans already include over £1 billion to further strengthen financial crime controls over the next five years.
– Prudential Regulation Authority (PRA) attendance at July 2021 Board meeting. – Non-executive directors engaged with regulators through continuous assessment and proactive engagement meetings.	– PRA periodic summary meeting (PSM) outputs. – Topics included strategy, financial performance, capital distributions, Board and Committee priorities, Board effectiveness, governance, risk and control environment, financial crime and ring-fenced bank independence.	– The Board were able to hear directly from the PRA on the key messages in the PRA's PSM letter, including regulator expectations for key areas of Board focus. – Engagement meetings allowed the directors to understand the regulators' key areas of interest and provide them with direct feedback on those topics.	

A strategy to deliver our purpose, **driving sustainable returns**

Our execution is centred around our purpose, driving sustainable growth through our strategic priorities. We are a relationship bank for a digital world, building ever-deeper and closer connections with our customers throughout their financial lives, enabling people, families and businesses to thrive.

Supporting customers at every stage of their lives

- We acquired fintech company RoosterMoney, whose pocket money app aims to build money confidence and financial capability from an early age.
- We delivered £2.2 billion of gross lending to small and medium-sized businesses in 2021 and processed 1 in 4 UK payments.
- In Retail Banking, we have completed £728 million of Green Mortgages since their launch in Q4 2020, rewarding customers for choosing an energy efficient home.
- We made it easier for our customers to understand their financial health, by providing c.1 million financial health checks during 2021.

Outcomes

We are more relevant to our customers by building deeper relationships and evolving our propositions to meet more of their needs throughout their lives.

Powered by innovation and partnerships

- Around £3 billion in investment continues to be made (over 2021–2023), of which c.80% relates to digital and technology programmes.
- As the first major bank to join forces with a renewable energy supplier through our collaboration with Octopus Energy, we offer our retail, business and wealth customers a tailored package that improves the cost and efficiency of owning and running an electric vehicle.
- Collaborating with the fintech firm CoGo, we were the first bank to introduce a carbon-tracking feature in our mobile banking app.
- We established the Sustainable Homes and Buildings Coalition with British Gas, Worcester Bosch and Shelter to improve the energy efficiency of buildings in the UK.

Through technology and digital expertise, we deliver an excellent customer experience by harnessing our internal knowledge and experience of partnering with leading external organisations around the world.

Simple to deal with

- 87% of our retail customer needs are now met digitally, with 60% of our customers banking exclusively digitally.[(1)]
- There were 10,200 video banker conversations per week in 2021 across Retail Banking, compared with 3,300 per week in 2020.
- In 2021, Cora, our AI virtual assistant, handled 10.7 million Retail Banking conversations, up 27% on the previous year.
- Following our investments to improve customer journeys, 70% of digitalised new account openings in Retail Banking were completed without human intervention in 2021; this compares with 45% in 2020.

By being simple to deal with we improve both customer experiences and colleague engagement. We focus on great customer service technology and improving customer journeys.

Sharpened capital allocation

- The NatWest Markets' refocus has made substantial progress in 2021; risk-weighted assets reduced from £38 billion in 2019 to £24 billion in 2021.
- We have made good progress on our phased withdrawal from the Republic of Ireland and expect the majority of the Allied Irish Banks p.l.c. (AIB) and Permanent TSB p.l.c. (PTSB) asset sales to be largely complete by the end of 2022 and deposits to reduce over a longer timescale.
- £3.8 billion shareholder distributions were announced for the financial year 2021.
- We completed £17.5 billion in Climate and Sustainable Funding and Financing in 2021, including £8.1 billion contribution towards our £100 billion target.[(2)]

Effective deployment of capital and efficient portfolio discipline helps manage risk and drives sustainable returns.

(1) Retail Banking current account customers only based as at 31 December 2021 – metric is 87% of our retail customer needs are now met digitally, with 60% of our customers banking entirely digitally. Only activity in the last quarter is considered.

(2) In October 2021, having surpassed our previous 2020-21 £20 billion target during H1 2021, NatWest Group announced an ambition to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025.

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Supporting customers at every stage of their lives

We're always here to help our customers when they need us.

So, when Nathalie decided to pursue her goal of buying a car to give her more flexibility when travelling, we were ready to support.

It was late afternoon on a Friday when Nathalie got in touch with us. She'd wanted a car for a long time and was unsure on how to go about it, but a prompt on her NatWest mobile app about a personal loan offer was the encouragement she needed to drive ahead with her plans.

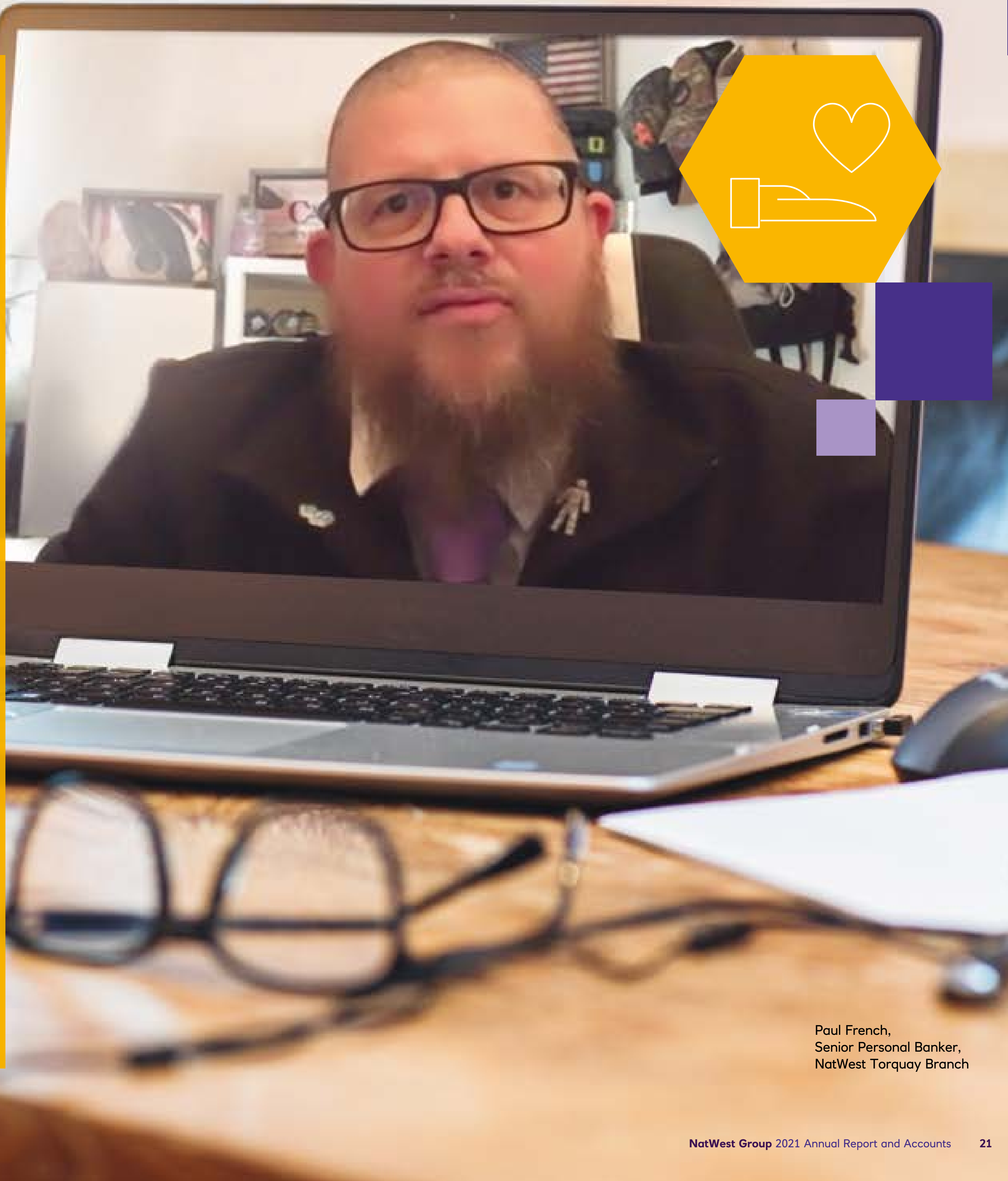
Nathalie booked a video call with us using her mobile app and was speaking to one of our team within 15 minutes. We made the process simple and easy for Nathalie, taking her through the loan application and also identifying that Nathalie would benefit from a savings account.

By 6pm that evening, Nathalie had the loan money in her account, giving her the financial support she needed to buy a car. We're passionate about getting to know our customers and supporting them with all their banking needs, whether we're helping them in-person in a branch, or through one of our innovative digital channels like video banking.

We think the help we gave to Nathalie is a great example of NatWest Group's determination to build deeper relationships with our customers and support them to achieve their different goals in life.

Watch the story online

"We're passionate about getting to know our customers and supporting them with all their banking needs"



Paul French,
Senior Personal Banker,
NatWest Torquay Branch

Powered by innovation and partnerships

Vernon is passionate about brewing, and sustainability.

His company, Wye Valley Brewery in Herefordshire, has grown from humble beginnings to now distributing to over 1,200 pubs, as well as selling to all the major supermarkets.

And as the business's operations have expanded over the years, so have its sustainability ambitions. Reducing its carbon footprint has been a key priority. The company had already installed over 1,000 solar panels, producing around 280 kilowatts of electricity, but it also wanted to make the switch to all-electric vehicles.

For Vernon, investing in sustainable and innovative technology is key to the long-term success of his business. And this is exactly where NatWest was able to help.

When Vernon mentioned his plans to the NatWest relationship manager, we were able to tell him of our collaboration with Octopus Energy. Through our collaboration – the first time a major bank and a renewable energy supplier have joined forces – we offer our retail, business and wealth customers a tailored package that improves the cost and efficiency of owning and running an electric vehicle.

The brewery now has eight charging points which the staff can use and are also open to the public. Vernon believes it has made a real difference in his company's shift to electric vehicles.

With our focus on partnerships and innovation, NatWest Group is making it easier and more affordable for our customers to make a positive difference to our environment.

Watch the story online

"With our focus on partnerships and innovation, NatWest is making it easier and more affordable for our customers to make a positive difference to our environment."

Vernon Amor,
Managing Director,
Wye Valley Brewery

Mica Johnson,
Owner,
Floral Glory

Simple to deal with

Mica had always dreamed of running her own business.

Indulging her passion for flowers, she launched Walsall-based florist Floral Glory. However, a month after she went self-employed, the pandemic struck.

Being a start-up company can be hard enough at the best of times. But trying to connect with suppliers and customers during a national lockdown was a real challenge. Mica needed all the support she could get.

As a long-standing personal banking customer, she knew NatWest was simple to deal with. So she reached out to our business banking team for help with setting up Floral Glory's payments system.

Running her business from home initially meant that transactions needed to work across virtual and physical platforms. Tyl by NatWest provided the solution.

It allowed Mica to accept online payments securely through her website or by phone. The next-day business settlement also really helped in the early days when cash flow was so important.

After the lockdown, when Mica moved into her premises, Tyl once again helped her keep things simple. The portable card machine was ideal for moving around the shop, while each payment integrated straight into her accounting software.

Mica's story shows how NatWest is here to help.

By combining the right products and being simple to deal with, we make life easier for our customers.

Watch the story online

> "By combining the right products and being simple to deal with, we make life easier for our customers."

Lightsource bp,
solar array

Sharpened capital allocation

The team at Lightsource bp believe there's huge potential in the transition to a net-zero economy.

They should know. As a global leader in the development and management of solar energy projects, they've seen the market for renewables grow sharply over the past decade.

But accessing that opportunity has required hard work, innovation and, of course, the financing to make it happen.

NatWest Group has supported Lightsource bp throughout its journey from a UK start-up 10 years ago, to its emergence as a major renewable energy firm.

The company now employs 700 industry specialists working across 17 countries to help deliver affordable and sustainable solar power for businesses and communities around the world.

For us, our work with Lightsource bp aligns perfectly with our purpose and climate ambitions. We know the financial sector is a key enabler in the drive towards net-zero emissions, but it's more than that. As well as being good for the environment, it's also good business.

It's a belief we have committed to with our announcement in 2021 to provide an additional £100 billion of Climate and Sustainable Funding and Financing by the end of 2025.

And we're continuing our journey with Lightsource bp too – agreeing in 2021 to be part of the funding package for the company's ambitious new growth strategy.

We believe focusing the allocation of capital in this way makes perfect sense. It's good for our business, the companies we support, and our planet.

Watch the story online

> "Focusing the allocation of capital in this way makes perfect sense. It's good for our business, the companies we support, and our planet"

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Measuring our performance

Financial

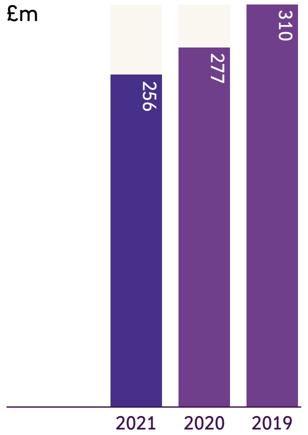
Net lending

£bn

Achieve net lending growth in our UK and RBSI retail and commercial businesses.

Cost reduction

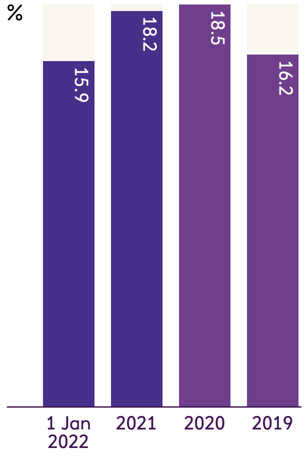
£m



Achieve a c.4% cost reduction in other expenses excluding OLD and Ulster Bank RoI direct costs in 2021.

CET1 ratio

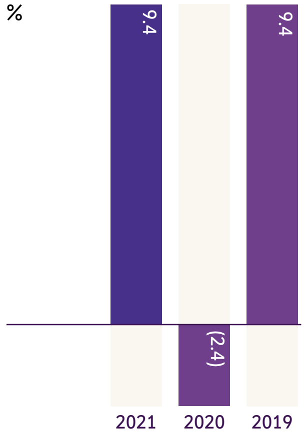
%



Achieve CET1 ratio target of 13-14% by 2023.

Return on tangible equity

%



Achieve return on tangible equity target of 9-10% by 2023.

Why is it important?

Delivering long-term sustainable performance.
Run a safe and secure bank.

Our performance

Across the UK and RBSI retail and commercial businesses and excluding UK Government support schemes, net lending increased by £7.8 billion, or 2.6% largely driven by mortgages. Mortgage growth exceeded the market, however commercial lending was behind market as we have sought to reduce certain exposures, through targeted sector reductions and capital actions, whilst continuing to focus on supporting customers through sustainable lending.

A cost reduction of £256 million, or 4.0%, in 2021, in line with our target for the year.

This has been achieved by transformation across our customer journeys and in the NatWest Markets business.

The CET1 ratio remains strong at 18.2%. The 30 basis points reduction in the year principally reflects capital distributions, partially offset by the reduction in RWAs and the attributable profit. RWAs of £157.0 billion reduced by £13.3 billion in 2021 mainly reflecting business movements in Commercial Banking, including targeted sector reductions, improvement in risk parameters and active capital management.

Return on tangible equity which was 9.4% at year end, benefitted from significant impairment releases.

Link to strategy and areas of focus

Net lending: Supporting customers at every stage of their lives.

Cost reduction: Simple to deal with. Powered by innovation and partnerships.

CET1 ratio: Sharpened capital allocation.

Return on tangible equity: Sharpened capital allocation. Simple to deal with. Supporting customers at every stage of their lives.

How we measure our progress and our future priorities

In 2022 we expect income excluding notable items to be above £11.0 billion in the Go-forward group.

In both 2022 and 2023 reduce Go-forward operating expenses, excluding litigation and conduct costs by around 3%.

Aim to end 2022 with a CET1 ratio of around 14% and target a ratio of 13-14% by 2023.

In 2023, we expect to achieve a return on tangible equity of comfortably above 10% for the Group.

Future priorities

Read more: Our investment case on page 8 and Outlook statement on page 51

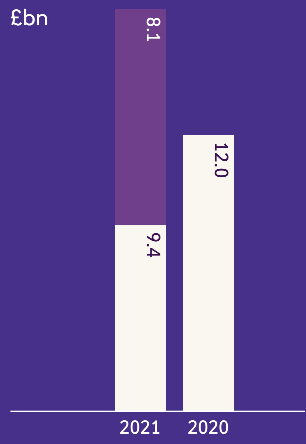
Link to remuneration

Read more on how the KPIs are aligned to executive directors' remuneration in our Annual remuneration report on pages 158 to 174.

Non-financial

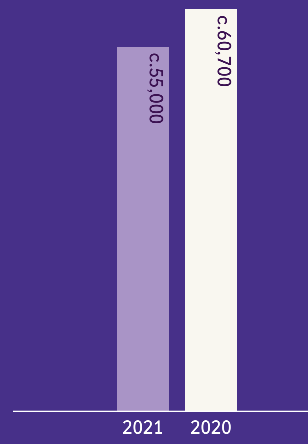
Climate and Sustainable Funding and Financing

£bn



Provide an additional £100 billion of Climate and Sustainable Funding and Financing from 1 July 2021 – end 2025.

Supporting enterprise

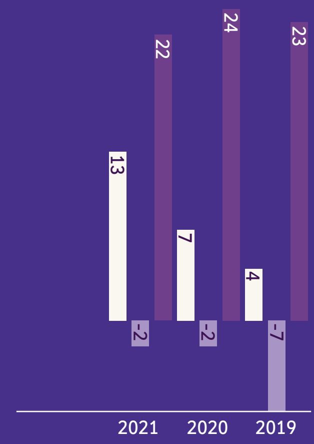


Support removal of barriers to UK enterprise growth through the provision of learning, networking and funding interventions.

Build up and strengthen a healthy culture

Achieve the culture target, as measured through the NatWest Group 'Our View' colleague survey.

Net Promoter Score



Increase the likelihood that customers will recommend our brands. Achieve NPS targets for our core customer-facing businesses.

Why is it important?

A guardian for future generations.

To be a leading bank in the UK helping to address the climate challenge.

A good citizen.

Remove barriers to UK enterprise growth.

A responsible and responsive employer.

Build up and strengthen a healthy culture.

Honest and fair with customers and suppliers.

Our performance

In October 2021 having surpassed our 2020-2021 target of £20 billion in the first half of 2021 we announced an ambition to provide an additional £100 billion between 1 July 2021 and the end of 2025. In 2021 we provided £17.5 billion of Climate and Sustainable Funding and Financing(*), including £8.1 billion(*) contribution to our £100 billion target.

We have supported c.55,000[(1)] individuals or businesses through enterprise programmes with c.200,000[(1)] customer interventions delivered. Of those supported,

c.26% were from Black Asian and Minority Ethnic backgrounds

c.60% identified as female.

c.52% were purpose-led.

c.75% were outside of London and the South East.

In 2021 we exceeded our target on Culture by two points. Our target was to be seven points above the Financial Services Culture Board (FSCB) norm.

For Culture measurement and assessment, our calculation methodology aligns with that used by the FSCB.

- NatWest Retail main bank NPS exceeded its target by five points, up six points year on year.
- NatWest Business Banking missed its target by two points and continues to be ranked 3rd.
- NatWest Commercial Banking retained first position and its lead over next best competitor.

Link to strategy and areas of focus

Climate

Enterprise

Learning

Simple to deal with.

How we measure our progress

Funding and financing provided to support climate and sustainable activities, in line with our Climate and Sustainable Finance Inclusion (CSFI) criteria.

Support 35,000 businesses through enterprise programmes(*) with 200,000 customer interactions to start, run and grow a business.

We independently survey thousands of customers each year, asking them how likely they would be to recommend the bank.

NPS improvement of: one point for NatWest Retail Main Bank or be 5th or better; four points for NatWest Business Banking and be 3rd or better.

Future priorities

Read more: Our climate-related disclosures on pages 64 to 71 and in our Climate-related Disclosures Report.

Read more: Our purpose-led areas of focus on pages 30 and 31 and in our ESG Supplement.

Read more: Our colleagues section on pages 58 to 61 and in our ESG Supplement.

Read more: Our customers on page 54 to 56.

(*) Within the scope of EY assurance. Refer to page 78.
(1) Refer to page 31 for further details.

Our purpose-led areas of focus building long-term value

We are committed to championing potential, helping people, families and businesses to thrive. Aligned to our purpose are three focus areas where we believe we can make a long-term, meaningful contribution to our customers, colleagues and communities. These are: climate, enterprise and learning.

Our ambition

Our areas of focus contribute to UN Sustainable Development Goals (SDGs):

As well as highlighting activity that relates to each of the SDGs above, case studies throughout this report will reference positive impacts mapped against other SDGs. More detail on our embedding of SDGs can be found in our ESG Supplement. As signatories of the UN Principles for Responsible Banking, we also remain committed to aligning our strategy with the 2015 Paris Agreement and the SDGs.

Climate
A leading bank in the UK helping to address the climate challenge

Our targets

	Net zero[1] by 2050
£100bn	Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025
-50%	at least halve the climate impact of our financing activity by 2030
50%	of our UK mortgage customers' homes at, or above, EPC C rating by 2030
	Full phase out of coal – by 1 January 2030[2]
-50%	reduce our direct[3] own operations carbon footprint by 2025

Enterprise
Removing the barriers to enterprise

Our targets

35,000	individuals or businesses supported through enterprise programmes in 2021[8]
200,000	interventions delivered to start, run or grow a business in 2021[8]
60%	of those supported will be female
75%	of those supported will be based outside London and the South East
20%	of those supported will be of a Black, Asian and/or Minority Ethnic background
10%	of those supported will be social purpose-led

Learning
Building financial capability and resilience and enhancing the skills of our colleagues

Our targets

15m	financial capability interactions delivered by 2023
2m	additional customers helped to start saving by 2023
100%	front-line colleagues professionally accredited within the first 18 months in role
UK	Social Mobility Apprenticeship Programme extended across multiple UK locations

(1) Please refer to section 1.2 in the NatWest Group plc Climate-related Disclosures Report for further detail on our net-zero ambitions.
(2) Please refer to section 3.5.2 in the Natwest Group plc Climate-related Disclosures Report for further details on outcomes.
(3) Against a 2019 baseline. Direct own operations is defined as Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It excludes upstream and downstream emissions from our value chain.
(4) In October 2021, having surpassed our previous 2020-21 £20 billion target during H1 2021, NatWest Group announced an ambition to provide an additional £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

Our 2021 performance

Climate

£17.5bn(*)
Climate and Sustainable Funding and Financing completed, including £8.1bn contribution towards our £100bn target[4]
2020: £12 bn

38%(*)
of Retail Banking mortgages are at, or above, EPC rating C[5]
2020: 36%

Credible transition plan assessments
completed for oil and gas majors and in scope coal customers[2]

£728m(*)
Retail Banking Green Mortgage completions[7]

52%
of gross lending and investment balances at 31 December 2019 estimated for financed emissions. A further eight high carbon emitting sectors estimated
2020: 45% (four sectors)

-46%
reduction in our direct[3] own operational carbon footprint[3]

Read more on page 20 of NatWest Group plc 2021 Environmental, Social and Governance Supplement

Enterprise

c.55,000
individuals and businesses supported through enterprise programmes in 2021[8]

c.60%
of those supported identified as female purpose-led businesses

c.26%
of those supported were of Black, Asian and Minority Ethnic background

c.200,000
interventions delivered to start, run or grow a business in 2021[8]

c.75%
of those supported were based outside of London and the South East

c.52%
individuals or businesses supported were purpose-led businesses

Read more on page 24 of NatWest Group plc 2021 Environmental, Social and Governance Supplement

Learning

8.96m(*)
financial capability interactions delivered by 31 December 2021 against the 2023 target

1.07m(*)
additional customers helped to start saving by 31 December 2021 against the 2023 target[9]

99.6%
front-line colleagues professionally accredited within the first 18 months in role

Read more on page 29 of NatWest Group plc 2021 Environmental, Social and Governance supplement

(5) Percentage of £110.3 billion UK Retail Banking mortgages where EPC data is available. 2020 comparative for England and Wales mortgages only.
(6) Retail Banking RBS, NatWest and Ulster Bank Northern Ireland mobile apps.
(7) Retail Banking Green Mortgage products relate only to mortgages for energy efficient homes (EPC A or B rated) and are aligned to the World Green Building Council definition of green mortgages.
(8) Represents approximate number of interventions delivered by and individuals supported through enterprise programmes during 2021, which is based upon data provided by third parties delivering these interventions without further independent verification by NatWest Group.
(9) Includes instances where customers had savings with other banks and transferred them to their NatWest Group account.
(*) Within the scope of EY assurance. Refer to page 78.

NatWest Group continues **to adapt to evolving market trends**

The environment we operate in is constantly changing. Understanding the multiple influences on our business enables us to be prepared for change, to respond quickly, and to create value for the long term.

Economy

Overview

In 2021, the UK economy continued its recovery from the impact of COVID-19 and lockdown restrictions, with GDP approaching pre-pandemic levels towards the end of the year. The employment market continued to remain robust, with the furlough scheme proving an effective tool to lessen the impact of COVID-19 as well as helping the labour market emerge from COVID-19 in a position of strength. Towards the end of 2021, UK job vacancies remained elevated. Against this backdrop, inflationary pressure began to build with the Consumer Prices Index ending the year well ahead of the Bank of England's 2% target. Countering inflation is therefore likely to remain high on the agenda for policy makers in the short to medium term. In the longer term, demographic change, climate change, high levels of debt and inequality could all have financial impacts for our customers.

Our response

Our business performance is correlated with economic factors. Put simply, when people, families and businesses thrive, so do we. We know the tough economic conditions many of our customers have faced throughout the year. As such, we have remained focused on removing barriers to doing business and providing more opportunities for companies to grow, helping the economy to build back better. Initiatives such as our 'Accelerator' programme, our 'Springboard to Sustainable Recovery' report, and an additional £1 billion in funding to help support female-led businesses in the UK recover from COVID-19 have been a key part of this.

"COVID-19 has increased our customers' reliance on technology with a further shift to digital, reinforcing the need for modern capabilities and resilient systems."

Customers

Overview

Customers' needs and behaviours are changing as a result of new technologies. The impact of COVID-19 has accelerated digital trends as well as prompting different ways of working, shopping, socialising and communicating. Demographic shifts and changing labour patterns are also having a profound long-term effect on customer behaviours, as people work longer, retire later, rent for longer or buy property later in life.

Our response

Understanding these trends allows us to better support our customers' needs, being there at every stage of their lives and tailoring banking services and products that meet their evolving expectations. By harnessing new technology and partnering with leading organisations, we have again enhanced and evolved our customer experiences in 2021. We have also continued our efforts to make banking more accessible for all of our customers through improving face-to-face, digital and remote interactions. And in 2021, we again devoted significant focus to supporting customers facing financial difficulty or in vulnerable situations, as well as helping more people to start saving.

Technology

Overview

New business models and customer behaviours continue to rapidly evolve through advancing technology. COVID-19 has increased our customers' reliance on technology with a further shift to digital, reinforcing the need for modern capabilities and resilient systems. Our active digital users across both personal and business customers continued to grow in 2021.

Our response

With a focus on innovation, and through collaborations with experienced companies, our technology solutions have driven significant benefits for our customers. This has been particularly evident again in 2021 with our approach to Open Banking. Leveraging the ability to combine transaction and bank issuance data has helped us generate invaluable insights for our commercial customers. In terms of our own digital estate in 2021, we have also delivered further technological innovation to help protect privacy and customer confidentiality. In addition to the strong focus on delivering innovative solutions for our customers, technology transformation continues to prioritise simplification, stability and resilience, as well as year-on-year run-cost reduction.

Cyber threats

Overview

Cyberattacks pose a constant risk to our operations, both in relation to our own digital estate and indirectly with regards to our supply chain. Cybercrime continues to evolve rapidly. Attacks may be from individuals or highly organised criminal groups intent on stealing money or sensitive data, or potentially holding organisations to ransom.

Our response

We continue to invest significant resources in the development and evolution of cybersecurity controls, deploy rigorous due diligence with regards to third parties and work to protect and educate our colleagues and customers on fraud and scam activity. To provide continuity of service for customers with minimal disruption, we monitor and assess a diverse and evolving array of threats, both external and internal, as well as developing, strengthening or adapting existing control capability to be able to absorb and adapt to such disruptions.

Climate change

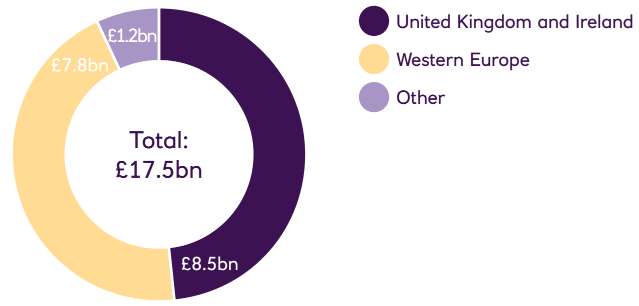
Overview

Climate change represents an inherent risk to NatWest Group, not only from its impact on the global economy and our customers, but also through its potential effects on asset values, operational costs and business models as the essential transition to a net-zero economy accelerates. These risks are subject to increasing regulatory, political and societal change. Conversely, the requirement to reduce carbon emissions also means NatWest Group has a significant role to play in areas such as the provision of Climate and Sustainable Funding and Financing.

Our response

Climate risk was formally incorporated into the NatWest Group risk directory as a principal risk in February 2021 and in April 2021, NatWest Group Board Risk Committee approved a principles-based climate risk policy. Our Climate Opportunities Group (COG) was established to support our ambition to be a leading bank in helping to address climate change. The COG brings together colleagues from all business segments to conceptualise and develop opportunities that complement the NatWest Group climate ambition. Being a principal partner of COP26 gave us the opportunity to re-state our commitment to working with our partners to help reduce carbon emissions. At the conference in Glasgow, we focused on highlighting the practical support we are providing our customers to help them achieve their climate ambitions, as well as strengthening our existing partnerships and building new ones. Our commitment to tackling climate change means we have already reduced our direct own operations footprint by 46%, against a 2019 baseline and plan to achieve a 50% reduction by 2025. We have also set stretching targets for our wider operational value chain and have an ambition to halve the impact of our financing activity by 2030.

NatWest Group 2021 Climate and Sustainable Funding and Financing – Geographical split(1)



(1) Since 1 July 2021, UK & Ireland £5.5 billion, Western Europe £1.9 billion and Other £0.6 billion.

Regulation

Overview

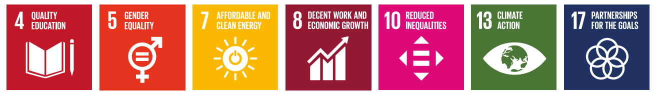
We operate in a highly regulated market which continues to evolve in scope. Areas of current regulatory focus include: delivering good customer outcomes, in particular the FCA's current proposals for a Consumer Duty, which looks to expand its rules and principles to force firms to provide better consumer protection; operational resilience, in light of the UK authorities' new policy requirements; climate change, and the development of the regulatory framework for sustainable finance; fraud and financial crime, with a focus on protecting customers from ever-more sophisticated scams; capital and liquidity management, including the UK's approach to the implementation of Basel III; the UK's future regulatory framework, following its exit from the European Union and the opportunities that this provides; digital currencies, with the development of both public (central bank digital currencies) and private (e.g. stablecoins) offerings which have the potential to materially change the digital payments landscape; improving diversity, equity and inclusion in financial services, through policy developments focused on improved data collection and reporting, and use of targets for representation.

Our response

We constantly monitor regulatory change and work with our regulators to help shape those developments that materially impact the bank, lobbying when necessary either bilaterally or in partnership with one of our affiliated industry bodies. We implement new regulatory requirements where applicable and use our frequent engagement meetings with regulators to discuss key regulatory priorities.

How we create value

We aim to create value for our stakeholders, having a positive impact on our environment and wider society. Our work lends particular support to the below seven sustainable development goals.



Find out more in the following sections:

NatWest Group was a principal partner for COP26, widening the involvement of the business community, young people and civil society, enabling voices to be heard to help progress be made.

1 Our resources

Financial

9.4% return on tangible equity, 18.2% CET1 ratio, £256 million cost reduction and £2,950 million profit attributable to ordinary shareholders.

We support the financial lives of our customers and drive economic growth through our well-known brands.

We make appropriate use of shareholder capital and other forms of financial capital, including £479.8 billion in customer deposits.

We are committed to sustainability as a driver of value creation through our investment, products and service.

Human and relationships

We rely on an engaged, healthy and inclusive workforce of 58,500[(1)] to deliver our strategy to 19 million customers in the UK.

Our relationships with all stakeholder groups help to shape and support our strategy and operations. This includes our shareholders and regulators, suppliers, consumer and campaign groups, local communities and more.

Nature

We understand we are part of the natural world, benefiting from resources and ecosystem services to conduct our business activities. We are forming expert partnerships to restore degraded lands and forests, to support the needs of local communities and nature, as well as removing 120,000 tonnes of CO_2e each year.

Infrastructure

We depend on our property and technology infrastructure, and that of our supply chain, to run the bank's systems and operations. We are also investing significantly in technology and human expertise to deliver a leading digital customer experience.

(1) NatWest Group headcount for both continuing and discontinued operations at 31 December 2021, based on global data for active permanent colleagues (including FTC and excl. temps).

2 Our business activities

Products and services

We provide a comprehensive range of banking and financial services to personal, business and commercial customers via our businesses. Examples include current and savings accounts, credit cards, mortgages and investments for our personal customers; as well as banking, lending, project finance, risk management and trading solutions for our large commercial customers.

Revenues and returns

We earn income from interest charged on lending to our customers and fees from transactions and other services. We pay interest to customers who place deposits with us and to investors who buy our debt securities. We also make reward payments on products like our Reward bank accounts and credit cards. The attributable profit generated is either returned to shareholders or retained and reinvested into improving our business to benefit our stakeholders.

Customer relationships

We support our personal, business, commercial and institutional customers with financial services that meet their needs, which include keeping their funds safe and secure, improving financial capability and supporting enterprise.

We believe in treating customers fairly, offering flexibility to our customers in how they choose to bank with us and providing extra help to customers in vulnerable situations or financial difficulty.

Partners and networks

Being powered by innovation and partnerships means we work with a diverse range of partners to help shape our business strategy and deliver positive outcomes for customers and society. This includes our supply chain, communities, academia, regulators, expert advisers, consumer groups and charities, as well as strategic partners. We are also members of, or signatories to, a large number of organisations, trade bodies and frameworks that help us create long-term value and balance the interests of stakeholders.

3 How we create value for our customers and society

Area	How we create value	Examples of how we create value	
Supporting enterprise	Creating opportunities for businesses and enterprise	**£34.6 billion** gross lending to SMEs and mid-corporates in Commercial Banking, supporting economic growth.	**£1 billion** additional funding made available to support female-led businesses in the UK to recover from the disruption caused by COVID-19.
Building financial capability	Helping people make better financial decisions	**470,813(*)** additional customers helped to start to save and 6.1 million(*) financial capability interactions delivered in 2021.	**10 million** MoneySense has helped 10 million young people learn about money since it was launched in 1994.
Helping to address the climate challenge	Taking action on the risks and opportunities of climate change	**£17.5 billion(*)** Climate and Sustainable Funding and Financing completed, including £8.1 billion contribution towards our £100 billion target.(1)	**38%(*)** of Retail Banking mortgages are at or above EPC rating C.(2)
Jobs and the economy	Supporting employment across the UK	**Early career** We hired over 1,000 interns, graduates and apprentices in 2021 including 205 colleagues who have been recruited through our social mobility apprentice programmes.	**£1.73 billion** Payment of £1.73 billion in tax was made to the UK Government in 2021 which supported central government and local authority spending.(3)
Protecting our customers	Keeping money safe and accessible for our customers	**£193.3 million(*)** We prevented 542,969 cases of attempted fraud against our customers, amounting to over £193.3 million in the UK.	**159 hotline** We are one of the original pilot organisations behind the new '159' fraud reporting hotline, launched in 2021.
Improving digital capability	Offering customers more choice and ways to bank	**9.7 million(*)** active digital customers. 8.3 million actively use our mobile app and 4.2 million use our online banking platform.	**60%(*)** of our active current accounts are customers exclusively banking with us using digital channels through mobile or online.
Community and charitable giving	Making a difference in our local communities	**32,235 trees** planted by colleagues, in our new tree planting programme with The Conservation Volunteers.	**43,003 hours** were volunteered by our colleagues to local communities and good causes received over £3.5 million through their giving and fundraising.
Helping our colleagues to thrive	Building a great place to work that reflects the society we are proud to serve	Our integrated wellbeing strategy allows us to support colleagues, customers and communities, and is a key part of NatWest Group being a purpose-led organisation.	**+14 points** Colleague sentiment on inclusivity has continued to increase in 2021, now reaching a score of 93 percentage points. We are 14 percentage points above the Global Financial Services Norm and 10 percentage points above the Global High Performing Norm.
Homes and housing	Helping more people access efficient homes	**£728 million(*)** Retail Banking Green Mortgage completions.(4) **Over 48,000** We have supported more than 48,000 customers with first-time mortgages.(*)	**262,000** customers were helped with mortgage payment holidays between 2020 and 2021 due to the challenges caused by COVID-19.

- Supporting customers at every stage of their lives
- Powered by innovation and partnerships
- Simple to deal with
- Sharpened capital allocation

(*) Within the scope of EY assurance. Refer to page 78.
(1) In October 2021, having surpassed our previous 2020-21 £20 billion target during H1 2021, NatWest Group announced an ambition to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025.
(2) Percentage of £110.3 billion UK Retail Banking mortgages where EPC data is available. 2020 comparative for England and Wales mortgages only.
(3) Comprises £787 million corporate tax, £473 million irrecoverable VAT, £126 million bank levies, £257 million employer payroll taxes and £88 million other taxes.
(4) Retail Banking Green Mortgage products relate only to mortgages for energy efficient homes (EPC A or B rated) and are aligned to the World Green Building Council definition of green mortgages, which has Pioneer status with the Green Home Finance Principles established by the Green Finance Institute.

Our business performance

Retail Banking

Through the NatWest and Royal Bank of Scotland brands we provide a comprehensive range of banking products and related financial services including current accounts, mortgages, personal unsecured lending and personal deposits. We're here for customers whenever and wherever they need us – from our mobile app and online banking, through to our contact centres and high street and mobile branches.

Commercial Banking

We offer comprehensive banking and financing solutions to start-up, SME, commercial, corporate and institutional customers in the UK. We're there for our customers as they start, grow and manage their businesses. Our innovative products and services help customers achieve their growth, environmental and social targets. We deliver a high-quality sales and service experience through our expertise and deep engagement, locally, regionally and nationally through face-to-face, direct and digital channels. We continue to support our customers through the Brexit transition period and beyond.

Private Banking

Private Banking is the Investment Centre of Expertise for NatWest Group, servicing all client segments across Retail, Premier & Private Banking. We provide private banking and wealth management services to UK-connected high-net-worth individuals and their business interests through the Coutts & Co brand. We continue to focus on delivering the best client experience through a proactive engagement model which supports clients across both sides of their balance sheet – improving returns by deepening client relationships and enhancing our digital banking capabilities to make it easier for clients to deal with us.

RBS International

As one of the largest full-service banks operating in the local and institutional banking sectors in the Channel Islands, Isle of Man and Gibraltar, we serve international customers with a UK connection through our International Banking proposition. We operate under six brands: RBS International; NatWest International; Isle of Man Bank; Coutts Crown Dependencies; NatWest Trustee and Depositary Services and RBS International Depositary Services. We have wholesale branches and fund depositary services businesses in the UK and Luxembourg to further serve our institutional clients and protect investors.

NatWest Markets

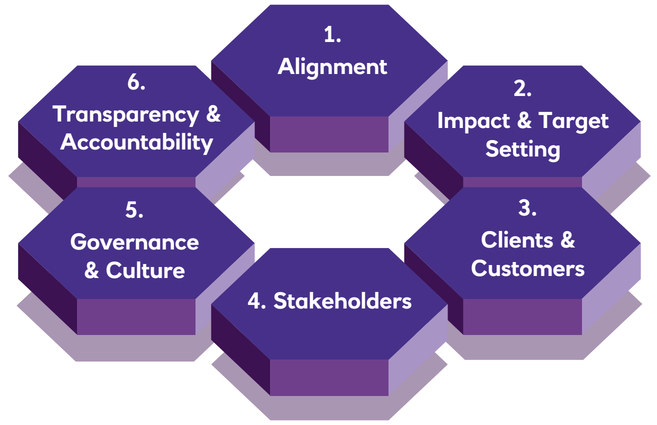
We help NatWest Group's corporate and institutional customers manage their financial risks safely and achieve their short-term and long-term sustainable financial goals. We think and act as one bank for our customers, collaborating with teams across NatWest Group to be the partner of choice for our customers and their financial markets needs. By focusing on the things we do best and that matter most to our customers, we help champion their potential.

Ulster Bank RoI

Since the end of July 2021 (apart from the UBIDAC asset finance business which remains fully open), commercial banking has been closed to new customers, remaining open for existing customers only. Since the end of October 2021, we have stopped accepting applications from new personal customers, but continue to consider applications on a reduced number of products from existing personal customers, mainly mortgages. We continue to support our existing customers pending further decisions on the phased withdrawal.

UN Principles for Responsible Banking

We have now been signatories to the UN Principles for Responsible Banking for over two years. In 2021, we undertook a portfolio impact analysis using the United Nations Environment Programme Finance Initiative (UNEP FI) developed tool, responded to the collective progress survey, and were active in working groups on financial inclusion and health, biodiversity, and the collective commitment on climate action. We remain committed to aligning our strategy with the UN Sustainable Development Goals and the 2015 Paris Agreement and our progress against the six principles can be found in our second self-assessment report included in our 2021 ESG Supplement.



Human Rights and Modern Slavery

At NatWest Group, we understand that businesses have an important role to play in promoting respect for human rights. We seek to act in accordance with the Universal Declaration of Human Rights and our approach to respecting human rights is informed by other international standards and principles including the UN Guiding Principles on Business and Human Rights (UNGPs). We have established a human rights steering group, a management group that brings representatives from across NatWest Group together to coordinate our activities, and to make recommendations to NatWest Group Executive Committee and Board to develop and strengthen our approach. More information can be found at natwestgroup.com.

Tackling modern slavery forms an integral part of our approach to human rights. We seek to tackle modern slavery and human trafficking through continued implementation of policies covering our customers, colleagues and suppliers and by monitoring our financing and supply chain for this activity. Our full approach is outlined in our annual Modern Slavery and Human Trafficking Statement which can be found at natwestgroup.com.

In 2021, we continued to engage with a range of stakeholders in relation to human rights including charities, Non-Governmental Organisations (NGOs) and campaign groups to help grow our knowledge and understanding of these issues. We remained members of the Thun Group and the UN Global Compact's UK Modern Slavery Working Group. We also continued to work with anti-slavery charity Unseen to support survivors and raise awareness of modern slavery with colleagues throughout NatWest Group.

Ways of Working

Re-imagining the workplace

How do you manage a never-before moment in the world of work?

That was the question we were suddenly posed with when COVID-19 hit. But as the pandemic played out, we quickly started to think beyond immediate operational requirements to what a new way of working could look like – considering the needs of over 58,000 colleagues across a number of jurisdictions.

But we also knew we had a real opportunity to make the return to the work environment different from how it had always been: a more flexible design. Tailored to what mattered most to our colleagues.

To get there, we adopted a robust, data and experience-led approach. Through extensive colleague interviews, executive engagement and external research we started to build a picture of the new way colleagues would like to work and interact.

Our insights quickly guided us that one size wouldn't fit all. And that a 'Ways of Working' framework designed around three models was a flexible and dynamic way to both deliver colleague choice and better meet customer needs.

Colleague safety, and health and wellbeing were paramount during roll-out. To ensure this, we knew that having a range of measures in place – from a 'Wellbeing Hub' and 'Best Practices Zones', to working from home guides and mental health advice – was vital.

We also realised that getting it right would take time. So we created a feedback loop, gathering colleague views and adapting our process. For example, following colleague suggestions we introduced reorientation events as well as onsite wellbeing support to help colleagues back into the office.

We're still on a journey, but it's one we're on together.

"Our insights quickly guided us that one size wouldn't fit all"

Retail Banking

In Retail Banking, we're focused on creating lifelong relationships with our customers. Whether it's providing early financial education, helping them onto the property ladder or building secure financial futures, we're there at every stage of our customers' lives. We are delivering on our strategy to support building a relationship bank for a digital world – combining the best people and the best technology.

By investing in world-class digital experiences which meet the needs of our customers (from our digital banking app and AI virtual assistant Cora, to video calling with expert advisers), we make sure they have 24/7 access to the help and information they need. Our focused investment in driving deeper-value exchanges with customers while digitalising more customer journeys and simplifying our business has resulted in a further £52 million gross annualised cost reduction, as well as income growth from a number of products and journeys.

Total income (£m)
4,445
2020: 4,181

Net loans to customers (£bn)
182.2
2020: 172.3

Operating expenses (£m)
(2,513)
2020: (2,540)

Video banking financial health checks
350k
2020: 173k

Operating profit (£m)
1,968
2020: 849

Customers exclusively using digital channels (%)
60
2020: 58

Return on equity (%)
26.1
2020: 10.2

Customers helped to buy their first home
48k
2020: 32k

We're extremely proud of providing 30 years of free early financial education to children through our MoneySense programme. And we're delighted to now evolve this further through the acquisition of RoosterMoney in October 2021 – a leading children's banking app, which builds financial skills in a fun, accessible way. We are committed to helping more young customers with their financial capability and have seen a steady increase in the proportion of young people choosing to bank with us in 2021 versus pre-pandemic levels.

We have also increased the number of customers who choose us as their main bank in 2021, reaching our highest-ever score for customer satisfaction. We are helping all our customers make the most of their money and achieve their goals, especially at a time when many are facing financial difficulties. We know that at every life stage, whether our customers have a short- or long-term goal, saving needs to be easy and rewarding. Our Digital Regular Saver account, alongside budgeting and goal tools, was designed specifically to help first-time savers build financial resilience.[1] We aim to address the savings gap by helping two million customers start saving by the end of 2023; since launch we have enabled over one million customers to start their savings journey, including almost 471,000 in 2021. We also conducted more than 661,000 financial health checks in 2021, of which over 350,000 were completed via video banking.

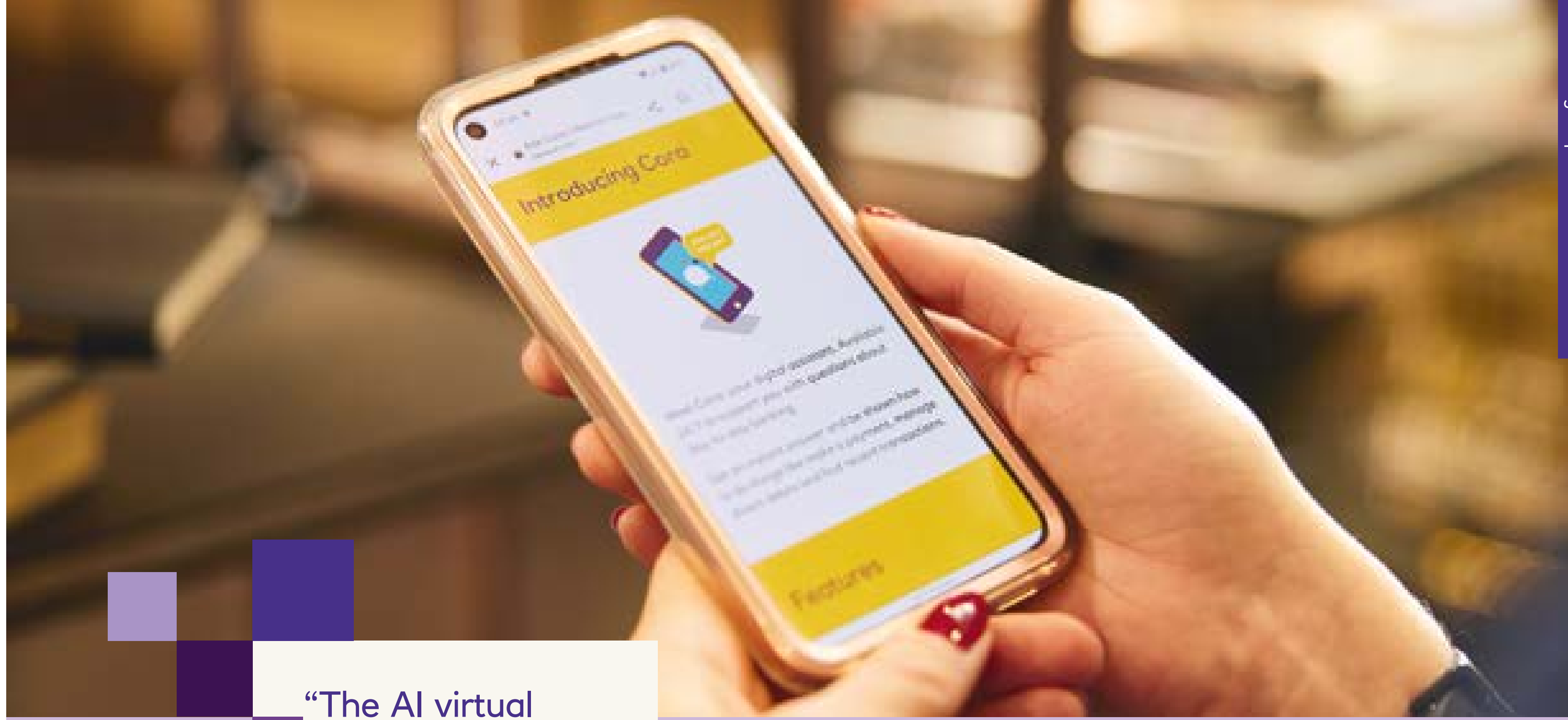
We recognise that building secure financial futures begins early on in our customers' lives and we are there to support them from the start. Our digital investing platform, NatWest Invest and Royal Bank Invest, helps our customers with their long-term financial plans. By offering digital access to five funds managed by Coutts, customers can plan for life's big events or simply invest towards securing their financial future. Nearly 33,000 retail bank customers started investing through the platform in 2021.

When our customers are ready to step onto the property ladder, they're in safe hands, we have 11.5% flow share of UK mortgages, we helped more than 48,000 customers to buy their first home and over 40,000 customers to re-mortgage. Our continued digitalisation of the mortgage journey means that we can now offer customers browsing price-comparison websites a more seamless experience; gaining a decision in principle upfront without them having to leave the website. Through our Green Mortgage, which we provided to around 2,900 customers in 2021, we proactively supported customers to lower their carbon footprint by offering discounted mortgage rates for buying more energy efficient homes.

We are also there to support our customers with their short-term borrowing needs and enable them to achieve their goals sooner. We have over 3.8 million users of our 'Know My Credit Score' tool, with just under 1.4 million signing up in 2021. This helps customers better understand their credit options – and how the decisions they make today, could affect their finances tomorrow. We launched a new Purchase and Balance Transfer credit card and grew credit card balances faster than the market in the second half of the year. Our credit card customers can also now manage large purchases more easily by setting up an instalment plan to spread payments between three and 24 months.

We're always striving to make banking simpler for our customers. We now have over eight million customers regularly using our mobile app, which uses biometric authentication to make the user experience secure and convenient and 60% of our customers now interact with us exclusively via digital channels. We've also launched 'Banking My Way' in the app, making it easier for customers to tell us how we can best support their needs relating to accessibility or personal circumstances.

(1) Active customers aged 17+ who have saved more than £100 with us for the first time. Includes instances where customers had existing savings with other banks and transferred them to their NatWest Group account



"The AI virtual assistant also fully supported 47% of all customer queries without having to hand over to a human."

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Cora supporting our customers

Using AI to provide that personal touch

'Cora' is NatWest Group's customer-facing AI virtual assistant, helping to provide support for our customers using both our digital and telephony channels.

Over the last few years, we have significantly improved Cora's capability and intelligence. In 2021, Cora handled 10.7 million retail banking conversations, up 27% on the previous year.

The AI virtual assistant also fully supported 47% of all customer queries without having to hand over to a human.

Cora is now able to help customers by providing personalised responses to a range of different banking needs, from providing help on how to access the mobile app, to updating us when they move home.

In 2021, for the first time, Cora began assisting customers over the phone, allowing the use of natural conversation to self-serve.

Cora is now a key part of the bank's digital and telephony offering, with a constantly evolving role in frontline customer support. As well as improving our service efficiency, it also enables our colleagues to focus on more complex customer enquiries.

We will continue to invest in the use of innovative technologies to make it easier for our customers to get the support they require, when and where it is needed.

For us, this is a vital component of being a relationship bank for a digital world.

Private Banking

Private Banking is the Centre of Expertise for asset management across NatWest Group, and in 2021 we continued to see growth in customers investing with us across our brands and through various mediums, such as digital or face-to-face. Coutts provides our high-net-worth and ultra-high-net-worth clients with day-to-day banking, flexible lending and responsible investments, underpinned by first-class client service. In July 2021, Coutts became a Certified B Corporation, evidencing our commitment to balance people, profit and the planet.

Total income (£m)	Net loans to customers (£bn)
816	**18.4**
2020: 763	2020: 17.0
Operating expenses (£m)	AUMA[(1)] (£bn)
(520)	**35.6**
2020: (455)	2020: 32.1
Operating profit (£m)	Customer deposits (£bn)
350	**39.3**
2020: 208	2020: 32.4
Return on equity (%)	NatWest Invest/Royal Bank Invest/Coutts Invest users
17.0	**78,890**
2020: 10.3	2020: 44,410

(1) Private Banking manages assets under management portfolios on behalf of Retail Banking and RBSI and receives a management fee in respect of providing this service.

We partner with our clients and their families as their wealth needs evolve over their lifetime, ensuring that their wealth has its intended consequences. In 2021, we launched NatWest Group's first digital Junior ISA, which so far has enabled over 4,000 clients to start saving for their children's future more easily. We continue to develop our digital capabilities and have seen strong growth in digital sales with over 26% of net new money now being executed through digital channels. We also continue to meet the more complex lending and investment needs of Coutts clients through face-to-face specialist advisers and we welcomed a 29% increase in new Coutts clients in 2021 compared with 2020.

As a result of our collaboration with global asset manager BlackRock, Coutts invests in a dedicated range of bespoke funds managed and administrated by BlackRock on their platform. Coutts set the investment strategy and ESG policy for the funds and this relationship provides efficiency benefits for our clients. We have also increased our ability to influence change at the companies held within these bespoke funds to drive better ESG outcomes, engaging with over five times more companies across the UK, Europe and North America and voting on 79% more company resolutions in 2021 compared with 2020. Our online investment product series, Personal Portfolio funds, available as NatWest Invest, Royal Bank Invest and Coutts Invest grew significantly and more than doubled from £0.9 billion in 2020 to £1.9 billion in 2021.

Coutts collaborated with BGF Group (BGF) to launch the UK Enterprise Fund and provide additional growth funding and support to SMEs across the UK. The fund is co-investing equity growth capital alongside BGF, taking minority stakes in businesses looking to scale in the UK, with initiatives to support female entrepreneurship and promote the diversity of management teams. In 2021, over 100 clients invested a combined £42 million and Coutts and BGF intend to launch a further fund in 2022.

In November, we launched our first full-scale brand and television campaign to increase awareness and consideration among a new type of client: younger (35-44), female and entrepreneurial. The campaign 'real success takes true character', focused on the duality of acting in the right way being the reason for achieving long-term success and played into the progress we have made to become a B Corporation and our responsible investing credentials.

In June, we started to incentivise new and existing clients to improve the energy efficiency of their homes. We offer discounted mortgage fees on homes with an A or B EPC ratings and fee rebates to clients who improve their EPC rating above C within a year of taking out their mortgage. We continue to grow our nascent Green Mortgage book and have further plans to help our clients understand the carbon intensity of their homes. Coutts has been recognised by the Green Finance Institute as a Pioneer of the UK Green Home Finance Principles.

We introduced our new Coutts mobile app to a pilot population with a full roll out planned for 2022. We have introduced integrated biometrics for enhanced security and easy-to-use digital features such as first time beneficiary payment authorisation. In app domestic payments can be completed in one of the most efficient journeys in the UK market amongst other notable features. The latest digital tools have enabled clients to self-serve all disclosures during the onboarding process, including electronic e-signatures, and enabled us to send automated fraud alerts via SMS.

"More than ever, we know we have a responsibility to make a positive difference to the world we live in."

17 PARTNERSHIPS FOR THE GOALS

Doing well by doing good

Coutts becomes a Certified B Corp

As a business, we believe we can be a force for good.

It's a conviction woven deeply in our history, most notably in the philanthropic legacy of Angela Burdett-Coutts, whose family forged the bank.

And now more than ever, we know we have a responsibility to make a positive difference to the world we live in. It's why – over two years ago – we made the decision to aim to be part of the ever-growing community of Certified B Corporations.

B Corps are a new kind of business. Ones that balance purpose and profit – being required to consider the impact of their decisions on their workers, customers, suppliers, community and the environment.

However, the journey to B Corp certification is understandably long and rigorous. The external accreditation took over 18 months and involved answering around 300 questions on everything from company governance and how we care for our colleagues, to our environmental impact and what we contribute to the community.

Most meaningfully perhaps, we also changed our Articles of Association, enshrining the importance of considering all stakeholders in our decision-making.

In July 2021, as a result of these efforts, Coutts gained the proud distinction of being a Certified B Corp.

Since then, we have been busy. Coutts was a founding member of the 'B Finance UK Coalition' which was launched at COP26, and also supported B Lab UK's Boardroom 2030 initiative.

But for us, this is very much just the beginning.

"For us, this is very much just the beginning"

Commercial Banking

We pivoted from our leading role supporting customers with £14.4 billion of approved government scheme lending through the COVID-19 crisis to support UK businesses to grow with £4 billion of SME-scale funding. We grew lending in areas where we have competitive advantage, such as climate and sustainable funding and financing where we delivered £5.2 billion of lending. As a relationship bank for a digital world, our innovations allow us to better support our customers across a growing number of digital channels while simplifying and automating our own processes.

Total income (£m)	Net loans to customers (£bn)
3,875	**101.2**
2020: 3,958	2020: 108.2

Operating expenses (£m)	Return on equity (%)
(2,354)	**22.0**
2020: (2,430)	2020: (4.5)

Operating profit/(loss) (£m)	Tyl payments processed (m)
2,594	**39.3**
2020: (399)	2020: 13.6

In 2021, we opened over 78,000 accounts for new businesses, supported c.55,000 individuals and businesses through c.200,000 interventions; of those supported c.52% were purpose-led businesses, c.60% identified as female and c.26% were from Minority Ethnic backgrounds. Further to publishing our 'Springboard to Sustainable Recovery' reports in March and October, we implemented our SME Task Force across all our regions to focus on five areas identified with the potential to create opportunity for SMEs tackling climate change. We continued our support for customers through Brexit, facilitating UK imports and exports by onboarding 27 more non-UK suppliers to Supply Chain Finance programmes and increasing the proportion of our lending to non-UK suppliers by 50%.

As transaction volumes recovered in the second half of 2021, our investments in Payit and Tyl led to continued growth in their respective customer bases. Payit became one of the largest Open Banking-enabled 'Payment Initiation Service' platforms in the UK by volume and Tyl, our point-of-sale solution for small businesses, processed its 50 millionth transaction during 2021. Our Confirmation of Payee API also won the first public tender with HMRC. We collaborated with NatWest Markets to underwrite 56 new transactions, £6 billion commitments, and improve onboarding processes enabling customers to take advantage of our award-winning corporate FX services.

Our strategy of collaborating with industry leaders to deliver better customer experiences evolved at pace in 2021 with a joint offering of charging infrastructure with Octopus, allowing customers to understand the carbon emissions of their supply chains and working on The Global Farm Metric with the Sustainable Food Trust.

We gave 16,000 additional SME customers access to a relationship manager through the launch of our new direct relationship manager proposition. We enhanced 32 digital sales and servicing journeys, enabling our customers to start and complete more journeys digitally. In 2021, over 60% of customers' service requests were initiated digitally and over two thirds of those were processed with no human intervention. Our AI virtual assistant, Cora handled over 1.2 million chats, of which more than half required no human intervention.

We continue to be disciplined in our capital allocation, allowing us to best support the economy in line with our strategy while maintaining a resilient balance sheet. In 2021, we embedded our climate commitments in our capital allocation and pricing-decision frameworks. Our new sector strategy reflects a continued rebalancing of our balance sheet towards sectors aligned to an economic recovery and building a fair transition to a green economy across the regions. In 2021, we delivered a £1.5 billion risk-weighted assets (RWA) saving from targeted sector reductions, significant risk transfers and other active capital management actions; improving RWA efficiency by around 1%.

"Speed of arrangement was crucial. Working to short timescales we were able to deliver the contract for the required facility quickly."

8 DECENT WORK AND ECONOMIC GROWTH

There when it counts

Championing business potential

We know it's essential for growing businesses to get the right kind of support at the right time.

It's why we place so much importance on championing potential in those early years. When a business has a clear commercial opportunity, we want to help them deliver on their ambitions.

PensionBee is a great example. A direct-to-consumer financial technology company and a leading online pension provider in the UK, it enables customers to interact with their retirement savings through its unique combination of smart technology and dedicated customer service.

We assisted PensionBee in March 2021, in the run up to its planned IPO, with a £10 million revolving credit facility through our innovative Growth Capital team. Our support gave the company that vital element of flexibility around optimising its capital structure to protect its cash runway.

Speed of arrangement was crucial. Working to short timescales we were able to deliver the contract for the required facility quickly, providing PensionBee with fast assurance that liquidity would be available if needed.

The company is continuing to move from strength to strength. Having more than doubled its assets under administration to £2.25 billion in the year between September 2020 and 2021, it is now listed on the High Growth Segment of the main market of the London Stock Exchange and has announced its intention to transition to the Premium Segment in the first half of 2022.

For us, seeing PensionBee's success is massively rewarding. It shows that our support made a difference – at a time when it was needed most.

"We want to help them deliver on their ambitions"

RBS International

Our strategy of digital transformation across the communities we operate in remained unchanged despite the COVID-19 pandemic. Parts of the transformation programme were also accelerated in recognition of rapidly changing customer behaviours and needs. We believe this focus on becoming a bank that is easy to deal with helps fulfil our purpose of championing potential, helping people, families and businesses to thrive.

Total income (£m)
548
2020: 497

Operating expenses (£m)
(242)
2020: (291)

Operating profit (£m)
358
2020: 99

Return on equity (%)
22.5
2020: 6.1%

Net loans to customers (£bn)
15.5
2020: 13.3

Retail customers registered with digital banking (%)
82
2020: 68

Net Promoter Score
36
2020: 30

Financial health checks
8,729
2020: 9,872

We have continued to support our customers through life's changing circumstances. We helped our customers grow their deposits, with over 500 customers (who had either never saved with us or had previously saved less than £100 with us) now saving at least £100. We provided 8,729 financial health checks, of which over 21% were virtual and we removed six different mortgage fees and launched our mortgage broker portal to simplify our offering and support customers. We also launched our Green Mortgage to NatWest International customers in the UK as we support the wider climate ambitions of NatWest Group.

Following the successful launch of Cora, our AI virtual assistant, 63% of interactions have been completed without the need for human intervention. RBSI's Social Enterprise Mentoring Scheme is also now well established and involves partnering with a social enterprise in each retail banking jurisdiction to share our knowledge and expertise. We have also shared our wellbeing material, which received the 'Wellbeing in the Workplace Star Award' for our work with Gibraltar Samaritans.

Partnering with four banks, RBSI will contribute £90,000 over three years to help secure the future of Jersey's Community Savings Limited – a registered charity working to promote financial inclusion.

Operating profit of £358 million was £259 million higher than 2020, primarily reflecting a £52 million impairment release combined with income growth and cost reduction. Net loans to customers increased by £2.2 billion, or 16.5%, and customer deposits by £6.2 billion, or 19.8% compared with Q3 2021. During the year, Moody's upgraded our long-term credit rating to A3, bringing us more in line with our peers, setting our rating outlook to stable and affirming the short-term credit rating at P-2; this reflects the resilience of the business throughout the pandemic, our continued profitability and strong balance sheet position.

In responding to changing customer demands, we introduced cheque deposits in our mobile app among other new features across our personal digital channels, contributing to a 23% increase in users. Overall, 82% of local banking customers are now registered with digital banking which is a 14% increase compared with 2020.

Our Institutional Banking and Depositary Services business has received significant investment as it progresses on its digitisation journey. Customers have felt the benefits of this and the business continues to be a driver of growth with Climate and Sustainable Funding and Financing solutions increasingly popular. We have worked closely with NatWest Markets to strengthen our combined position as a trusted partner for these clients by supporting them with a holistic offering across products and geographies.

"For us, this is about fulfilling our purpose, being part of the community we live and work in"

10 REDUCED INEQUALITIES

17 PARTNERSHIPS FOR THE GOALS

Helping financial inclusion

RBSI in the community

Think about what it means to be outside the financial system. To not have a bank account. To not be able to pay bills, obtain credit or save for the future.

The effects can be devastating, trapping people in a vicious cycle of poverty and financial exclusion, unable to participate fully in society.

It's a problem that we felt we could (and, should) help with. So, we decided to do something about it.

We got together with four other local banks in Jersey to support Community Savings Ltd – a registered charity which works to promote financial inclusion in Jersey by providing services, guidance and practical assistance to those most in need.

We know Community Savings well. We've been banking the charity since 2018 and recognise the outstanding work it does in Jersey supporting the financial inclusion of the islanders.

Community Savings relies on grants, donations and bequests to ensure the continued running of its long-standing initiative. Its customers' money is not used to fund its operations and it strives to provide its services free of charge.

Over the next three years, we are contributing £90,000 to ensure that the charity is able to help provide access to mainstream banking services.

For us, this is about fulfilling our purpose, being part of the community we live and work in. But it's also more than that. We look after each other here on the island, and helping people with financial inclusion is a big part of that."

Lynn Cleary
Chief Financial Officer,
RBS International

NatWest Markets

We have supported our customers' evolving needs with innovative solutions and continued to deliver a more integrated customer proposition across NatWest Group. We have made good progress on building a refocused, sustainable business from which we can grow. We incurred an operating loss in 2021, but have continued to reduce our risk-weighted assets (RWAs) and operating expenses.

Total income (£m)
415
2020: 1,123

Operating expenses (£m)
(1,161)
2020: (1,310)

Operating loss (£m)
(711)
2020: (227)

Risk-weighted assets (£bn)
24.2
2020: 26.9

Climate and Sustainable Funding and Financing (£bn)
9.7
2020: 7.2

GBP-denominated DCM volume by bookrunner – FY 2021 Dealogic
#1
2020: #1

Note: The NatWest Markets operating segment is not the same as the NatWest Markets Plc legal entity (NWM Plc) or group (NWM or NWM Group). The NatWest Markets segment excludes the Central items & other segment.

We have made progress during 2021 to better support NatWest Group's corporate and institutional customers through refining our global footprint and product range. We have also simplified our operating model and leveraged expertise across the bank to improve core processes to support cost reduction.

Our Foreign Exchange (FX) teams have worked with NatWest Group's Commercial, Retail and Private Banking segments on technology and customer sales initiatives to ensure that customers across NatWest Group benefit from our market-leading expertise.

We collaborated across RBSI, NatWest Markets and Commercial Banking to establish a team to grow our offering to the investment management sector and provide a more integrated experience for our Funds and Sponsors customers.

We continued to support our customers with their ESG and climate-related finance needs, with product innovation across bonds, FX, interest rate derivatives and private finance. In 2021, we completed £9.7 billion of Climate and Sustainable Funding and Financing, including £3.3 billion which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.

Our support for customers has been recognised by a number of awards:

- 'Lead manager of the year, sustainability bonds – local authority/municipality', and 'Lead manager of the year, green bonds – supranational, sub-sovereign and agency (SSAs)', from the Environmental Finance Bond Awards 2021.
- 'Sterling Bond House of the Year' from the IFR Awards 2020 (awarded February 2021).
- 'Best Agent of International US Private Placements' from the GlobalCapital Private Debt Awards 2020 (awarded February 2021).
- 'Best Bank for ALM and Libor Transition Management' from the GlobalCapital Covered Bond Awards 2021.
- '#1 bank for Overall FX Service Quality to the UK corporate sector' from Coalition Greenwich 2021.

We have advanced product innovation in the voluntary carbon market by supporting NatWest Group's collaboration with other international banks to develop a transparent global marketplace for carbon offsets with clear and consistent pricing and standards known as Carbonplace. We also progressed the development of our digital bond capability, completing a successful pilot trade of a blockchain bond in the secondary market.

We made significant progress on the implementation of our agreement with BNP Paribas for the provision of house futures and associated back-office services, and in January 2022 we successfully went live with the outsourcing of back office services for our US-based Listed Derivatives business.

NatWest Markets incurred an operating loss of £711 million in 2021. A reduction in income was driven by a weak performance in Fixed Income, reflecting subdued levels of customer activity and the continued reshaping of the business. This also contrasted with the exceptional levels of market activity seen in 2020. We continued to reduce costs in line with the strategic announcement in February 2020, with other expenses decreasing by 12.6%. RWAs were £2.7 billion lower than 2020 reflecting lower levels of market risk and counterparty credit risk, including the impact of capital optimisation actions taken throughout the year.

"NatWest Markets is proud to have helped deliver on the government's commitment to issue a minimum of £15 billion of green gilts in 2021–22"

Supporting the UK Government to tackle climate change

NatWest Markets and green finance

Being purpose-led is about knowing and fulfilling our responsibilities. It means delivering on our commitments to our stakeholders, society and the environment.

One of the most important ways we can do this is by helping tackle climate change.

To build out the green infrastructure needed to reach net-zero targets first requires the funding and the market mechanisms to deliver it. This is where NatWest Markets has a vital role to play.

Following the UK Government's announcement of its first-ever sovereign green bond, we supported the second issuance of green gilts in October 2021 as joint bookrunner.

The bond, which matures in July 2053, is the longest-dated sovereign green bond currently outstanding in the market. Crucially, it will help finance a whole range of climate projects such as offshore windfarms, zero-emission transport and schemes to decarbonise homes and buildings.

With these two green issuances, the UK's Debt Management Office has become one of the top three largest sovereign issuers of green bonds in the world.

NatWest Markets is proud to be part of this process, and to have helped deliver on the government's commitment to issue a minimum of £15 billion of green gilts in 2021–22.

Ulster Bank RoI

Following the announcement to begin a phased withdrawal from the Republic of Ireland, we have made progress to develop and implement a plan which acts in the best interests of customers, colleagues and stakeholders. Our focus is to support customers and colleagues now and help them to prepare for the future.

Continuing operations

Total income (€m)
265
2020: 250

Net loans to customers (€bn)
7.9
2020: 20.0

Operating expenses (€m)
(557)
2020: (498)

Operating loss (€m)
(259)
2020: (405)

Total including discontinued operations

Total income (€m)
578
2020: 574

Net loans to customers (€bn)
18.6
2020: 20.0

Operating expenses (€m)
(609)
2020: (548)

Operating profit/(loss) (€m)
68
2020: (255)

During 2021, we entered into binding agreements for the sale of material parts of our commercial and personal banking businesses with Allied Irish Banks p.l.c. (AIB) and Permanent TSB p.l.c. (PTSB), which subject to regulatory and other approvals and other conditions being satisfied, are expected to be completed during 2022 and 2023.

Since the end of July 2021, (apart from the UBIDAC asset finance business), commercial banking has been closed to new customers, remaining open for existing customers only. Since the end of October 2021, we have stopped accepting applications from new personal customers, but continue to consider applications on a reduced number of products from existing personal customers, mainly mortgages.

We have focused on effective and timely communications, engaging with all customers impacted by the loan sales and launched the 'Choose, Move & Close' readiness campaign designed to give personal customers, especially those in vulnerable situations, as much notice as possible of the steps they will be required to take to move the products they hold with us that are not already covered by the sale agreements. This readiness campaign is an important step in our closure, not just for customers but for the industry too, as we work together to ensure the safe transition of customers to their new providers. With this in mind, we are engaging with the rest of the industry within the bounds of competition law, to allow them time to prepare for the volume of customers who will need to move or switch accounts. We are also engaging with the main direct debit originators and large employers to provide advance notice of the changes to allow them time to prepare to help their own customers and employees who will be switching accounts.

In July 2021, we launched our Customer Charter, a set of principles developed from our colleagues' ideas and suggestions for how we best serve customers and the communities in which we operate throughout the withdrawal process. This includes helping customers in vulnerable situations to close or move their accounts, continuing to provide financial education to customers and donating surplus office furniture to local communities and charities.

Following the announcement of the phased withdrawal, our focus on colleague wellbeing has been a key priority. Listening sessions were held to answer questions and keep our colleagues informed. We also invested significantly in learning and development to support colleagues, which has included one-to-one career coaching sessions and career development focus workshops.

The results above are presented for continuing operations. For further details on the treatment of discontinued operations refer to Note 8 to the consolidated financial statements.

Outlook.

The economic outlook remains uncertain. We will monitor and react to market conditions and refine our internal forecasts as the economic position evolves. The following statements are based on current market interest rate and economic expectations.

- In 2023, we expect to achieve a return on tangible equity of comfortably above 10% for the Group.
- In 2022, we expect income excluding notable items to be above £11.0bn in the Go-forward group.
- We plan to invest around £3 billion over 2021 to 2023 but, with continuing simplification, we plan to reduce Go-forward group operating expenses, excluding litigation and conduct costs, by around 3% in both 2022 and 2023.
- As a result of positive actions to change the shape of our book in recent years, we expect our through-the-cycle impairment loss rate to be around 20 – 30 basis points. We expect our 2022 and 2023 impairment charge to be lower than our through the cycle loss rate.
- Across 2022 and 2023, we expect movements in RWAs to largely reflect lending growth and our phased withdrawal from the Republic of Ireland.

Capital and funding

- We aim to end 2022 with a CET1 ratio of around 14% and target a ratio of 13-14% by 2023.
- We intend to maintain ordinary dividends of around 40% of attributable profit and to distribute a minimum of £1 billion in each of 2022 and 2023 via a combination of ordinary and special dividends.
- We intend to maintain capacity to participate in directed buybacks of the UK Government stake, recognising that any exercise of this authority would be dependent upon HMT's intentions and is limited to 4.99% of issued share capital in any 12-month period.
- We will consider further on-market buybacks, in addition to the £750 million announced today, as part of our overall capital distribution approach as well as inorganic opportunities provided they are consistent with our strategy and have a strong shareholder value case.
- As part of the NatWest Group capital and funding plans we intend to issue between £3 billion to £5 billion of MREL-compliant instruments in 2022, with a continued focus on issuance under our Green, Social and Sustainability Bond Framework. NatWest Markets plc's funding plan targets £4 billion to £5 billion of public benchmark issuance.

Ulster Bank RoI

- We have made good progress on our phased withdrawal from the Republic of Ireland and expect the majority of the Allied Irish Banks and Permanent TSB asset sales to be largely complete by the end of 2022 and deposits to reduce over a longer timescale.
- We would expect income and RWAs to follow the balance sheet trajectory. We expect the cost base to reduce over time and anticipate other operating expenses, excluding withdrawal related costs, in 2023 will be around €200 million lower than 2021.
- We expect to incur disposal losses through income of around €300 million in 2022 and withdrawal related costs of around €600 million across 2022-24, with around €500 million incurred by the end of 2023.
- We expect the phased withdrawal to be capital accretive.

(1) The guidance, targets, expectations and trends discussed in this section represent NatWest Group plc management's current expectations and are subject to change, including as a result of the factors described in the Risk Factors section on pages 406 to 426 of the 2021 NatWest Group plc Annual Report and Accounts and on pages 179 to 201 of the NatWest Markets Plc 2021 Annual Report and Accounts These statements constitute forward-looking statements. Refer to Forward-looking statements in this document.

Section 172(1) statement

In this statement we describe how our 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 pages 14 to 17 (stakeholder engagement) and pages 102 to 113 (Corporate governance report).

Supporting effective Board discussions and decision-making

Our purpose continues to influence Board discussions and decision-making.

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

Our 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, we introduced an additional page to our paper template in 2021 which provides directors with further information to support purposeful decision-making. This additional page uses the Blueprint for Better Business as a base and is aligned to our 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 NatWest Group's key stakeholders.

This statement describes three examples of principal decisions taken by the Board during 2021.

- Likely long-term consequences.
- Employee interests.
- Relationships with customers, suppliers and others.
- The impact on community and environment.
- Maintaining a reputation for high standards of business conduct.
- Acting fairly between members of the company.

Withdrawing from the Republic of Ireland

Factors considered:

What was the decision-making process?

In February 2021, the Board took the decision to commence a phased withdrawal from the Republic of Ireland. This was a very carefully considered decision by the Board that followed a strategic review of the Ulster Bank business in the Republic of Ireland, which concluded that Ulster Bank Ireland Designated Activity Company (UBIDAC) would not be able to generate sustainable long-term returns for NatWest Group plc's shareholders. Alongside the decision to withdraw, it was announced that a non-binding Memorandum of Understanding with Allied Irish Banks, p.l.c had been entered into in connection with the sale of a portion of UBIDAC's performing commercial loan book.

To support the Board in its decision-making, it received comprehensive papers prepared by management which updated the Board on the progress of each stage of the strategic review and sought the Board's support to proceed to the next stage. These papers included detailed analysis of the potential options available to execute the withdrawal (including potential counterparties and transactions), valuations, financial impacts, key risks, and stakeholder impacts and engagement plans. During its discussions, the Board acknowledged the complexity and challenges of a withdrawal and the various options were explored through the lenses of time, value, execution risk and stakeholder impacts.

How did the directors fulfil their duties under section 172? How were stakeholder interests considered?

At each stage of the strategic review the directors were mindful of their duties under section 172 including the likely long-term consequences of the decision. Each update the Board received provided an overview of relevant stakeholder considerations. The Board discussed in detail the various stakeholders that would be impacted (including shareholders, employees, customers, suppliers, regulators and communities), what their concerns were likely to be and the key messages that would support engagement. The Chairman and Group CEO undertook engagement directly with key stakeholders and reported back to the Board on their discussions. The UBIDAC CEO also attended each meeting at which the strategic review was discussed to provide direct feedback to the Board on stakeholder concerns and considerations.

How was our purpose considered as part of the decision?

Considering relevant stakeholder interests is key to purposeful decision-making. Our new purposeful decision-making page was used to provide the Board with a detailed analysis of stakeholder considerations and impacts, using the Blueprint for Better Business framework. Having taken the decision to withdraw, the Board agreed this should be done in an orderly manner that was considerate to customers, colleagues, suppliers and other stakeholders.

Actions and outcomes

The Board continues to receive updates on the execution of the withdrawal. A binding agreement was subsequently reached with Allied Irish Banks p.l.c. on the sale of the majority of UBIDAC's performing commercial lending portfolio.

Approving capital distributions

Factors considered:

What was the decision-making process?

During 2021, the Board recommended a final dividend, agreed to participate in a directed buyback of ordinary shares from Her Majesty's Treasury, approved an interim dividend and agreed to commence an on-market buyback of ordinary shares, as well as providing outlook guidance to investors on capital distributions.

The Board's decisions were informed by the 2021 capital distribution plans as well as regular updates on NatWest Group plc's financial and capital positions. A key focus of Board-level discussions was how surplus capital was being managed.

The Group 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?

Again, in taking decisions, the directors were mindful of their duties under section 172. For the dividend decisions the directors were particularly focused on whether the declaration of a dividend would support the long-term sustainable success of the company. The Board also sought advice from NatWest Group plc's corporate brokers on investor expectations in respect of the outlook guidance.

How was our 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 final dividend of 3 pence per ordinary share was approved by shareholders at the Annual General Meeting in April 2021 and an interim dividend of 3 pence per ordinary share was approved by the Board in July 2021.

The outlook guidance on capital distributions was announced as part of the 2020 annual results in February 2021. It stated that, subject to market conditions, the company intended to maintain ordinary dividends of around 40% of attributable profit and aimed to distribute a minimum of £800 million per annum from 2021 to 2023 via a combination of ordinary and special dividends. This was updated by the Board in July 2021 which increased the outlook guidance for capital distributions from £800 million to £1 billion for 2021 and future periods (again subject to market conditions).

In March 2021, the company participated in a directed buyback of ordinary shares from Her Majesty's Treasury and in July 2021 the Board agreed to commence an on-market buyback of ordinary shares, further reducing the UK Government's shareholding in NatWest Group plc.

Approving our refreshed values

Factors considered:

What was the decision-making process?

In July 2021, the Board received an update on the work being undertaken to refresh our values and the related behavioural framework to provide greater alignment to our purpose and strategy. At that time, the Board confirmed its support for the refresh and noted that the final proposal would be brought back to the Board for approval.

In December 2021, the Board was presented with detailed proposals from management seeking approval for the recommended refreshed values and behaviours. The paper explained the behavioural science and data-led approach that had been adopted and the range of stakeholders that had been engaged. The paper also set out the first draft of the people proposition that would be aligned to the refreshed values. The Board discussed the proposals and provided positive feedback on both the approach taken and the refreshed values.

How did the directors fulfil their duties under section 172? How were stakeholder interests considered?

The paper explained very clearly the stakeholder engagement that had been undertaken in developing the refreshed values and the draft people proposition, both in terms of the stakeholder groups consulted (which included colleagues, customers and communities) and the methods of engagement used (such as interviews with senior executives, workshops, focus groups, digital surveys, external partner review by Blueprint for Better Business and virtual engagement). A stakeholder overview also set out stakeholder impacts and a number of Board members provided direct input and feedback as part of the stakeholder engagement process. Colleagues were, understandably, the key focus of the Board's discussions.

How was our purpose considered as part of the decision?

The refresh of our values was undertaken to provide greater alignment with our purpose and strategy and the Board acknowledged this as part of its discussions.

Actions and outcomes

The Board approved the refreshed values in December 2021 and noted the intention to launch them to colleagues, customers and communities in 2022.

"The Board knows how important it is to engage with our stakeholders, to listen to them and to consider their interests during Board discussions and decision-making. Understanding the needs of our stakeholders is at the core of our purpose framework."

Howard Davies,
Chairman

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Listening, engaging and partnering with our stakeholders is vital for the success of our business. It helps us to address our operational impacts and improve outcomes for customers, society and the environment. In the following sections we detail some of the notable steps we have taken to respond to our stakeholders' changing requirements during 2021.

Customers

Listening and responding to our customers

We want to know what our customers think about us. It helps us better understand their needs and improve the products and services we offer.

To achieve this, we have in place a framework of independent customer feedback surveys that measure satisfaction across our business segments. In terms of customer advocacy in 2021, Net Promoter Scores (NPS) for Retail Banking improved by six points for NatWest and seven points for Royal Bank of Scotland. Business Banking NPS remained flat. In Commercial Banking NPS declined by two points for NatWest and six points for Royal Bank of Scotland. Refer to page 56 for the full breakdown of scores.

The insight from these surveys is reported at the most senior levels of the bank and plays a crucial role in how we address the evolving requirements of our customers. In 2021, we responded to customer feedback with a range of innovative solutions.

So that customers can settle payments easily between family and friends (without the need to share account details or hold cash), we launched 'PayMe'. This service uses Payit, our Open Banking Payments solution, to request a payment from anyone who uses online or mobile banking and has a participating UK Bank account. Payment can be made via a link or QR code, which can be scanned by any device with a camera.

Our approach to Open Banking and the innovative use of data has also created opportunities for reusing services and capabilities across NatWest Group products, making it simpler and quicker to develop and deploy them to our customers.

For example, through Tyl, Payit and Mettle we will be able to offer a seamless, one-bank payments proposition, delivering personalised, smart insights for businesses so they can track sales, target customers and grow loyalty.

Elsewhere, a new feature launched in 2021 in the mobile banking app to enable our retail and commercial customers to deposit cheques has swiftly become one of the app's most used features – testament to both the demand for, and usability of the function. For our Commercial Banking customers, we also enhanced our digital platform offering 'Bankline', with new and improved functionality within the service.

Making banking more accessible

We recognise that our customers' individual needs are all different. As such, we aim to make banking as accessible as possible for everyone, offering our customers the ability to choose from a variety of face-to-face, digital and remote options.

We have more than 800 branches and 16,000 physical points of presence, including our ATM network and our relationship with the Post Office, which remain an important part of how we deliver services to our customers and communities.

Customer trust

	NatWest	Royal Bank of Scotland
Q4 2021	74%	68%
Q4 2020	76%	61%

Source: Yonder reputation tracker, GB, trust amongst Retail Banking customers

Customers can now also take greater digital control of their finances through our mobile app, including the ability to open an account, check their credit score and apply for a mortgage. Our app is compatible with both Apple and Android accessibility features such as inverting colours and magnifiers, as well as biometric log-ins. We have also introduced a dark/light mode for customers with visual impairments or dyslexia. Our AI virtual assistant, Cora supports customers via the 'message us' feature in the app, and our contact centre colleagues are just a click away with the 'tap to call' function.

When our customers want the reassurance of a face-to-face conversation remotely, our video banking service is available. We offer customers who require additional support a range of accessibility services, such as accessible statements in braille, large print and audio CD. BT's Relay UK service also supports customers with hearing impairments through a type-to-talk service, while accessible card readers, rubber signature stamps, braille card wallets and our talking ATM service are other key accessibility features.

Combating financial crime

Detecting and preventing financial crime to protect people, families and businesses is a key priority for NatWest Group. Along with other major banks and telecoms companies, we participated in a pilot scheme to introduce a hotline to help fight fraud across the industry and protect our customers from fraud and scams.

Spearheaded by Stop Scams UK (SSUK), the phone number '159' is designed to disrupt scams in which victims have been contacted or engaged by a scammer via phishing or impersonation. The number works by encouraging customers experiencing suspected fraud to stop, hang up and call 159, at which point they are directed to their bank.

Supporting customers in vulnerable situations

At any time, a customer may find themselves either in a vulnerable situation or caring for a loved one experiencing a vulnerability. The continuing impact of COVID-19 has meant that for many of our customers this was a reality in 2021. Our dedicated customer care line, which was set up in response to the pandemic, has continued to support a significant number of our customers in 2021. Our support service 'Banking My Way' continues to develop, with customers now able to tell us about the support they need by updating their details in the new mobile app function.

In 2021, we continued to work with organisations such as 'GamCare' and the 'Money Advice Trust' to improve the support available to customers in vulnerable situations, connecting them to expert advice where appropriate. We also significantly expanded our referral programme with Citizens Advice, connecting customers to their advisers where we identify additional advice or vulnerability needs. In February 2021, with the domestic abuse charity SafeLives, we launched The Circle Fund. The Circle Fund, available for three years, supports SafeLives to provide small grants to help economic abuse victims and survivors to regain financial confidence and control. This follows from our announcement to donate £1 million for the fund in 2020.

We know how important our branches are to our customers. But we also know that the ways in which our customers live, work and bank have altered dramatically in the past two years. To meet these changing needs and to help people, families and businesses to rebuild and thrive, we plan to turn our branches into sustainable local banking hubs.

We want to provide our customers a space in the heart of our high streets with a range of specialist services, venturing beyond traditional banking to help break down barriers to enterprise and increase financial capability. Our Broadmead Bristol hub, which opened earlier in 2021, is the first example of this.

Within the hubs, retail customers are able to connect face-to-face and learn more about financial education and how to best manage their money, and businesses can access expert advice and collaboration spaces. The hubs will also include enterprise zones, where potential and current customers can liaise with local enterprise managers and other specialists with access to initiatives such as 'Women in Business' or our 'Accelerator' programme.

Among the other features are: dedicated events and learning spaces, which can also be used by local charities or community groups; customer hot desks offering free Wi-Fi; private consultation rooms, where we can provide confidential assistance to customers both face to face and digitally; and self-service areas with colleague assistance to support people with simple banking transactions quickly and conveniently.

And from listening to our customers, we understand that managing the environmental impact of the space is vital. To help reduce waste and promote sustainability, we've incorporated recycled furniture, included water bottle refill stations for customers and removed paper marketing materials. We'll also measure the climate impact of our new local banking hubs through the SKA and Energy Performance Certificate (EPC) assessments.

Customers continued

Our brands are our main connection with customers. We track customer advocacy for our key brands and services using the Net Promoter Score (NPS), a commonly used metric in banking and other industries across the world.

Overall NPS

Banking:

	Retail	Business	Commercial
NatWest			
Q4 2021	13	-2	22
Q4 2020	7	-2	24
Source	Source: Strategic NPS benchmarking study run through InMoment, England & Wales	Source: MarketVue Business Banking from Savanta, England & Wales, businesses with a turnover up to £2m	Source: MarketVue Business Banking from Savanta, England & Wales, businesses with a turnover up to £2m
Royal Bank of Scotland			
Q4 2021	-2	-12	21
Q4 2020	-9	-13	27
Source	Source: Strategic NPS benchmarking study run through InMoment, Scotland	Source: MarketVue Business Banking from Savanta, Scotland, businesses with a turnover up to £2m	Source: MarketVue Business Banking from Savanta, Scotland, businesses with a turnover over £2m

Customer Trust

	Dec 2021	Dec 2020
NatWest	74%	76%
Royal Bank of Scotland	68%	61%

Source: Yonder reputation tracker, GB, Trust among Retail Banking customers

Source: Yonder reputation tracker, GB, Trust among Retail Banking customers

Retail Banking

	Q4 2021	Q4 2020	Source
Account opening	28	16	Source: Strategic NPS benchmarking study run through InMoment
Mortgage	14	16	Source: Strategic NPS benchmarking study run through InMoment
Mobile Banking	45	44	Source: Strategic NPS benchmarking study run through InMoment
Online Banking	25	22	Source: Strategic NPS benchmarking study run through InMoment

Business and Commercial Banking

	Q4 2021	Q4 2020	Source
Lending	78	76	Source: Operational NPS study run through InMoment
Day-to-day servicing	37	32	Source: Operational NPS study run through InMoment

Investors

Transparency and engagement

Private investors

We engaged with our private investors through our Annual General Meeting (AGM), virtual shareholder events, and our annual and strategic report communications.

In light of ongoing restrictions related to the COVID-19 pandemic, investors were not be able to attend the 2021 AGM in person. However, we held a live virtual shareholder event a week prior to the AGM. Investors were invited to submit questions either in advance of, or during, the virtual event and the answers to questions on key themes were displayed on our website.

In addition, we held two further virtual events in July and November 2021. At these events, we spoke about the work NatWest Group is doing to support and stimulate enterprise, why it was so important for us to sponsor COP26 and how tackling climate change is at the core of our purpose. These virtual shareholder events remain a key component of our stakeholder engagement programme and provide an opportunity for private investors to hear from, and ask questions of, Board members and senior management on topics such as innovation, enterprise, sustainability and our financial performance. It is our intention to deliver further virtual events in 2022.

In addition, we published investor updates on the topics of 'Championing Enterprise' and 'Our Purpose: Beyond COP26'. These updates provided information on initiatives such as the relaunch of our enterprise programme, the additional £1 billion in funding to help support female-led businesses in the UK recover from the pandemic, the introduction of our carbon footprint tracker for our mobile app and our launch of the UK's first carbon-neutral podcast. Our investor updates and recordings of our virtual events can be found on our website.

Institutional investors

We have a well-established programme of engagement with our institutional investors. The financial year begins with a presentation on our annual results in February, hosted by our Chairman, CEO and CFO. This live event includes an interactive Q&A session to give research analysts and investors an opportunity to ask questions and engage with our management team. We then follow up quarterly with presentations to the market when we announce each set of financial results in April, July and October. While these events could not be held face to face in 2021, we were able to host a live presentation and Q&A session via Zoom, enabling the same level of interaction in a virtual forum.

In addition to the quarterly results presentations, we hosted a programme of virtual one-to-one and group meetings with institutional investors from around the world. Across our management team, we hosted over 250 meetings with investors covering key topics such as progress against our financial targets, strategic priorities, innovation, ESG and industry challenges. While the total number of one-to-one meetings was lower than the prior year when we saw an unusually heightened demand for time with management due to the pandemic, our CEO and CFO engaged regularly with UK Government Investments and our largest active institutional investors throughout the year.

To enhance our investor relations programme during a challenging time when we were unable to meet face to face, we hosted a series of 'Meet the Exco' and business spotlight presentations via Zoom. These events gave analysts and investors the opportunity to hear from key members of our executive team as they discussed their priorities for the year ahead and to ask questions live over Zoom.

Environmental, Social and Governance (ESG) issues were regularly discussed at our one-to-one meetings and we also engaged with specialist socially responsible investors through a programme of meetings with ESG analysts from institutional investors, presentations at ESG-focused conferences and increased interactions with sustainability rating agencies.

Alongside the virtual shareholder events mentioned above, members of our Board hosted a live virtual corporate governance forum. This gave investors the opportunity to hear an update on Board priorities in 2021 and the opportunity for a discussion on corporate governance topics directly with our non-executive directors.

A key development in terms of the transparency of our business during 2021 was the enhancement of two key areas of our non-financial reporting. In recognition that climate change is a critical global issue which has significant implications for our investors (as well as our customers, employees, suppliers and partners), we produced our first standalone Climate-related Disclosures Report in February 2021. This comprehensive document was a material step towards alignment with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and recommended disclosures. The report covered our climate strategy and associated ambitions, governance, scenario analysis, risk management and climate-related metrics.

We also produced our first Environmental, Social and Governance Supplement – providing investors and other stakeholders with a deeper understanding of the work that we are doing to understand and manage issues facing our business, customers, communities and society as a whole.

Colleagues

Helping our colleagues to thrive

We want NatWest Group to be a great place to work. By offering a fulfilling job, a healthy workplace, fair rewards, excellent development and great leadership, we believe together our colleagues can thrive and unlock the full potential of NatWest Group.

Our People Pledge sets out commitments and initiatives in direct response to what colleagues tell us is important to help them in their jobs. Throughout 2021, we have worked with colleagues to champion their potential across all five parts of the pledge: 'Help you develop your skills'; 'Support your wellbeing'; 'Help customers thrive'; 'Create inclusive and connected teams'; and 'Help you make a difference'.

The pandemic has drastically altered how we work and has changed (perhaps forever) the relationship between employers and employees. We listen to our colleagues and use this insight to attract, engage and retain the best talent for the future. Our colleague listening strategy – which includes: our colleague opinion surveys; a Colleague Advisory Panel (CAP) that connects colleagues directly with our Board; the 'Colleague Experience Squad', a group of colleagues who volunteer to provide feedback on colleague products and services; and Workplace, our social media platform – contributes to our deeper understanding of colleague sentiment. We also track metrics and key performance indicators which we can benchmark with sector and high-performing comparisons.

Over 46,700 colleagues (81%) participated in our September 2021 Our View survey. The results showed that colleague sentiment remains strong, despite the pandemic. Lead measures in culture, purpose, inclusion and building capability showed a 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).(1)

Regular interactions with our employee representatives such as trade unions, elected employee bodies and works councils are a vital means of transparency and engagement for us. We frequently use these sessions to discuss developments and updates on the progress of our strategic priorities. In 2021, topics included 'ways of working' and 'health and safety in the context of the pandemic'. We are also committed to respecting our employees' rights of freedom of association across all our business. In addition, our CAP was set up in 2018 to help promote colleague voices in the boardroom. **For full details, refer to the Corporate governance report and ESG Supplement.**

Performance and reward

Our approach to performance management provides clarity for our colleagues on how their contribution links to our purpose, with all colleagues set performance goals across a balanced scorecard of measures. We continue 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.

(1) NatWest Group Our View results exclude Ulster Bank RoI.

We keep our policies and processes under review to ensure we do so. In general, the scores from the reward category in Our View declined since 2020, although in all but one category they remain above the GFSN. We will be looking to address this, subject to performance, in 2022.

In the UK, our rates of pay continue to exceed the Living Wage Foundation benchmarks and we ensure employees performing the same roles are paid fairly. We ensure colleagues have an awareness of financial and economic factors affecting our performance through quarterly 'Results Explained' communications and 'Workplace Live' events with our Group Chief Executive Officer and Group Chief Financial Officer. Refer to our Directors' remuneration report for full details on our remuneration policies and employee share plans.

Helping colleagues realise their potential

At NatWest Group, we exist to champion potential and help people, families, and businesses to thrive – helping them at every stage of their lives. We'll achieve our ambition to be a relationship bank for a digital world by working together as one team, across NatWest Group. Investing in our workforce in a variety of ways helps us achieve that. To support this, we're building a learning organisation that tests ideas and learns every day – helping colleagues develop the capabilities to stay relevant and employable for the future.

The COVID-19 pandemic has accelerated the pace of change, and it is likely that predictions made for 5-10 years' time – working seamlessly alongside robotics, smarter uses of AI and collaboration across organisations and boundaries – will become the norm more quickly. This will have a significant impact on how people work and the capabilities they will need to thrive in this new world.

At NatWest Group, we believe that we have an obligation to help build skills across our industry. Working with the Financial Services Skills Commission, we led the build of an industry-wide skills framework that is available via an online tool to all financial services organisations in the UK. Its purpose is to create a consistent language around skills across the industry – which in turn will support mobility and is in line with our commitment to support wider communities.

In 2021, we provided all colleagues with access to build future skills through the NatWest Group Learning Academy, bringing together learning opportunities and curated content into a single place. This supports our commitment for all colleagues to be upskilled in future-focused skills by 2025. Around 80% of colleagues have used it since it launched in 2020 and, in 2021, we've offered new topics including cybersecurity and innovation. It has helped us to increase colleague learning completions by 10%, with our target (aligned to the UN Sustainable Development Goals) to increase them by 50% at the end of 2023.

As well as increasing our colleagues' learning and development, we're also focused on ensuring that it's the right kind. We have made a commitment that half of all learning at NatWest Group is focused on building critical skills for the future. We have prioritised data and digital capability and have given our colleagues access to a range of opportunities to build these skills through the NatWest Group Academy. Early

progress is positive with data learning up 134% and digital learning up 31%. We also continue to invest in our people to do their job, with 99.6% of our front-line colleagues professionally accredited within their first 18 months in role.

We are committed to reskilling colleagues whenever possible. The Mobility Hub supports with redeploying colleagues and reskilling them for future work. In 2021, we commenced our first formal reskill programme, with 20 colleagues who were at risk of redundancy taking the opportunity to reskill as software engineers. Of these, 17 accepted permanent positions.

In 2021, we launched our global Talent Academy to help identify and develop colleagues with high potential through a programme of challenging and purposeful development opportunities. For the first time, colleagues were encouraged to self-nominate regardless of role, level, working pattern and location. Following a robust assessment process, 3,911 colleagues were accepted on to the programme. The cohort is 53% male and 47% female, and 23% of the successful applicants come from a Black, Asian and Minority Ethnic background, thus providing NatWest Group with a diverse talent pipeline for the future.

As we committed to, we hired over 1,000 interns, graduates and apprentices in 2021; including 205 colleagues who were recruited through our social mobility apprentice programmes and we aim to hire a further 1,100 interns, graduates and apprentices in 2022.

We are also focusing on building our leaders' capabilities, which is critical to delivering our purpose-led strategy. Our 'Determined to Lead' programme has helped focus and energise our people leaders, cultivating a framework for common leadership behaviours and practices. In addition, our leadership, talent and career support activity is enabled by our new Leadership and Coaching Faculty. This resource gives our leaders access to clear thinking, relevant frameworks and problem-solving approaches at the point of need.

Supporting this, our succession planning processes enhance our framework to spot, develop and mobilise a diverse pool of our most promising talent. Successors are assessed and developed against a purpose-led profile that defines the behaviours, traits and drivers associated with success in a purpose-led role and organisation. Our Succession Council gives bank ExCo successors the opportunity to engage directly with the CEO and other ExCo members to ensure they have the potential and aspiration to reach ExCo level. Our most talented senior leaders are given exposure through Board & Talent sessions with interactive sessions discussing topics that are shaping the direction of NatWest Group.

Following the success of our first NatWest Junior Management Team (JMT), a second cohort was selected in September 2021. The JMT mirrors the NatWest Group Executive Committee and brings a fresh perspective and voice to that team. They also deliver key strategic projects to broaden their experience, exposure and connections across NatWest Group.

Refer to our ESG Supplement for full details on how we support colleagues to realise their potential.

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

Supporting our colleagues' wellbeing

To be part of NatWest Group means being part of something bigger than ourselves, where the strength of our culture underpins everything we do; an organisation where we all learn, grow, thrive and support each other. A vital part of this is having a fully embedded wellbeing strategy; refer to our ESG Supplement for full details.

Diversity, equity and inclusion

Creating a diverse, equitable and inclusive workplace is integral to fulfilling our purpose. It enables us to truly connect with, and serve, our diverse customers and communities with the products and services they need. We remain committed to progressing our diversity, equity and inclusion strategy, focusing on becoming gender balanced, ethnically diverse, disability smart, LGBT+ innovative and an inclusive workplace.

Inclusive workplace

Colleague sentiment on inclusivity continued to increase in 2021, reaching a score of 93 percentage points. We are 14 percentage points above the GFSN and 10 percentage points above the GHPN. Although sentiment has increased in all colleague groups, our focus is now on where scores may vary for our minority colleague groups.

Our 2021 Inclusion Week showcased diversity, equity and inclusion across our business. This offered time to reflect on why we need a diverse and inclusive workplace, to celebrate the progress we are making, and challenge ourselves to do more. We also continued to focus on behavioural change through new and enhanced learning modules. These include our mandatory learning and additional optional learning (such as 'Choose to Challenge', which educates colleagues on the importance of challenging behaviours that are not inclusive). For more details refer to our ESG Supplement.

We continued to support our employee-led networks, which have around 24,000 members globally. These include: Gender, Multicultural, Disability, Rainbow (LGBT+), Armed Forces, Families & Carers, Sustainable Futures, and Aspire. In 2021, NatWest Markets Americas' Energized Employees Network (and sub-networks) focused on uniting and empowering colleagues by running several events and initiatives, including 'One Small Step: The George Floyd Verdict' hosted by the Black Professional Network and 'New Ways of Working and the Impact on Women' hosted by the Gender Network.

We have been listed in the 'Working Families Benchmark Top 10 Employers', showing that we are among those leading the way in building a flexible, family-friendly workplace. We have also been accredited as a 'Good Work Standard' employer at Excellence (highest) level by the Mayor of London's office.

We marked 'South Asian Heritage Month' with cultural celebrations and awareness campaigns that define the diverse cultural tapestry of our South Asian colleagues. We ran events (such as wedding traditions across different faiths) and created a memory wall for colleagues to share personal histories.

For the third consecutive year, NatWest Poland received the highest score in 'Diversity IN CHECK' – a certification granted to employers well advanced in managing diversity and inclusion considerations.

Gender balanced

Our Board composition exceeds the FTSE Women Leaders target with a figure of 36% female representation. We have female representation of 29% on our executive management team, with a female Chief Executive Officer, Chief Financial Officer, Chief Marketing Officer, Chief People & Transformation Officer and Chief Governance Officer & Company Secretary.

We have a target to have full gender balance in our CEO-3 and above global roles by 2030. At 31 December 2021, we had, on aggregate, 38% women in our top three layers, a decline of 1% since 31 December 2020. While representing an increase of 9% since targets were introduced in 2015, we know we have more to do and we continue to focus on the recruitment, retention and advancement of women to meet our 2030 target.

The mean gender pay gap for NatWest Bank is 30.1% (median: 34.2%) and the mean gender bonus gap is 26.0% (median: 12.5%). The statutory bonus gap calculated in line with regulation is the number including recognition vouchers (mean 50.5%; median 92.9%). This means that even colleagues who received a small recognition voucher – for example a £10 voucher – are included in the calculations. Most colleagues in our more junior jobs only receive fixed pay – a change made to provide more certainty over earnings; and this means that many colleagues included in the statutory bonus gap calculations only received a recognition voucher. We currently have a higher proportion of women in these roles. We therefore believe the figures excluding recognition vouchers, 26.0% (median: 12.5%), are the most accurate reflection of our gender bonus gap today.

In line with being a signatory to HM Treasury's 'Women in Finance Charter', we are committed to implementing its four key industry actions for gender balance across financial services. Executive Sponsor for Gender, David Lindberg (CEO, Retail Banking), is also part of the external Accountable Executive Taskforce for the Charter.

In 2021, we were listed as a 'Times Top 50 Employer for Women' for the 11th consecutive year. For the fifth year, we've retained our place in Bloomberg's 'Global Gender Equality Index'. NatWest Group India was recognised as the 'Winner of Gender Inclusive Workplace' by 'UN Women Asia Pacific Awards 2021' for the region and as a 'Top 10 Best Workplaces for Women 2021', awarded by the Great Place to Work (GPTW) Institute, India. Elsewhere, NatWest Poland won the 'Fair to Women' award, in recognition of their initiatives and, more specifically, for supporting women in technology.

We continued our long-standing collaboration with Women in Banking and Finance (WiBF), a volunteer-led organisation which aims to connect members to thought leaders, business leaders and women at all stages of their careers. Alison Rose was presented with WiBF's first President's Award, recognising her contribution to financial services over many years.

Ethnically diverse

Introduced in 2018, our ethnicity target is to have 14% Black, Asian and Minority Ethnic colleagues in our top four layers (CEO-4 and above) in the UK by 2025. At 31 December 2021, of 86% of colleagues who disclosed their ethnicity in the top four layers in the UK, we have on aggregate 11% Black, Asian and Minority Ethnic colleagues. This represents a 3% increase since targets were introduced. Overall, of those who disclose their ethnicity, 17% of colleagues in the UK identify as Black, Asian and Minority Ethnic.

In line with our commitment to transparency under the UK Government's Race at Work Charter and in anticipation of a requirement to disclose our ethnicity pay gap, we have voluntarily disclosed our ethnicity pay gap for NatWest Group combined UK & Ireland. The mean ethnicity pay gap for NatWest Group is 9.3% (median: 13.0%). The mean ethnicity bonus gap for NatWest Group is 24.2% (median: 17.9%). These bonus gap numbers are excluding recognition vouchers, the numbers including recognition vouchers are 32.8% (median 46.3%).

We are proud to be placed in the 'Top 10 Outstanding Employers' as part of 'Investing in Ethnicity Employer's Maturity Matrix', a position we have held since its inception in 2018. The Matrix creates a framework and provides a benchmark to assist employers on their ethnicity journey.

In 2020, we launched the Racial Equality Taskforce to listen, learn and better understand the barriers faced by colleagues, customers and communities from Black, Asian and Minority Ethnic backgrounds. The Taskforce set out ten commitments in the Banking on Racial Equality report, including a new UK target to have Black colleagues occupying 3% of UK roles (CEO-5 and above) by 2025. At 31 December 2021, we have 1.5% of colleagues who identify as Black in the top five layers in the UK. Overall, of those who disclose their ethnicity, 2% of our colleagues in the UK identify as Black. In 2021, we published a first anniversary update on the report, for full details refer to natwestgroup.com.

In October, we celebrated Black History Month 2021 with a theme of Black Excellence. This provided opportunities to celebrate Black people striving to be the best version of themselves, and spotlight Black role models excelling in their chosen fields. We ran events throughout the month, with a keynote lecture from Lord Simon Woolley, supported by our Executive Sponsors for Ethnicity Simon McNamara (Chief Administration Officer) and Nigel Prideaux (Chief Communications Officer).

In 2021, we relaunched our Ethnicity Advisory Council to support our ethnicity and inclusion strategy. Chaired by Simon McNamara, nominated diversity and inclusion specialists from different industries will provide critical challenge, guidance, and direction on our strategy.

Disability smart

In 2021, we re-launched a career development programme on a virtual platform for colleagues with a disability to explore common barriers which impede progress and provide access to tools and techniques to help overcome them.

We undertook a discovery session with Lexxic (specialist psychology consultants) to help us create an environment where neurodiversity can flourish. This helped inform us of areas for improvement, with the aim of exploring how to become an even more neuroinclusive employer. We have a roadmap in place, with five key areas: governance and strategy; awareness and education; positive management culture; attracting and retaining neurodiverse talent; and future ways of working.

Since 2019 we have sponsored the Business Disability Forum's (BDF) Scottish Disability Conference, bringing together organisations to support each other in becoming disability smart. In 2021, the conference ran virtually and consisted of workshops which facilitated group discussions on topics including disability and diversity in the wake of COVID-19, how to have conversations about disability at work, and supporting neurodiverse colleagues in the workplace. The workshops had more than 330 attendees.

In 2021, we refreshed our disability smart e-learning module to help colleagues understand how we can be more inclusive and accessible for all colleagues and customers. The module included an overview of why accessibility is important from our Executive Sponsor for Disability, Oliver Holbourn (Director of Strategy & Ventures) and featured colleagues sharing experiences.

Our efforts to be disability smart are recognised through a gold rating in the BDF benchmark and Leader (the highest level) status in the UK Government's Disability Confident Scheme.

In India, we launched an On-Demand Sign Language programme to facilitate access to sign language interpreters for colleagues with hearing impairments for one-on-one discussion and team meetings. NatWest Group India received special recognition for disability smart work practices at the GPTW Diversity & Inclusion Award Summit 2021. In Poland, we ran a 'Becoming Disability Smart' project to increase support for colleagues with disabilities. A new assistive technology and workplace adjustment process was introduced, as well as updated safety arrangements for disabled colleagues.

LGBT+ innovative

In 2021, we celebrated Pride by running a host of different events that celebrated some of the successes we've had with progressing our work. We also participated in the UK Stonewall Workplace Equality Index to understand what more we can do to support our LGBT+ colleagues and customers. This will provide us with a definitive benchmark and allow us to assess our achievements and progress on LGBT+ equality going forward. Our Executive Sponsor for LGBT+, Jen Tippin (Chief People & Transformation Officer), is guiding and shaping our roadmap for the future.

During 2021, we created a new LGBT+ e-learning module to be launched in 2022. The module focuses on establishing colleagues' understanding of various subjects across the gender identity and sexual orientation spectrum. Our global learning uses colleagues' perspectives and insights from external partners to enhance understanding. We also reviewed and updated our international travel safety guidance for LGBT+ colleagues and our family friendly policies to ensure language and scenarios are LGBT+ inclusive.

As a founding partner of the British LGBT Awards in 2015, we continued our support in 2021 as a sponsor. The awards spotlight organisations working to better meet the needs of LGBT+ people. In 2021, Jen Tippin delivered a keynote speech at the awards and presented the lifetime achievement award.

NatWest Group India received special recognition for LGBT+ workplace practices at the GPTW 2021 Diversity & Inclusion Award Summit. In Poland, we once again hosted and organised the NatWest LGBT+ Business Awards in recognition of organisations and influencers making a real difference to the lives of LGBT+ people in a very challenging climate.

2021 UK ethnicity profile by level

	#Black, Asian and Minority Ethnic	#White	%Black, Asian and Minority Ethnic
CEO-3 and above combined	52	566	8
CEO-4	262	2,018	11
CEO-5	886	5,171	15
Target population (CEO-4 and above combined)	314	2,584	11(*)

2021 Global gender profile by level

	#Women	#Men	%Women
CEO	1	–	100
CEO-1	3	12	20
CEO-2	48	80	38
CEO-3	270	429	39
CEO-4	1,298	1,863	41
Target population (CEO-3 and above combined)	322	521	38(*)

Note: Our reporting reflects our organisational (CEO) levels. This is more reflective of our organisational structure and enables comparison to be made externally. To maintain integrity, we remove colleagues from our reporting that sit in CEO-3 and above that do not hold leadership or influential roles.

For ethnicity: Our reporting only includes colleagues who have disclosed their ethnicity. We report CEO to CEO-3 as a total to comply with GDPR restrictions.

For gender: There are differences between CEO and CEO-1 reporting versus reporting on the gender balance of our Executive Management Team. Female representation on our Executive Management Team is 29%

	Male	Female
Directors of the company	7	4
Executive employees	72	24
Director of subsidiaries	189	68
Permanent colleagues (active and inactive)	30,000	29,500

There were 353 senior managers (in accordance with the definition contained within the relevant Companies Act legislation), which comprises our executive population and individuals who are directors of our subsidiaries.

(*) Within the scope of EY assurance. Refer to page 78.

Communities

Stronger together

Making a positive contribution to the communities in which we live and work is integral to delivering on our purpose.

The last two years have been incredibly tough for many of our customers, but we have also seen the remarkable collective support that happens when people come together. We firmly believe NatWest Group has a role to play in this process, positively impacting communities at both a local and national level.

Focused on our communities

During the year we worked with the Centre for Social Justice (CSJ) to carry out dedicated research into community strength: 'Pillars of the Community' explored what government, business and the third sector can do to strengthen local communities as the UK recovers from the pandemic. The research identified the barriers that prevent local communities from thriving and set out a range of policy initiatives that could help to overcome these barriers.

We were also once again in regular contact with our communities, including through our regional boards, leveraging existing relationships and forming new ones. Our seven regional boards are key to delivering the bank's strategy at a local level and championing potential across the UK. With membership drawn from across the bank, the local insight and strong teamwork of the boards is vital in demonstrating our purpose to the communities we are part of.

The boards have been particularly important during the pandemic, bringing people together to help serve our customers and support our colleagues. In 2021, the regional boards continued to focus on engaging with colleagues, customers and communities across the nations and regions of the UK, particularly in the areas of climate, learning and enterprise.

Real-life support

We believe in supporting our customers with practical measures that can help them in their day-to-day lives. In doing so, we can provide part of the vital infrastructure that communities need to live and thrive, such as our mobile banking fleet, which visited nearly 600 communities every week in 2021.

In response to the pandemic we have changed the way we interact with our customers and communities, launching video banking so our customers can meet with us from the comfort of any location they choose. Elsewhere, NatWest Group's collaborations with Business in The Community (BITC), Hatch and Digital Boost are another vital link with our business communities, providing access to networks, sponsorship and mentorship opportunities.

Helping young people into work

In 2021, we launched our 'CareerSense' programme – which provides free-to-access tools to develop critical skills and support youth employability prospects for 13 to 24-year-olds – especially for those from low-income families and Black, Asian and Minority Ethnic backgrounds. In November 2021, we also welcomed our first cohort to the CareerSense 'Find Your Path', an initiative for young people not in employment, education or training, which has been created and delivered in partnership with regional youth delivery partners. The scheme helps young people to benefit from a range of skills-development sessions, mentoring and paid work experience.

To support the CareerSense programme we have developed the mycareersense.com website, which offers access to a range of free tools and resources, as well as the learning content accessed through our NatWest Learning Academy.

In addition, we launched an external learning academy 'Learning with NatWest' in November 2021 which supports communities, families and businesses (both customers and non-customers), focusing on five key capabilities: climate; employability; entrepreneurship and enterprise; future skills; and financial capability. For more information, please refer to our NatWest Group ESG Supplement.

Bless Chiwanda
Journey Developer

Our CareerSense programme

Supporting young people into workplaces

Young people have been hit hard by the pandemic. From disrupted study time to reduced job prospects, the current generation of pupils and school leavers will be feeling the shockwaves of COVID-19 for a long time to come. – Bless Chiwanda

So, when NatWest Group launched the CareerSense programme in 2021, I saw it as great way of offering some practical help, and welcomed the opportunity to get involved.

Along with almost 600 of my colleagues, who have also volunteered, I became a CareerSense Ambassador: a role that has involved me supporting a local high school in Edinburgh, running sessions for S4 pupils.

The experience has been great. Not just because of the positive feedback from the school, but because I've been able to see so many of the young people get engaged about their next steps. It's also given me the opportunity to reflect on my own personal development. To think about the skills and behaviours I use daily to deliver my work, while also making a positive change to my local community.

Since its launch in June 2021, over 8,200 pupils have registered to attend a skills exploration workshop. That's a lot of young people getting the career support they need.

Regulators

Ongoing dialogue

We operate in a highly regulated market which continues to evolve in scope. As such, we understand the need to have an ongoing, constructive and open dialogue with all relevant regulatory bodies.

During 2021, this included bilateral responses to material consultations or other requests for comment/input issued by various government, regulatory and standard-setting bodies. Key consultations that NatWest Group has responded to bilaterally include the FCA's Consumer Duty proposals; its work on diversity and inclusion; the UK Government's plans for audit and corporate governance reform; the independent review of Ring-fencing and Proprietary Trading; and the Payment Systems Regulator's proposals on Authorised Push Payment (APP) scams.

We formally engage with our regulators, at both senior executive and Board level, as well as via individual non-executive directors, through continuous assessment and proactive engagement meetings. Most notably, during 2021, we kept our regulators fully informed of any contingencies and impacts on our operations as a result of COVID-19. This has been particularly relevant for monitoring compliance with the Financial Conduct Authority's Senior Managers and Certification Regime to ensure that all governance arrangements across NatWest Group have been kept under review in the context of the pandemic. We have also engaged with regulators during policy proposal phases on a number of occasions to help inform priorities.

Suppliers

Our Supplier Charter

As a purpose-led business, we foster strong relationships with all our key stakeholders, including our supply chains. In 2022, our ambition is to quantify the impact of all supplier activities through a supplier engagement framework.

A key milestone towards this ambition was the launch of the NatWest Group 'Supplier Charter' in September 2020. The charter sets out our aims and expectations in the areas of ethical business conduct, human rights, environmental sustainability, diversity and inclusion, the Living Wage and prompt payment. It details what we expect from our suppliers, but also outlines our own commitments in these key areas and the outcomes we aim to achieve by working together. In 2021, led by NatWest Group's Chief Administrative Officer and with collaboration from subject matter experts and policy owners, we completed our first annual review of the charter.

Central to the aims of charter, we worked with EcoVadis – a leading organisation providing third-party, evidence-based assessments of sustainability performance. EcoVadis is helping us to understand and measure our own performance and that of our suppliers against the charter, enabling us to identify social, environmental and ethical improvements. NatWest Group has made significant progress in the first year of working with EcoVadis, with 834 suppliers invited to take part in the assessment, representing over 85% of our in-scope supplier spend. During 2021, NatWest Group Supply Chain Services has delivered the biggest and fastest deployment of EcoVadis supplier sustainability assessments in the UK.

Continuing to support our suppliers

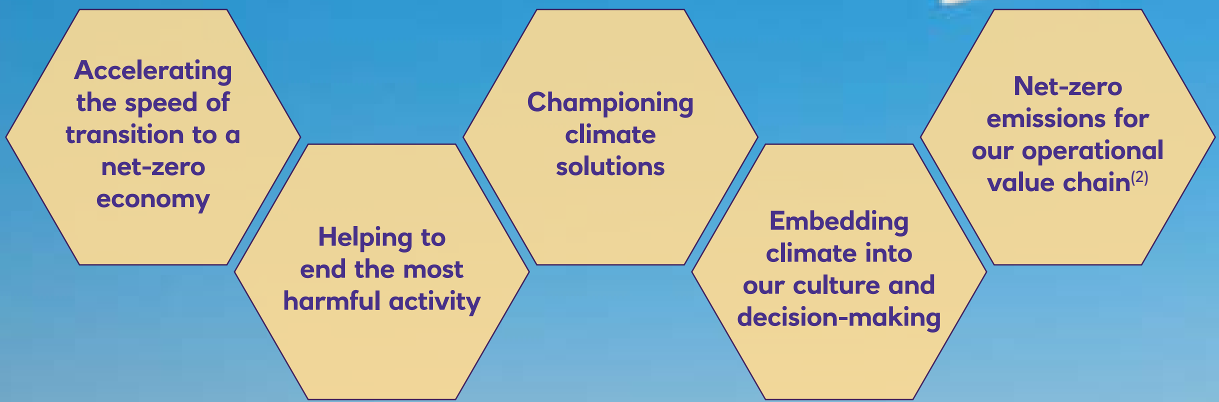
We are determined to pay our suppliers promptly for the services that they provide to us. Our standard payment terms are normally 30 days. However, from earlier on in the COVID-19 pandemic and since, we have maintained immediate payment on receipt of goods and services whenever possible. This supports our suppliers during this difficult financial period and goes beyond our commitment undertaken as a signatory to the UK Government's 'Prompt Payment Code', which requires payment to be made in 60 days.

Climate-related disclosures

We recognise that climate change is a global issue which has significant implications for our customers, employees, suppliers, partners, investors and therefore NatWest Group itself.

Our ambition is to be a leading bank in the UK helping to address the climate challenge. We have set ourselves the challenge to halve the climate impact of our financing activity by 2030 and to become net zero[(1)] by 2050.

Net zero by 2050



NatWest Group confirms that it has:

- made climate related financial disclosures for the year ended December 31, 2021 that it believes are consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations and Recommended Disclosures (as defined in Appendix 1 of the Financial Conduct Authority Listing Rules) and summarised in the tables on pages 66-69;
- set out these disclosures in its "2021 NatWest Group Climate-related Disclosures Report" (the "Climate Report"), published today (and available on natwestgroup.com); and
- adopted this approach given the detailed and technical content of the climate-related financial disclosures as it believes these presentations best present its climate related financial disclosures in a decision-useful manner to the users of those reports.

(1) Science Based Targets initiative (SBTi) defines net zero as reducing Scope 1, 2 and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at a global or sector level in eligible 1.5 degree-aligned pathways.
(2) Upstream operational value chain emissions are all the indirect Scope 3 emissions required for our operations to occur, including emissions from our suppliers, energy creation and transport to our facilities, and our mail. Downstream operational value chain emissions are all of the indirect Scope 3 emissions associated with our operations during and after serving our customers, including customer transport to and from our facilities, how our products are used and how they are disposed of.

A leading bank in the UK helping to address the climate challenge

Net zero by 2050

We have an ambition to achieve net zero by 2050, this includes:

- **Financed emissions:** Greenhouse gas emissions from loans and investments activity, attributable to NatWest Group.
- **Assets under management:** Greenhouse gas emissions associated with our discretionarily managed assets.
- **Our operational value chain:** Greenhouse gas emissions related to the upstream and downstream activities associated with our operations.

Accelerating the speed of transition to a net-zero economy

- We have an ambition to support our UK mortgage customers to increase their residential energy efficiency and incentivise purchasing of the most energy efficient homes, with an ambition that 50% of our mortgage portfolio has an EPC rating of C or above by 2030.
- We plan to collaborate cross industry and create products and services to enable customers to track their carbon impact.
- We plan to reduce the carbon intensity of our funds and discretionary portfolios by 50% by 2030 and to achieve net zero on discretionarily managed assets by 2050.

Embedding climate into our culture and decision-making

- Each year, we plan to include targets for executive remuneration that reflect our latest climate ambitions.
- We have an ambition to at least halve the climate impact of our financing activity by 2030 and align with the 2015 Paris Agreement. To do this, we plan to quantify our climate impact and set sector-specific targets by the end of 2022.
- We plan to continue the integration of the financial and non-financial risks arising from climate change into our enterprise wide risk management framework (EWRMF).

Helping to end the most harmful activity

- We plan to phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030.

Championing climate solutions

- We have a target to provide £100 billion Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

Net-zero emissions for our operational value chain

- We have a target to reduce our direct[(3)] own operations carbon footprint by 50% by 2025, against a 2019 baseline.
- We plan to reduce the carbon footprint for our wider operational value chain by 50%, against a 2019 baseline, by 2030 and achieve net zero by 2050.
- We plan to use only renewable electricity in our direct own global operations by 2025 (RE100) and improve our energy productivity 40% by 2025 against a 2015 baseline (EP100).
- We plan to install electric vehicle charging infrastructure in 15% of spaces across our UK portfolio by 2030 and upgrade our fleet of 300 vehicles to electric by 2025 (EV100).

(3) Our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business, travel commuting, work from home). Excludes upstream and downstream emissions from our wider operational value chain as well as financed emissions.

For our full report, refer to the 2021 Climate-related Disclosures Report

Climate-related disclosures overview

NatWest Group publicly committed to support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2017. Our first stand-alone 2020 Climate-related Disclosures Report provided updates on climate as a key focus area for NatWest Group.

During 2021, we have continued to progress our work and the tables on the following pages summarise the content of the 2021 Climate-related Disclosures Report. Please refer to the NatWest Group plc 2021 Climate-related Disclosures Report for further detail.

Governance

NatWest Group's governance around climate-related risks and opportunities

The Board's oversight of climate-related risks and opportunities

Summary
- Board monitoring and oversight of climate-related risks and opportunities is supported by clear roles and responsibilities for the Board and Board Committees, as well as regular management reporting on climate strategy, ambition, and risk management activities.
- Key Board level decisions and areas of discussion and/or challenge related to climate strategy, climate scenario analysis, risk appetite, reporting controls and embedding climate measures within remuneration and performance structures.
- The Boards of NatWest Group's principal subsidiaries exercised oversight of key climate-related risks and opportunities through regular risk reporting and management updates.

Future priorities
- Continue to oversee progress against NatWest Group's climate ambitions and targets, particularly long term reduction in financed emissions and development of transition plans to support this.
- Continue to build knowledge at Board level and to support the directors in addressing and overseeing climate-related risks within NatWest Group's overall business strategy and risk appetite.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 2.1, 2.2.

Management's role in assessing and managing climate-related risks and opportunities

Summary
- NatWest Group CEO and Chief Risk Officer jointly share accountability under the Senior Managers and Certification Regime for identifying and managing the financial risk of climate change.
- This responsibility is delegated amongst the Executive and senior leadership teams. Cross-bank climate-related groups, advisory teams and committee structures support with collaboration, escalation, and additional controls.
- The Climate Change Executive Steering Group acts as the primary management forum responsible for overseeing direction and progress on NatWest Group's climate-related commitments.

Future priorities
- Further embed operating models and business processes to support the management of climate-related risks and opportunities, including coordination of actions to support further development and execution of climate transition plans.
- Continue to maintain a One Bank approach to climate strategy development and transition plans, including at subsidiary levels.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 2.1, 2.3.

Strategy

The actual and potential impacts of climate-related risks and opportunities on NatWest Group's businesses, strategy and financial planning

Climate-related risks and opportunities identified over the short, medium and long term

Summary
- NatWest Group's climate ambition, announced in February 2020, recognises various short, medium and long-term climate-related risks and opportunities to embed climate in our business and culture, as well as support our customers in their transition to net zero.

Future priorities
- Further enhance capabilities associated with climate-related risks and opportunities measurement.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 1.1, 1.2, 1.3, 1.4, 3.1, 3.2, 3.3, 3.4, 3.5, 4.3, 5.1.

The impact of climate-related risks and opportunities on our businesses, strategy and financial planning

Summary
- NatWest Group made a number of environmental, social and ethical (ESE) policy updates during 2021 to help end the most harmful activity and concluded a credible transition plan (CTP) assessments for oil and gas majors and in scope coal customers. This supported our stated ambition to stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a CTP in line with the 2015 Paris Agreement in place by the end of 2021.
- We continued to harness climate-related opportunities. We exceeded our 2020-2021 Climate and Sustainable Funding and Financing target in under 18 months and supported our retail customers with a range of Green Mortgage products.
- Our work on climate scenario analysis has supported our assessment of climate related risks and opportunities and helped re-affirm our climate ambition. We continued to build powerful partnerships, acting as principal partner at COP26, and becoming a founding member of the Net Zero Banking Alliance and Glasgow Financial Alliance for Net Zero (GFANZ).
- We worked to incorporate climate in the financial planning process by developing our first carbon plan. This included an assessment of carbon impacts of current and planned climate-related opportunities as well as climate-related risks, particularly those related to dependencies on future policy and technology development.

Future priorities
- Continue to integrate climate in business activities.
- Further enhance carbon planning capability to support the development of transition plans to measure and track our progress towards our ambition to halve the climate impact of our financing activity by 2030.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 1.1, 1.2, 1.3, 1.4, 3.1, 3.2, 3.3, 3.4, 3.5. 3.6, 3.7, 3.8.

The resilience of our strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Summary
- During 2021, NatWest Group has developed its scenario analysis capabilities and deepened its understanding of climate-related risks and opportunities through its participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise. NatWest Group has also taken further steps to translate these insights into tangible action that will enable us and our customers to mitigate climate-related risks and take advantage of the opportunities that the transition to net zero will create.
- NatWest Group has used three scenarios published by the Bank of England for its CBES exercise as the foundation for its scenario analysis, including an early action scenario which assumes the increase in global temperature is limited to under 2.0°C. Also, scenarios have been used to estimate financed emissions reductions required by 2030 to support our net zero by 2050 ambition.

Future priorities
- Continue to enhance scenario modelling and analytic capabilities.
- Continue to address significant challenges related to the availability of granular customer data.
- Respond to developing regulatory requirements on the approach to climate-related risk within the regulatory capital regime.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 3.4, 3.7, 3.8, 5.7.

Risk Management

How NatWest Group identifies, assesses, and manages climate-related risks

Our processes for identifying and assessing climate-related risks

Summary

- Climate risk was incorporated into the NatWest Group risk directory as a principal risk in February 2021 and in April, Board Risk Committee approved a principles-based climate risk policy that defined the key requirements for the identification, assessment, and management of climate risk, through the incorporation of climate considerations in key risk management processes.
- We completed a qualitative assessment of the current and potential impact of physical and transition climate risk as a causal factor to other risks. This assessment of relative significance identified the following principal risks as being most exposed to climate-related impacts: credit risk; operational risk; reputational risk; conduct risk and regulatory compliance risk.
- NatWest Group regularly considers existing and emerging regulatory requirements related to climate change through external horizon scanning and monitoring of emerging regulatory requirements which is completed by our Legal, Governance and Regulatory Affairs team.

Future priorities

Continue enhancements to our enterprise wide risk toolkit to support identification and assessment of risk impact on other principal risks.

References

NatWest Group plc 2021 Climate-related Disclosures Report – section 3.1, 3.2, 4.1.

Our processes for managing climate-related risks

Summary

- The management of climate risk is largely delivered through three mechanisms: scenario analysis, long-term balance sheet transformation and enhanced climate risk data capabilities.
- NatWest Group has established a climate risk appetite statement, determining the level of risk which the climate risk policy seeks to operate within.
- A climate maturity rating was developed, which supports ongoing assessment of climate risk management throughout the organisation. This approach translated NatWest Group's climate risk policy into thematic management outcomes.
- As at 31 December 2021, NatWest Group has achieved first generation implementation of climate risk management, with a predominantly qualitative approach to internal risk policy outcomes, covering priority sectors or customers. Where quantitative approaches are applied, they are predominantly conducted on an ad hoc basis.

Future priorities

- Work will continue to further integrate climate-related risk across business processes to achieve full integration within risk management and decision-making.
- Future target state includes, but is not limited to, climate risk being systematically captured as a quantified risk factor within lending and risk decision-making, informing limits and pricing.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 3.1, 3.2, 4.2.

How our processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management

Summary

- Retail credit risk: A review of EPC and flood impact was finalised for the Retail Banking residential mortgage portfolio; Credit oversight tracking of EPC and flood risk concentrations have been developed. In addition, preliminary climate operational measures were developed.
- Wholesale credit risk: Continued evolution of our credit risk frameworks to incorporate climate risk, for example its inclusion in Transaction Acceptance Standards (TAS) and in climate commentary within credit applications for the majority of the wholesale portfolio.
- Operational risk: NatWest Group-wide operational risk climate scenarios were completed in 2021. Two distinct extreme heat scenarios were considered.
- Reputational risk: Review of risk acceptance criteria (RAC) suite to validate the sectors which present high environmental, social and ethical (ESE) risk.
- Conduct risk and regulatory compliance risk: Supported the development and embedding of climate focused questions which have been embedded into the existing governance processes.

Future priorities

- Continue to assess impact of climate-related risks on NatWest Group's financial and non-financial risk profile as part of risk and control assessment of relevant processes.
- Further embedding of climate considerations in product design and lending decisions through the use of climate risk data (EPC and flood analysis, CBES findings).

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 3.1, 3.2, 4.3.

Metric and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

The metrics used to assess climate-related risks and opportunities in line with our strategy and risk management process

Summary

Metrics used to assess climate-related risks:

- Exposures to heightened climate-related risk sectors.
- Energy efficiency and flood risk assessment for Retail Banking residential mortgage portfolio.
- Capital markets transactions.
- NatWest Group own operational footprint.
- Estimates of financed emissions and emission intensities.

Metrics used to assess climate-related opportunities:

- Climate and Sustainable Funding and Financing.
- NatWest Group Own Green Bond issuance.

We added performance against climate targets as part of the bonus pool assessment for our wider workforce. Refer to the Directors' Remuneration Report in the NatWest Group plc 2021 Annual Report and Accounts for further details.

Future priorities

We will continue to develop metrics and measurement capabilities to monitor and manage climate-related risks and opportunities during 2022.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 3.4, 4.2, 4.3, 5.1, 5.2, 5.3, 5.4, 5.5, 5.6., 5.7.

Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Summary

We continued to develop and enhance capabilities to measure our carbon footprint in relation to our own operational footprint as well as financed emissions:

- We reduced our direct own operations carbon footprint by 46% against a 2019 baseline, and increased our renewable electricity consumption to 97%.
- We worked on enhancing our capabilities across an additional eight emissions intensive wholesale sectors. We also extended the scope of emissions calculations for the oil and gas sector beyond extraction activities covered in 2020. We have now analysed 52% of our loans and investment portfolio based on 2019 gross on-balance sheet loans and investments.

Future priorities

- To support our commitments to the Net Zero Banking Alliance, we will align to the Science Based Targets initiative's (SBTi) definition and account for the wider value chain, including suppliers, for our own operational footprint.
- We have submitted our 2030 sector emissions reduction estimates to SBTi for validation and will continue our work to enhance availability of data to support future calculations of financed emissions and emissions intensities.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 5.6, 5.7, 5.8.

The targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Summary

Our stated climate ambition is to be a leading bank in the UK helping to address the climate challenge. We have committed to achieve net zero by 2050 across our financed emissions, assets under management and our operational value chain. Progress is monitored via climate-related targets and ambitions across the following thematic opportunities:

- Accelerating the speed of transition.
- Helping to end the most harmful activity.
- Championing climate solutions.
- Embedding climate into our culture and decision-making.
- Net zero for our operational value chain.

Future priorities

We will continue to monitor our performance against our climate-related targets and ambitions and revise, as appropriate.

References

NatWest Group plc 2021 Climate-related Disclosures Report – sections 1.1, 3.5, 5.

Own operational footprint

During 2021[1], we reduced our direct own operations[2] carbon footprint[3] 46% against 2019 baseline, and increased our renewable electricity consumption to 97%.

Net-zero carbon[3]

We plan to reduce the carbon footprint for our wider operational value chain by 50% (against a 2019 baseline) by 2030 and achieve net zero by 2050.

While there was previously no standard definition of net zero, as part of COP26, in October 2021 the SBTi released the 'SBTi Corporate Net Zero Standard', the world's first net zero framework which encapsulates the full value chain of Scope 3 and deep decarbonisation targets. To support NatWest Group's public commitments to the Net Zero Banking Alliance, we plan to align to the SBTi's definition for own operations and also account for the wider value[4] chain, including suppliers. We have a target to reduce our direct own operations carbon footprint by 50% by 2025 (2019 baseline) and plan to halve the carbon footprint of our wider operational value chain by 2030, with minimum 90% decarbonisation by 2050 for all emissions (refer section 5.7 of the NatWest Group plc 2021 Climate-related Disclosures Report for approach to financed emissions). We intend to neutralise the remaining 10% of emissions with high quality internationally recognised carbon credits[5] to achieve net zero. We plan to continue making significant emission reductions within our own operations, alongside investments to mitigate GHG emissions through carbon removal projects, programmes and solutions that provide benefits to climate, especially those that generate additional co-benefits for people and nature, in line with SBTi guidance.

As the first part of our journey, we are disclosing an initial view of our upstream emissions for our 2021 footprint, with a plan to refine this view and disclose our downstream emissions for 2022. Further, from 2022, NatWest Group will be using the outputs from our 2021 energy audits to run a programme to improve our building EPC ratings, reducing our climate impact. Our 2021 total market-based operational footprint 66,149 tCO_2e covers Scopes 1, 2 and our direct own operation upstream Scope 3. This includes emission reductions from the use of green electricity covering 97% of our consumption through green tariffs and renewable electricity certificates, but in accordance with the Greenhouse Gas Protocol, it does not include emissions reduction from the use of carbon credits. Further detail on our decarbonisation plans can be found on page 71 of the NatWest Group plc 2021 Climate-related Disclosures Report.

When announcing our Climate Positive[6] ambition in February 2020, the wide-ranging impacts from COVID-19 could not have been anticipated. By procuring a minimum 120,000 tCO_2e in carbon credits, in line with our market-based 2019 baseline, while simultaneously reducing emissions from our own operations, we have already achieved our ambition to be Climate Positive in 2021 for our direct own operations. We used 120,000 tCO_2e of internationally recognised carbon credits which add environmental, social and community benefits compared to the 2021 residual market-based 66,149 tCO_2e Scope 1, 2 and 3 emissions. We had previously targeted a 25% reduction in emissions from our direct own operations by 2025 (2019 baseline) but are now increasing this to 50% as we seek to build on the emissions reductions that have already occurred.

Energy and carbon

In 2021, we reduced our direct operational Scope 1, 2 and 3 (business travel, paper, waste, water, commuting and work from home) emissions by 46% against a 2019 baseline. This has been through a number of emission reduction activities as well as impacts from COVID-19.

Despite COVID-19, a number of key projects were still completed in 2021. Notable highlights include:

- **Renewable power**: NatWest Group has partnered to develop a solar generation facility in the UK under a corporate power purchase agreement. The facility is due to start generating low-carbon electricity for the bank from 2024 and will bring additional renewable generation capacity online to facilitate the decarbonisation of the UK power grid. Once constructed, the facility is expected to generate 40% of NatWest's electricity demand in the UK.
- **Branch investments**: The high-performance specification implemented for a branch fit-out in Bristol meant that we achieved an energy performance rating of 'B' and achieved Royal Institute of Chartered Surveyors (RICS) SKA Silver rating in terms of the design's broader sustainable design.
- **Lifts**: The first phase of a replacement passenger lift system at our offices at 250 Bishopsgate, London, leading to a 30% reduction in the energy use of the lifts; making the lifts 'A' rated in terms of energy.
- **Building Management System investment**: In our Coutts head office we have invested in 'out BMS controllers' which have provided a better environment for our colleagues and enable more efficient energy management from the facilities management team. We have also installed dashboard screens in the customer and colleague areas in both the Coutts head office and 250 Bishopsgate to educate on the energy usage of the buildings.

(1) Our own operational footprint reporting year runs from October 2020 to September 2021.
(2) NatWest Group defines direct own operations as our Scope 1, Scope 2 and Scope 3 (paper, water, waste, business travel, commuting and work from home) emissions. It therefore excludes upstream and downstream emissions from our value chain.
(3) Carbon/carbon footprint in this section refers to GHG emissions reported as carbon dioxide equivalent.
(4) Upstream operational value chain emissions are all the indirect Scope 3 emissions required for our operations to occur, including emissions from our suppliers, energy creation and transport to our facilities, and our mail. Downstream operational value chain emissions are all of the indirect Scope 3 emissions associated with our operations during and after serving our customers, including customer transport to and from our facilities, how our products are used and how they are disposed of.
(5) NatWest Group used carbon credits for our 2021 achievement. These projects remove carbon from the atmosphere through tree planting and are dual-validated and verified under the Verified Carbon Standard (VCS) and Climate, Community and Biodiversity Standards (CCB).
(6) NatWest Group defines Climate Positive as reducing location-based emissions from our direct own operations 25% from our 2019 baseline and using carbon credits to neutralise our baseline market-based emissions of 120,000 tCO_2e.

Streamlined energy and carbon reporting

	2021		2020	
Greenhouse gas (GHG) emissions	**UK and offshore[1] area**	**Global total (excluding UK and offshore)'**	UK and offshore[1] area	Global total (excluding UK and offshore)
Emissions from the combustion of fuel and operation of any facility (Scope 1[2] Direct) CO_2e (tonnes)[*]	**17,464**	**1,663**	18,443	1,921
Emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2[3] Indirect) Location-based CO_2e emissions (tonnes)[*]	**52,735**	**16,305**	63,841	23,057
Total gross Scope 1 & Scope 2 (location-based) emissions CO_2e (tonnes)[*]	**70,199**	**17,968**	82,284	24,977
Energy consumption used to calculate above emissions (kWh)	**329,396,747**	**40,652,346**	347,909,621	49,510,271
Intensity ratio: Location-based CO_2e emissions per FTE (Scope 1 & 2) (tonnes/FTE)	**1.71**	**1.03**	1.83	1.37
Scope 3[4] CO_2e emissions from direct operations, paper, water, waste, business travel, commuting and working from home (tonnes)[*]	**36,016**	**8,855**	38,502	14,967
Total gross CO_2e emissions for direct operations (Scope 1, location-based Scope 2, Scope 3) (tonnes)[*]	**106,215**	**26,823**	120,787	39,944
Intensity ratio: Location-based CO_2e emissions per FTE (Scope 1, 2 & direct operations Scope 3) (tonnes/FTE)	**2.59**	**1.54**	2.69	2.19
Scope 2[5] (Indirect) Market-based CO_2e emissions (tonnes)[*]	**12**	**2,139**	8,860	2,346

Emissions methodology and basis of preparation

Boundary: We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from October 2020 to September 2021. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.

Calculation: Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and associated guidance and include all greenhouse gases, reported in tonnes of carbon dioxide equivalent (CO_2e) and global warming potential values. When converting data to carbon emissions, we use Emission Factors from UK Government Emissions Conversion Factors for Company Reporting (Department for Business, Energy & Industrial Strategy, 2021), CO_2 emissions from fuel combustion (International Energy Agency, 2021) or relevant local authorities as required. NatWest Group utilises a third-party software system, Envizi, to capture and record our environmental impact and ensure audit requirements are met. All data is aggregated at a regional level to reflect the total regional consumption. The regional consumption results are then collated to reflect the total NatWest Group footprint. CO_2e values are attributed to these sources via an automatic conversion module in the Envizi system. For more information, please see the own operational footprint page on natwestgroup.com.

(1) Offshore area as defined in The Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon) Regulations 2018. This includes Jersey and Guernsey but not our overseas sites in America, EMEA and Asia-Pacific. These are included in the global total (excluding UK and offshore).
(2) Scope 1 emissions from natural gas, liquid fossil fuels, fluorinated gas losses and owned/leased vehicles.
(3) Scope 2 emissions from electricity, district heating and cooling used in NatWest Group premises.
(4) Scope 3 emissions from paper and water, category 5: waste (UK and RoI only), category 6: business travel including air, rail, hired vehicles and our grey fleet, category 7: employee commuting and working from home.
(5) Market-based Scope 2 emissions. UK market-based emissions have dropped 99% (to 12 tCO_2e) as we have procured 100% of the electricity we have consumed from renewable sources using green tariffs and renewable electricity certificates, whereas in 2020, we sourced 90% of our UK electricity from renewable sources, with the remaining 10% accounting for 8,848 tCO_2e. The 12 tCO_2e arises from district cooling and district heating, which is used at only a few sites.
(*) Within the scope of EY assurance (2021 only).

Risk overview

Impactful and effective risk management supports NatWest Group in delivering its strategy and purpose.

Risk is an inherent part of doing business. Some types of risk – such as credit risk or market risk for example – are an integral part of NatWest Group's day-to-day activities and a vital part of revenue generation. Other risks, such as those arising from changes in the economy or the competitive landscape, are an inescapable part of the environment in which NatWest Group operates and must also be managed and mitigated.

Effective risk management is a vital element of ensuring NatWest Group is able to achieve its long-term strategy and fulfil its purpose.

NatWest Group operates an enterprise-wide risk management framework. The framework – which is supported by policies, standards and operational procedures – sets out a consistent approach to managing risk across the organisation. It is aligned to NatWest Group's purpose and is designed to support intelligent risk-taking.

While the Board reviews and approves the framework, all colleagues share ownership of risk management. The industry-standard three lines of defence approach is used to define responsibilities. This aims to ensure that risks are properly identified and assessed, managed and mitigated, monitored and reported.

NatWest Group's independent Risk function designs and maintains the framework. The Risk function – which is led by the Chief Risk Officer – also provides oversight and monitoring of all risk management activities. The Chief Risk Officer plays an integral role in providing the Board with advice on NatWest Group's risk profile, the performance of its controls and in providing challenge where a proposed business strategy may exceed risk tolerance.

NatWest Group has identified a number of principal risks. These are risks that are an inherent part of banking activity and have the potential to significantly affect NatWest Group's performance or prospects. They are categorised as financial and non-financial principal risks.

In addition, a regular process identifies top and emerging risks. These are specific scenarios of concern that may combine elements of several principal risks – or create new types of threat altogether – and which, without appropriate management and mitigation, could have a significant negative impact on NatWest Group's ability to meet its strategic objectives. These are detailed on page 75.

Risk appetite is a key component of the framework. It defines the level and types of risk NatWest Group is willing to take as part of its business activities. Risk appetite is set in line with overall strategy and approved by the Board. It supports the strategic aim of building a sustainable business by providing colleagues with a structured approach to risk-taking within agreed boundaries.

Information on the risk profile relative to risk appetite, as well as details of new and emerging risks, is reported regularly to the Board and to NatWest Group's senior risk committees.

Principal financial risks	Principal non-financial risks
Credit risk	Conduct risk
Traded market risk	Financial crime risk
Non-traded market risk	Operational risk
Capital adequacy	Regulatory compliance risk
Liquidity and funding	Model risk
Earnings stability	Climate risk
Pension risk	Reputational risk

Areas of focus in 2021

The global economy continued to grow, though more slowly than expected. The aftershocks of the pandemic also intensified uncertainty around both the pace of recovery and the longer-term future. Accordingly, risk management played a critical role throughout the year, focusing both on striking the correct balance between risk and opportunity, and also on ensuring that supporting processes, policies and controls were properly optimised to deal with the heightened risk environment. Providing a clear risk perimeter allowed NatWest Group's customer-facing franchises to operate safely as they set out to achieve NatWest Group's purpose of helping people, families and businesses to thrive.

As a result, NatWest Group's credit risk profile remained in line with expectations, though given the heightened uncertainty, this remained an area of significant risk management focus. Impairment releases were significant. IFRS 9 forward-looking expected credit losses for performing assets in Stage 1 and Stage 2 reduced and actual Stage 3 default charges were relatively modest. However, NatWest Group anticipates increased default levels in 2022 as the longer-term impacts of pandemic-related disruption emerge. Other headwinds, such as ongoing supply chain challenges and inflation, have the potential to heighten the credit risk profile.

NatWest Group's traded and non-traded market risk profiles were also broadly stable, though the potential second-order effects of the pandemic on both remain a key risk management consideration.

Compliance and conduct

Further progress was made on the compliance agenda during 2021. This included the introduction of a digital rules-mapping platform intended to enhance NatWest Group's assessment and implementation of regulatory obligations. In addition, a new ring-fencing hub was established to provide an aggregated view of ring-fencing compliance and risk management. The conduct risk profile also remained a key focus. In December 2021, the NatWest Markets subsidiary pleaded guilty to one count of wire fraud and one count of securities fraud related to historical spoofing conduct by former employees in US Treasuries markets between 2008 and 2014. As part of the plea agreement, NatWest Markets will pay a criminal fine and a criminal forfeiture as well as restitution. The plea agreement also imposes an independent corporate monitor. NatWest Markets has also committed to compliance programme reviews and improvements. Throughout the year, with many colleagues working from home, additional controls around the supervision of certain roles remained in place to ensure secure and compliant operations. Controls established to mitigate risks relating to the recording of regulated communications, the flow of inside information and management of conflicts of interest also remained a focus.

Financial crime

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 NatWest Bank Plc customer. Regulations require risk-sensitive ongoing monitoring of customers for the purposes of preventing money laundering. NatWest Bank Plc co-operated fully with the regulator's investigation into this case and, in October 2021, pleaded guilty to three breaches of the Money Laundering Regulations 2007.

NatWest Group takes its responsibility to prevent and detect financial crime extremely seriously and continues to make significant multi-year investments to strengthen and improve its overall financial crime framework with prevention systems and capabilities. This investment continued during 2021 and there was significant risk management focus on the systems and processes relating to customer due diligence, transaction monitoring and automated customer screening. NatWest Group continues to work with law enforcement agencies, industry bodies and regulators to develop intelligence and collaborative solutions to prevent financial crime.

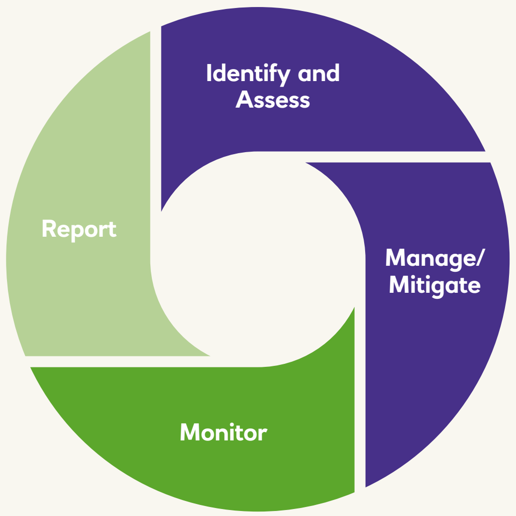
Anti-bribery and corruption (ABC)

NatWest Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for NatWest Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles. NatWest Group considers

Risk management process

This diagram summarises the main risk management processes and responsibilities within NatWest Group.

Risk activities



Responsibilities

Board

Responsible for reviewing the effectiveness of the risk management and internal control systems of NatWest Group, including the nature and extent of the risks it may take in pursuit of its strategic objectives.

Strategic consideration of principal risks – together with top and emerging risks – against NatWest Group's business plan. Leads the development of, and assesses/monitors, risk culture.

NatWest Group Risk Function

Design and implementation of the enterprise-wide risk management framework and policies. Oversight of franchise and entity risk management activities.

Aggregated reporting of franchise/entity-level management of principal risks – together with top and emerging risks – against the agreed risk appetite set by the Board, including assessment of the way correlation and concentration levels may change in aggregate.

Franchises and Entities

Take risks within the risk appetite set by the Board in pursuit of business objectives. Day-to-day risk management including, identification and assessment, mitigation and monitoring.

Reporting on franchise/entity-level management of principal/top and emerging risks within appetite. Horizon-scanning to identify and assess likely changes in risk environment/landscape.

Top down

Bottom up

Governance

Board

Sets risk appetite, reviews and approves the enterprise-wide risk management framework.

Board Risk Committee

Provides oversight and advice to the Board on current and future risk profile. Reviews the effectiveness of internal controls to manage risk.

Group Audit Committee

Reviews the effectiveness of NatWest Group's system of internal control relating to financial management.

Executive Risk Committee

Reviews, challenges and debates all material risk and control matters across NatWest Group.

Franchise Risk Committees

Detailed oversight of risk profile relative to risk appetite for specific franchises/entities.

ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

Climate risk

The impact of climate change on NatWest Group and its customers continued to be a central risk management focus during the year. A new Climate Centre of Excellence was established to provide specialist expertise across NatWest Group, including horizon scanning to identify strategic opportunities and risks. In addition, the qualitative consideration of climate-related risk was made mandatory for most of the wholesale portfolio within credit assessments, and enhancements were made to NatWest Group's environmental, social and ethical framework to address reputational risks arising from carbon-intensive sectors. NatWest Group also participated in the Bank of England's Climate Biennial Exploratory Scenario stress test exercise. This exercise was designed to support improved understanding of the financial system's exposure to climate-related risks and the likely challenges to business models emerging from climate change. While participation was mandatory, the exercise also helped NatWest Group in understanding and preparing to manage risks that could arise, both in terms of the transition to net zero and the physical risks from climate change.

LIBOR

Risks relating to the reform of interest-rate benchmarks were a consistent focus during the year. With the exception of certain tenors, publication of the London Inter-Bank Offered Rate (LIBOR), a key benchmark in the global financial markets for many years, ceased on 31 December 2021. In preparation for the move to alternative risk-free rates – including the Sterling Overnight Index Average (SONIA) – NatWest Group stopped offering Sterling LIBOR for new transactions on 31 March 2021. A Group-wide transition programme coordinated work to help customers smoothly transition from a range of LIBOR-based products, such as mortgages, investment-backed lending and derivatives, to those using alternative benchmarks. Significant attention was paid to the potential conduct risks arising from transition activity, as well as related operational risks, in order to ensure appropriate customer outcomes. In addition, there was a strong focus on carefully managing the associated compliance risk, market risk and counterparty credit risk. The complexity of the transition, especially in relation to so-called 'tough legacy' contracts that cannot be transitioned to alternative reference rates, also heightened execution risk. The FCA has proposed that use of synthetic sterling LIBOR may be permitted for a number of legacy contracts. It's expected that management of related risks will remain a focus into 2022 as NatWest Group continues to support its customers through the transition.

Information and cyber-security

Cyber crime is an ever-present threat across the digital landscape and continues to evolve rapidly. Attacks may be from individuals or highly-organised criminal groups intent on stealing money or sensitive data, or potentially holding organisations to ransom. NatWest Group takes this threat seriously and continues to work with industry bodies, peers and the National Cyber Security Centre to gather and share intelligence. During 2021, there was continued risk management focus on ensuring defences remain optimised for the evolving threat.

Risk culture

NatWest Group's multi-year programme to enhance risk management capability at every level of the organisation continued with an ongoing emphasis on risk culture. This work aims to embed a generative risk culture across all three lines of defence – where risk management is an integral part of the way colleagues work and think. The approach supports intelligent risk-taking, better customer outcomes, stronger and more sustainable business as well as an improved cost base. During 2021, there was a focus on a number of risk culture initiatives, including improvements in risk data and systems alignment as well as enhancements to risk identification processes and risk culture management information.

Model risk

An effective understanding of likely future outcomes and the scale of likely hazards is an essential part of forward-looking risk management. NatWest Group is heavily reliant on modelling across all aspects of its business. Ensuring its models are designed effectively – and that associated assumptions, data inputs and techniques are appropriate – remained a key risk management focus in 2021. This included a programme of ongoing work to upgrade a number of models to improve predictability and compliance with new regulatory requirements.

Risk-weighted assets (RWAs)

RWAs were down £13.3 billion at 31 December 2021, ending the year at £157 billion (from £170.3 billion in 2020). This was mainly driven by a £9.8 billion reduction in credit risk RWAs as well as reductions in market risk RWAs (£1.4 billion), counterparty credit risk RWAs (£1.2 billion) and operational risk RWAs (£0.9 billion).

Common Equity Tier 1 ratio

NatWest Group maintained a strong CET1 ratio of 18.2% (2020 – 18.5%), reflecting both the £13.3 billion reduction in RWAs and a £2.9 billion decrease in CET 1. This decrease was mainly driven by the directed buy-back and associated pension contribution of £1.2 billion and on-market share buy-backs totalling £1.5 billion, as well as foreseeable dividends and associated pension contributions of £1.2 billion and a £1.1 billion decrease in the IFRS 9 transitional adjustment and other reserve reductions, offset by the £3 billion attributable profit in the period. The CET1 ratio reduced to 15.9% on 1 January 2022 as a result of regulatory RWA and capital changes.

Leverage ratios

The CRR leverage ratio decreased to 4.4% (2020 – 5.2%) due to a £40 billion increase in leverage exposure and a £4 billion decrease in Tier 1 capital. The UK leverage ratio decreased to 5.8% (2020 – 6.4%) due to the decrease in Tier 1 capital.

Stress testing

Under the 2021 Bank of England solvency stress test, on an IFRS 9 transitional basis NatWest Group's low point CET1 ratio was 10.4%. This was above the reference rate of 7%. The transitional Tier 1 leverage ratio low point was projected to be 4.4% under stress. NatWest Group also took part in the Bank of England's Climate Biennial Exploratory Scenario.

Liquidity and funding

The liquidity portfolio increased by £24.1 billion to £286.4 billion. Primary liquidity increased by £38.2 billion to £208.6 billion. The increase in primary liquidity resulted mainly from customer deposits, TFSME funding, new issuances and a methodology change to include UBIDAC cash at central banks.

Top and emerging risks

A continuous process is used to identify and manage the Group'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 Group 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 Group's risk framework and adapting NatWest Group's operations and business strategy to address the risks is in line with the purpose-led strategy.
Competitive environment	NatWest Group 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. The Group 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 the Group'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 Group 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 Group and to others in the supply chain. As cyber attacks evolve and become more sophisticated, NatWest Group 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 Group's customers.
Economic and political risks	NatWest Group 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. The Group 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 and conduct risks	NatWest Group 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. The Group 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 Group to comply with these, may adversely affect NatWest Group's business, results of operations and outlook.
Internal	
Change risk	The implementation of NatWest Group's purpose-led strategy and the refocusing of NatWest Markets carry significant execution, operational and people risks. NatWest Group continues to manage and implement change in line with its strategic plans while assessing execution risks and taking appropriate mitigating action. In addition, the Group continues to monitor and strengthen its control environment including in relation to financial crime, through robust governance and controls frameworks.
Data management	NatWest Group 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 Group's strategy including reducing costs and meeting customer expectations. The Group is focused on delivering a long-term data strategy alongside control and policy framework enhancements governing data usage.
People risk	NatWest Group'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 Group'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 Group, significant resources and planning have been devoted to mitigate the risks including the implementation of robust risk controls.

Viability statement

In accordance with Provision 31 of the UK Corporate Governance Code, the Board is required to make a statement in the Annual Report and Accounts regarding NatWest Group's viability over a specified time horizon.

In assessing NatWest Group's future prospects, the Board considers a period of three years to be appropriate. Although strategic and business planning – as well as internal stress tests – are based on a five-year timespan, levels of uncertainty increase as the time horizon extends and therefore the shorter period is considered more suitable for this assessment. The Board will continue to monitor and consider the appropriateness of this period.

In assessing NatWest Group's viability over that three-year time frame, the Board has considered a wide range of information, including:

Strategic

- NatWest Group's long-term business and strategic plans;
- Its liquidity and funding profile, including projections over the relevant period;
- Its current capital position and projections over the relevant period.

Risk

- NatWest Group's risk profile and risk management practices, including the processes by which risks are identified and mitigated;
- Its principal risks as well as the top and emerging risks that could have a significant negative impact on NatWest Group's licence to operate or meet its strategic objectives over the medium term;
- Internal stress tests, which include consideration of NatWest Group's principal and emerging risks within the scenario design.

Regulatory

- The results of the Bank of England 2021 solvency stress test;
- The Group's results in the Bank of England's Climate Biennial Exploratory Scenario (CBES);
- The output of the Group's 2021 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

Operating environment

- The wider political and economic environment within which NatWest Group operates, including uncertainties relating to the geopolitical outlook and the global pandemic.

The Group's business and strategic plans, which are reviewed and evaluated on an annual basis at minimum, provide long-term direction. This includes multi-year forecasts assessing NatWest Group's expected financial position throughout the planning period. Threats to the achievement of those plans – including financial, operational, conduct and financial crime risks – are identified and assessed through NatWest Group's enterprise-wide risk management framework. As part of this, Board-approved risk appetite is a key consideration. Performance against risk appetite for each of the principal risks is reported to the Board on a regular basis together with assessments of emerging risks that could have an impact within the planning horizon. NatWest Group's principal risks and uncertainties are set out on pages 72 to 75. Further detail can be found in the Risk and capital management section of the Annual Report and Accounts (pages 187-285).

The effects of COVID-19 and associated government responses remained an important consideration particularly in relation to the impacts on customers – including the end of government support schemes and the likely trajectory of the overall recovery. The impact of the pandemic and potential aftershocks are subject to continuous monitoring with additional focus in NatWest Group's senior risk committees and at Board level. In addition, other impacts, such as the effect of sustained supply chain disruption for business and corporate clients, were also a focus.

A series of internally-developed stress scenarios supports NatWest Group's planning processes. During 2021, a range of future economic conditions of increasing severity was defined in order to support internal modelling and assess NatWest Group's potential performance over the planning horizon. These included a base case – or central – scenario using a set of assumptions such as expected GDP growth of 1.7% over the scenario period, an average Bank of England base rate of 0.8% and a total change in the UK house price index of 12.1%. This scenario also assumed a resilient labour market following the end of the government furlough scheme and inflation peaking in early 2022, followed by a gradual easing of pressures in the medium term. While potential performance was also assessed against a more positive, or upside scenario, NatWest Group's likely response to more adverse and challenging conditions was assessed using a suite of downside scenarios ranging from moderate to extreme. The assumptions used in these scenarios included GDP contraction of -1.8% and -7.9%, base rate of 1.5% or -0.5%, and house price index falls of -3% and -26%.

Additional scenarios, assuming much more severe conditions – ranging from a sharp economic downturn in the UK to persistent COVID-19 impacts and a global recession – were also used for internal modelling and planning purposes. These included a range of challenges relating to NatWest Group's principal risks. Internal scenarios used for the ICAAP are designed to be extreme but plausible and take account of potential risk management actions and mitigation supported by the enterprise-wide risk management framework. For example, a range of financial crime scenarios was assessed using both one-in-25-years and one-in-100-years stresses to analyse the likely impacts of extreme events on the Group's licence to operate. These assessed the potential impacts of external fraud, sanctions, money laundering, tax evasion or bribery and corruption events on the Group. Similarly, such exercises were carried out across credit risk, market risk, pension risk, capital adequacy, liquidity and funding, operational risk and conduct risk – in order to ensure NatWest Group remains appropriately resilient even in extreme circumstances.

In addition, NatWest Group's top and emerging risks are a significant consideration in internal planning as well as in assessing future capital and liquidity resilience under adverse scenarios through the ICAAP and ILAAP.

Reverse stress testing is also used to assess scenarios and circumstances that could make NatWest Group's business model unviable. These exercises begin with a definition of business model failure – including capital adequacy thresholds – and then analyse the events that could cause that failure. NatWest Group uses a range of stress scenarios that include systemic events, that may affect the entire financial system, idiosyncratic events that would create adverse consequences for only NatWest Group and a combination of these. During 2021, reverse stress testing considered the impact of sustained income challenges and increased impairments in a recession. Significant drops in UK GDP (-9%, -12, -15%) were factored in together with high unemployment (16–17%), a collapse in asset prices (commercial real estate values falling, for example, by up to 50%) and a dramatic reduction in house prices (-34%, -47% and -50%). In each of the extreme scenarios, NatWest Group remained above the defined thresholds.

The results of the 2021 Bank of England solvency stress test were also considered as part of the assessment. The assumptions involved in this stress scenario included a significant drop in UK GDP (37% of 2019 UK GDP) between 2020 and 2022, an unemployment spike just under 12% and a 33% fall in residential and commercial property prices. The scenario also included a 31% cumulative fall in world GDP. NatWest Group remained considerably above the hurdle rate before and after strategic management actions.

In considering NatWest Group's prospects over the period of the viability assessment, the Board's assessment in this regard is that NatWest Group is appropriately resilient and able to withstand a combination of severe economic shocks without breaching regulatory thresholds.

The assessment also considered the effects of an intensifying competitive environment particularly in the context of the disruption to underlying economic cycles due to COVID-19. Throughout the year, consideration was given to the likelihood of a catastrophic cyberattack within the time frame of the assessment. While NatWest Group operates a multi-layered system of defences, there is a possibility that a successful cyberattack could have a severe effect on operations. However, the evolving threat is continually monitored. NatWest Group remains prepared and continues to invest in this area to ensure that it remains robustly protected.

Planning also takes into account a range of correlated risks in order to ensure that NatWest Group's strategy and forecasts remain appropriate for the evolving environment. During 2021, there was further management focus on the potential crystallisation of a severe but plausible combination of both principal risks and top and emerging risks. Such combinations could amplify existing risks and adversely affect NatWest Group's profitability. The results of these exercises were considered by the Executive Risk Committee and form part of NatWest Group's forward-looking risk management activity.

While considering both near-term and medium-term risks in its assessment – and given the increased uncertainty over longer-term predictions – the Board noted analysis performed as part of NatWest Group's participation in the Bank of England's CBES test. While this is a mandatory stress test, the activity supports NatWest Group in understanding and preparing to manage risks that could arise, both in terms of the transition to net zero and the physical risks from climate change. This included a Group-wide operational risk scenario, assuming significant business disruption due to an intense heatwave. Aspects of the CBES scenarios were also used in the Group's ICAAP process and in internal stress tests, particularly in relation to credit risk.

In drawing its conclusions, the Board also considered the following:

- The Group's strong capital position (CET1 ratio of 18.2%–17.8% excluding IFRS 9 transitional relief). The current capital position provides significant headroom above both NatWest Group's minimum requirements and its MDA threshold requirements;
- Its ability to generate capital in recent years;
- Its proposed distribution strategy to shareholders; and
- Its strong liquidity position (LCR of 172% at 31 December 2021 and liquidity headroom of £89.9 billion).

Based on the factors above, the current financial forecasts, the management of NatWest Group's principal risks, including mitigating actions, and the strength of its capital and liquidity positions, NatWest Group's Board has a reasonable expectation that NatWest Group will be able to continue in operation and meet its liabilities over the three-year period of the assessment.

Non-financial information statement

This non-financial information statement provides an overview of topics and related reporting references in our external reporting as required by sections 414CA and 414CB of the Companies Act 2006. We integrate non-financial and Environmental, Social and Governance (ESG) information across the Strategic report and wider reporting suite, thereby promoting cohesive reporting of non-financial and ESG matters.

ESG reporting frameworks and guidance

We are actively monitoring developments including in relation to metrics. In 2021, our focus included the Sustainability Accounting Standards Board (SASB) standards, the Global Reporting Initiative (GRI) standards, the Task Force on Climate-related Financial Disclosures (TCFD) and the World Economic Forum (WEF) International Business Council (IBC) metrics. As signatories of the UN Principles for Responsible Banking, we are committed to an ongoing process to align our strategy with the 2015 Paris Agreement and the UN Sustainable Development Goals (SDGs). Our climate ambition strives to make a positive contribution.

Further information on non-financial and ESG matters can be found within our reporting suite

- Climate-related Disclosures Report
- ESG Supplement
- natwestgroup.com

Assurance Approach

NatWest Group plc appointed Ernst & Young LLP (EY) to provide independent assurance over certain sustainability metrics, indicated with (*) in the NatWest Group's 2021 Strategic Report, the 2021 Environmental, Social and Governance (ESG) Supplement, and the 2021 Climate-related Disclosures Report. The assurance engagement was planned and performed in accordance with the International Standard on Assurance Engagements (UK) 3000 (July 2020) Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 (July 2020)"). An assurance report was issued and is available at natwestgroup.com. This report includes further details on the scope, respective responsibilities, work performed, limitations and conclusion.

Reporting requirement		Page references in this document	Relevant policy available at natwestgroup.com
Business model	– Our purpose framework – Our strategy – Our strategy in action – Our purpose-led areas of focus – How we create value – Our business performance	– 12 to 13 – 18 to 19 – 20 to 27 – 30 to 31 – 34 to 37 – 38 to 50	
Our stakeholders	– Our stakeholders – Section 172(1) statement – Stakeholder focus areas	– 14 to 17 – 52 to 53 – 54 to 63	
Environment	– Market environment – Climate-related disclosures – Top and emerging risks – Risk overview – Risk factors	– 32 to 33 – 64 to 71 – 75 – 72 to 75 – 406 to 426	Environmental, social and ethical policies
Our colleagues	– Colleagues – Approving refreshed values – Diversity and Inclusion	– 58 to 61 – 53 – 59 to 61	Our code of conduct
Governance	– Governance at a glance – Section 172(1) statement – Boardroom Inclusion Policy – Corporate governance – Directors' remuneration report – Report of the directors	– 80 to 81 – 52 to 53 – 114 to 115 – 102 to 113 – 136 to 142 – 184 to 186	Boardroom Inclusion Policy
Social matters	– Market environment – Our strategy in action – Stakeholder focus areas – How we create value	– 32 to 33 – 20 to 27 – 54 to 63 – 34 to 37	Supplier Charter
Respect for human rights	– Human rights and Modern Slavery	– 39	Statement on Human Rights
Anti-bribery and corruption (ABC)	– Risk overview – Risk and capital management – Mandatory learning for all colleagues	– 72 to 75 – 188 to 285 – 73 to 74	Statement on Anti-Bribery and Corruption
Risk management	– Risk overview – Top and emerging risks – Risk and capital management – Risk factors	– 73 to 74 – 75 – 188 to 285 – 406 to 426	Environmental, social and ethical policies

Governance at a glance

Our Board

The Board has 11 directors comprising the Chairman, two executive directors and eight independent non-executive directors. Biographies of the directors are available on pages 98 to 101 and at natwestgroup.com.

Chairman
– Howard Davies

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

Independent non-executive directors
– Frank Dangeard
– Patrick Flynn
– Morten Friis
– Robert Gillespie
– Yasmin Jetha
– Mike Rogers
– Mark Seligman (Senior Independent Director)
– Lena Wilson

Company Secretary
– Jan Cargill

Francesca Barnes, Graham Beale and Ian Cormack are the three additional independent non-executive directors of NatWest Holdings Limited and also attend NatWest Group plc Board meetings and relevant Board Committee meetings as observers. Further information can be found in the Corporate governance report on pages 102-113.

Board governance framework

The Board is collectively responsible for promoting the long-term success of NatWest Group plc, driving both shareholder value and contribution to society. To assist in providing effective oversight and leadership, the Board has established the following committees:

NatWest Group plc Board

Group Audit Committee	Group Board Risk Committee	Group Nominations and Governance Committee	Group Performance and Remuneration Committee	Group Sustainable Banking Committee	Technology and Innovation Committee
see report – page 116	*see report – page 124*	*see report – page 114*	*see report – page 136*	*see report – page 132*	*see report – page 134*

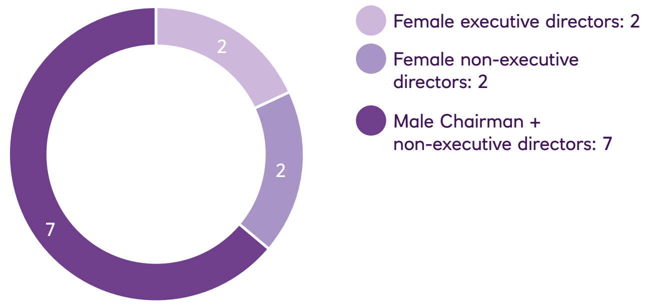
The Group CEO has established the Group Executive Committee to support her in discharging her responsibilities in managing NatWest Group's businesses day to day.

– Further information on our governance structure is available on pages 102 to 187.
– Information on how stakeholders have influenced Board discussions and decision-making during 2021 is available in our section 172(1) statement on pages 52 to 53.
– Various corporate documents including our Articles of Association and terms of reference for the Board and Board Committees are available at natwestgroup.com.

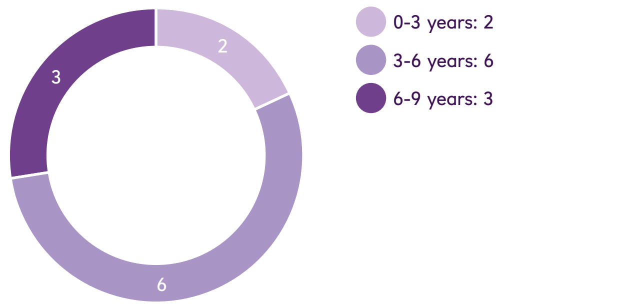
Board composition

The charts below describe our Board's composition by gender, tenure, age, and skills and experience as at 31 December 2021.

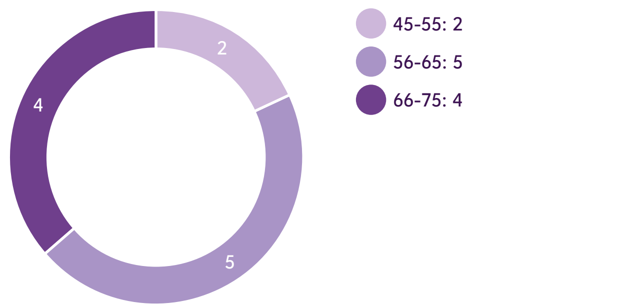
Board composition by gender



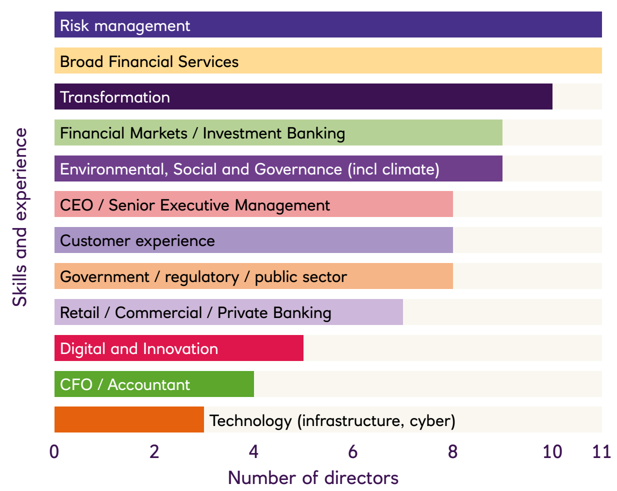
Board tenure



Board age range



Board skills and experience



Board diversity and inclusion

The Board operates a Boardroom Inclusion Policy (available at natwestgroup.com) which reflects the most recent industry targets and is aligned to the NatWest Group Inclusion Policy and Principles applying to the wider bank.

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 (9% of the Board at the end of 2021).

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 board, with 36% of the Board being female.

Board skills and experience

The Board is structured to ensure that the directors provide NatWest Group plc with the appropriate combination of skills, experience and knowledge as well as independence.

The bar chart opposite is an extract from our Board skills matrix, which is reviewed by the Group Nominations and Governance Committee and approved by the Board annually. The matrix reflects our 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.

The 2021 external Board evaluation did not identify any immediate or material gaps in Board skills and experience, however it was acknowledged that the Board would benefit from additional technology expertise. The Board and Group Nominations and Governance Committee will continue to keep Board skills and composition under review during 2022.

UK Corporate Governance Code

Throughout 2021, NatWest Group plc applied the principles and complied with all of the provisions of the 2018 UK Corporate Governance Code with the following exceptions:

– Provision 17 – that the Group Nominations and Governance Committee should ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession; and
– Provision 33 – that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors.

The Board considers these are matters that should be reserved for the Board.

Our full 2018 UK Corporate Governance Code compliance statement is available on page 181.

Our full Corporate governance report is available on pages 102 to 187 and includes our Board Committee reports, the Directors' remuneration report and the Report of the directors.

Chief Financial Officer’s review

Katie Murray
Chief Financial Officer

We have delivered a strong operating performance in 2021.

Group RoTE was 9.4%, benefiting from a £1.3 billion net impairment release. We achieved our Group cost reduction target of 4.0% and lending growth across our UK and RBSI retail and commercial businesses was 2.6%, excluding UK Government financial support schemes.

Our capital and liquidity position remains strong after returning £3.8 billion to shareholders, and default levels have remained low across all our portfolios. The CET1 ratio was 18.2%, reducing to 15.9% on 1 January 2022 following regulatory RWA and capital changes. We have made good progress on our phased withdrawal from the Republic of Ireland and will focus the financial commentary below on the Group excluding Ulster Bank RoI (Go-forward group).

Total income, excluding notable items, in the Go-forward group was 5.6% lower than prior year. Across the UK and RBSI retail and commercial businesses income increased by 1.4% reflecting strong balance sheet growth, principally in our mortgage book. NWM income was below expectations, down by 61.5%, compared with 2020, reflecting continued weakness in Fixed Income, impacted by subdued levels of customer activity and ongoing reshaping of the business, and exceptional levels of market activity in the prior year.

Bank NIM[1] of 2.39% was 7 basis points lower than 2020 impacted by reduced structural hedge income, yield curve movements and lower unsecured balances.

We delivered a cost reduction of £256 million, or 4.0%, in 2021, in line with our target for the year. This has been achieved by transformation across our customer journeys and NWM business, in line with the strategic announcement made in February 2020 and a £68 million reduction in the bank levy charge.

A net impairment release of £1,278 million reflects the low levels of realised losses we have seen across the year. Total impairment provisions reduced by £2.4 billion to £3.8 billion during 2021 and as a result ECL coverage ratio decreased from 1.66% to 1.03%.

We are pleased to report a 2021 attributable profit of £2,950 million, with earnings per share of 25.4 pence and a RoTE of 9.4%.

A final dividend of 7.5 pence per share is proposed, bringing our total 2021 paid and proposed capital distributions to £3.8 billion through a combination of ordinary dividends, directed buybacks of the UK Government stake and our on-market buyback programme.

Across the UK and RBSI retail and commercial businesses, and excluding UK Government support schemes, net lending increased by 2.6%. Mortgage growth exceeded the market, however commercial lending was behind market as we have sought to reduce certain exposures, through targeted sector reductions and capital actions, whilst continuing to focus on supporting customers through sustainable lending.

Customer deposits in the Go-forward group increased by £49.3 billion, or 12.0%, in 2021 including £9.4 billion related to Treasury repo activity. Across the UK and RBSI retail and commercial businesses customer deposits increased by 10.0%, as customers continued to build and retain liquidity.

TNAV per share increased by 3 pence in the quarter to 272 pence largely reflecting the attributable profit partially offset by movements in the cash flow hedging reserve.

Capital, funding and liquidity

The CET1 ratio remains strong at 18.2%, or 17.8% excluding IFRS 9 transitional relief. The 30 basis points reduction in the year includes capital distributions of c.240 basis points, partially offset by the reduction in RWAs, c.170 basis points, and the attributable profit net of IFRS 9 transitional relief and other capital movements. RWAs of £157.0 billion reduced by £13.3 billion in 2021 mainly reflecting business movements in Commercial Banking, including targeted sector reductions, improvement in risk parameters and active capital management.

On 1 January 2022, the proforma CET1 ratio was 15.9% including the impact of regulatory RWA inflation, 200 basis points, the removal of the software development costs capital benefit, 20 basis points, and the tapering of IFRS 9 transitional relief, 10 basis points. RWAs increased by £18.8 billion, including £14.8 billion associated with mortgage risk weight changes.

The liquidity coverage ratio (LCR) of 172%, representing £89.9 billion headroom above 100% minimum requirement, increased by 7 percentage points compared with 2020. Total wholesale funding increased by £6.0 billion in the year to £76.7 billion.

(1) Excludes NatWest Markets, liquid asset buffer and Ulster Bank RoI.

	Year ended		
	2021 £m	2020[1] £m	Variance £m
Continuing operations			
Go-forward group income[2,3]	10,284	10,286	(2)
Total income	10,512	10,508	4
Operating expenses	(7,758)	(7,858)	(100)
Profit before impairment releases/(losses)	2,754	2,650	104
Operating profit/(loss) before tax	4,032	(481)	4,513
Profit/(loss) attributable to ordinary shareholders	2,950	(753)	3,703
Excluding notable items within total income[4]			
Go-forward group income excluding notable items[2,3]	10,074	10,670	(596)
Total income excluding notable items[3]	10,267	10,892	(625)
Operating expenses	(7,758)	(7,858)	100
Profit before impairment releases/(losses) excluding notable items	2,509	3,034	(525)
Operating profit/(loss) before tax excluding notable items	3,787	(97)	3,884
UK and RBSI retail and commercial businesses income excluding notable items[3]	9,620	9,486	134
Performance key metrics and ratios			
Bank net interest margin[3,5]	2.39%	2.46%	(0.07%)
Bank average interest earning assets[3,5]	£314bn	£301bn	£13bn
Cost:income ratio[3]	73.4%	74.4%	(1.1%)
Loan impairment rate[3]	(35bps)	85bps	(120bps)
Total earnings per share attributable to ordinary shareholders – basic	25.4p	(6.2p)	31.6p
Go-forward group return on tangible equity[2]	10.0%	(1.3%)	11.3%
Return on tangible equity[3]	9.4%	(2.4%)	11.8%
Balance sheet			
Go-forward group customer deposits[2,3]	£461.4bn	£412.1bn	£49.3bn
UK and RBSI retail and commercial net lending excluding UK Government support schemes[3]	£305.7bn	£297.9bn	£7.8bn
Capital, liquidity and funding			
Common Equity Tier (CET1) ratio[6]	18.2%	18.5%	(0.3%)
Risk-weighted assets (RWAs)	£157.0bn	£170.3bn	(£13.3bn)
Liquidity coverage ratio (LCR)	172%	165%	7%
Total wholesale funding[3]	£77bn	£71bn	£6bn
Tangible net asset value (TNAV) per ordinary share[3]	272p	261p	11p

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Go-forward group excludes Ulster Bank RoI and discontinued operations.
(3) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of non-IFRS financial measures.
(4) Refer to page 84 for details of notable items within total income.
(5) NatWest Group excluding NatWest Markets, Ulster Bank RoI and liquid asset buffer.
(6) Based on CRR end-point including the IFRS 9 transitional adjustment of £0.6 billion (31 December 2020 – £1.7 billion). Excluding this adjustment, the CET1 ratio would be 17.8% (31 December 2020 – 17.5%.)

Continuing operations

Two legally binding agreements for the sale of the UBIDAC business were announced in 2021 as part of the phased withdrawal from the Republic of Ireland: the sale of commercial lending to Allied Irish Banks p.l.c. (AIB) and the performing non-tracker mortgages, performing micro-SME loans, UBIDAC’s asset finance business and 25 of its branch locations to Permanent TSB p.l.c (PTSB).

The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group on 31 December 2021.

The Financial review presents the results of the Group’s continuing operations. For further details refer to Note 8 Discontinued operations and assets and liabilities of disposal groups in the Notes to the consolidated financial statements.

Financial summary

Income - Continuing operations	2021 £m	2020 (1) £m	Variance £m	%
Interest receivable (2)	9,313	9,798	(485)	(4.9)
Interest payable (2)	(1,699)	(2,322)	623	(26.8)
Net interest income	7,614	7,476	138	1.8
Net fees and commissions	2,124	2,000	124	6.2
Income from trading activities	323	1,125	(802)	(71.3)
Other non-interest income	451	(93)	544	nm
Non-interest income	2,898	3,032	(134)	(4.4)
Total income	10,512	10,508	4	nm
Go-forward group income excluding notable items (3)	10,074	10,670	(596)	(5.6)
Total income excluding notable items (3)	10,267	10,892	(625)	(5.7)
Notable items within total income (3)				
Retail Banking				
Retail Banking debt sale gain	—	8		
Metro Bank mortgage portfolio acquisition loss	—	(58)		
Private Banking				
Consideration on the sale of the Adam & Company investment management business	54	—		
Commercial Banking				
Commercial Banking fair value and disposal loss	(22)	(37)		
Commercial Banking tax variable lease repricing	32	—		
NatWest Markets				
NatWest Markets asset disposals/strategic risk reduction (4)	(64)	(83)		
Own credit adjustments (OCA)	6	(24)		
Central items & other				
Share of associate profit/(loss) for Business Growth Fund	219	(22)		
Liquidity Asset Bond sale gains	120	113		
Loss on redemption of own debt	(138)	(324)		
IFRS volatility in Central items & other (5)	47	83		
Property strategy update	(44)	—		
FX recycling loss in Central items & other	—	(40)		
Ulster Bank RoI				
Ulster Bank RoI gain arising from the restructuring of structural hedges	35	—		
Total	245	(384)		

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(3) Refer to the Non-IFRS financial measures section for details of the basis of preparation and reconciliation of Non-IFRS financial and performance measures
(4) Asset disposals/strategic risk reduction in 2020 relates to the cost of exiting positions and the impact of risk reduction transactions entered into, in respect of the strategic announcement on 14 February 2020.
(5) IFRS volatility relates to loans which are economically hedged but for which hedge accounting is not permitted under IFRS.

2021 compared with 2020

- Total income, excluding notable items, in the Go-forward group[1] was £596 million, or 5.6% lower than prior year. Across the UK and RBSI retail and commercial businesses income increased by 1.4% reflecting strong balance sheet growth, principally in our mortgage book. NWM income was below expectations, down £757 million, or 61.5% compared with 2020, reflecting continued weakness in Fixed Income, impacted by subdued levels of customer activity and ongoing reshaping of the business, and exceptional levels of market activity in the prior year.
- Bank NIM[2] of 2.39% was 7 basis points lower than 2020 impacted by reduced structural hedge income, yield curve movements and lower unsecured balances.
- Structural hedges of £190 billion generated £1.3 billion of incremental net interest income for the year, compared with £1.1 billion of incremental net interest income on a balance of £159 billion in 2020.

(1) Go-forward group excludes Ulster Bank RoI.
(2) NatWest Group excluding NatWest Markets, liquid asset buffer and Ulster Bank RoI.

Financial summary continued

Operating expenses - Continuing operations	2021 £m	2020 (1) £m	Variance £m	%
Staff expenses	3,265	3,416	(151)	(4.4)
Premises and equipment	1,030	989	41	4.1
Other administrative expenses	1,427	1,535	(108)	(7.0)
Strategic costs	787	1,013	(226)	(22.3)
Litigation and conduct costs	466	113	353	nm
Depreciation and amortisation	783	792	(9)	(1.1)
Operating expenses	7,758	7,858	(100)	(1.3)
Excluding:				
Litigation and conduct costs	466	113	353	nm
Strategic costs	787	1,013	(226)	(22.3)
Operating lease depreciation	140	145	(5)	(3.4)
Ulster Bank RoI direct costs	273	239	34	14.2
	6,092	6,348	(256)	(4.0)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

2021 compared with 2020

- Operating expenses excluding litigation and conduct costs, strategic costs, operating lease depreciation and Ulster Bank RoI direct costs decreased by £256 million, or 4.0%, in line with our target for the year. This has been achieved by transformation across our customer journeys and NWM business, in line with the strategic announcement made in February 2020 and a £68 million reduction in the UK bank levy charge.
- Strategic costs of £787 million included £237 million in NWM related to transformation, £124 million of redundancy charges, £88 million of technology spend and an £85 million goodwill impairment.
- Litigation and conduct costs of £466 million represent the net impact of a number of remediation and litigation matters concluding. This amount includes penalties associated with the resolution of FCA's investigation into potential breaches of the UK Money Laundering Regulations 2007. Refer to Note 27 for additional information on other litigation and regulatory matters.

Impairments - Continuing operations (1)	2021 £m	2020 £m	Variance £m	
Loans - amortised cost and FVOCI	369,827	372,399	(2,572)	(0.7%)
ECL provisions	3,806	6,186	(2,380)	(38.5%)
ECL provisions coverage ratio (%)	1.03	1.66	(0.6)	(38.0%)
Impairment (releases)/losses				
ECL (release)/charge (2)	(1,278)	3,131	(4,409)	(140.8%)
Amounts written off	876	937	(61)	(6.5%)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) The table above summarises loans and related credit impairment measured on an IFRS 9 basis. Refer to Credit Risk – Banking activities in the Risk and capital management section for further details.

2021 compared with 2020

- A net impairment release of £1,278 million reflects the low levels of realised losses we have seen across the year. Total impairment provisions reduced by £2.4 billion to £3.8 billion during 2021 and as a result ECL coverage ratio decreased from 1.66% to 1.03%. Whilst we are comfortable with the strong credit performance of our book, we continue to hold economic uncertainty post model adjustments (PMA) of £0.6 billion, or 15.3% of total impairment provisions. We will continue to assess this position throughout the year.

Tax - Continuing operations	2021 £m	2020 (1) £m
Tax charge	(996)	(74)
UK corporation tax rate	19.0%	19.0%
Effective tax rate	24.7%	(23.7%)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

2021 compared with 2020

- A tax charge of £996 million for the year ended 31 December 2021 arises rather than the expected tax charge of £766 million based on the UK corporation tax rate of 19%. The higher tax charge reflects the UK banking surcharge, and other non-deductible items such as UK bank levy. These factors have been partially offset by the impact on the group's UK net deferred tax asset of the increased tax rate from 1 April 2023, enacted on 10 June 2021. Further details can be found in Note 7 to the consolidated financial statements.

Summary consolidated balance sheet as at 31 December 2021

	2021 £m	2020 £m	Variance £m	
Assets				
Cash and balances at central banks	**177,757**	124,489	53,268	43%
Trading assets	**59,158**	68,990	(9,832)	(14%)
Derivatives	**106,139**	166,523	(60,384)	(36%)
Settlement balances	**2,141**	2,297	(156)	(7%)
Loans to banks - amortised cost	**7,682**	6,955	727	10%
Loans to customers - amortised cost	**358,990**	360,544	(1,554)	(0%)
Other financial assets	**46,145**	55,148	(9,003)	(16%)
Other assets (including intangible assets)	**14,965**	14,545	420	3%
Assets of disposal groups	**9,015**	—	9,015	nm
Total assets	**781,992**	799,491	(17,499)	(2%)
Liabilities				
Bank deposits	**26,279**	20,606	5,673	28%
Customer deposits	**479,810**	431,739	48,071	11%
Settlement balances	**2,068**	5,545	(3,477)	(63%)
Trading liabilities	**64,598**	72,256	(7,658)	(11%)
Derivatives	**100,835**	160,705	(59,870)	(37%)
Other financial liabilities	**49,326**	45,811	3,515	8%
Subordinated liabilities	**8,429**	9,962	(1,533)	(15%)
Notes in circulation	**3,047**	2,655	392	15%
Other liabilities	**5,797**	6,388	(591)	(9%)
Total liabilities	**740,189**	755,667	(15,478)	(2%)
Total equity	**41,803**	43,824	(2,021)	(5%)
Total liabilities and equity	**781,992**	799,491	(17,499)	(2%)
Tangible net asset value per ordinary share (pence) (1)	**272p**	261p	11p	4%

(1) Tangible net asset value per ordinary share represents tangible equity divided by the number of ordinary shares.

- Total assets of £782.0 billion as at 31 December 2021 decreased by £17.5 billion, 2%, compared with 31 December 2020. This was primarily driven by decreases in derivatives, trading assets and other financial assets partially offset by cash and balances at central banks.
- Cash and balances at central banks increased by £53.3 billion, 43%, to £177.8 billion mainly as a result of a net customer funding surplus driven by significant deposit inflows flow in addition to £15.6 billion liquidity and debt portfolio optimisation activity.
- Trading assets decreased by £9.8 billion, 14%, to £59.2 billion mainly driven by reductions in cash collateral and debt securities. Trading liabilities decreased by £7.7 billion, 11%, to £64.6 billion due to reduction in cash collateral.
- Derivative assets decreased £60.4 billion, 36%, to £106.1 billion, and liabilities, decreased by £59.9 billion, 37%, to £100.8 billion. These movements were driven by a decrease in underlying volumes due to matured trades and buyouts exceeding new trades and lower mark-to-market valuations due to higher interest rates for major currencies in the year.
- Loans to customers - amortised cost, decreased by £1.6 billion, to £359.0 billion including £11.3 billion decrease in Ulster Bank ROI predominantly due to a reclassification of banking portfolio loans to assets of disposal groups, partially offset by an £9.9 billion increase in Retail Banking driven by strong gross mortgage lending.
- Other financial assets, which includes debt securities, equity shares and other loans, decreased by £9.0 billion, 16%, to £46.1 billion, primarily due to reductions in debt securities.
- Customer deposits increased by £48 billion, 11%, to £479.8 billion including increases of £17.1 billion in Retail Banking, £10 billion in Commercial Banking and £7.0 billion in Private Banking as customers retained liquidity in light of the COVID-19 economic uncertainty. Treasury reflected a £9.4 billion increase in customer facing repos due to prevailing market conditions.
- Other financial liabilities, which includes customer deposits at fair value through profit and loss and debt securities in issue, increased by £3.5 billion, 8%, to £49.3 billion.
- Subordinated liabilities have decreased by £1.5 billion, 15%, to £8.4 billion due to redemptions partially offset by new issuances.
- Other liabilities decreased by £0.6 billion, 9%, to £5.8 billion mainly due to lower lease liabilities in the year.
- Owners' equity decreased by £2.0 billion, 5%, to £41.8 billion, driven by share repurchase, ordinary and paid-in-equity dividends paid, partially offset by the attributable profit for the year.

Segmental summary income statements

Continuing operations	Go-forward group								
2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total NatWest Group £m
Net interest income	**4,074**	**480**	**2,582**	**383**	**9**	**(14)**	**7,514**	**100**	**7,614**
Non-interest income	**371**	**336**	**1,293**	**165**	**406**	**199**	**2,770**	**128**	**2,898**
Total income	**4,445**	**816**	**3,875**	**548**	**415**	**185**	**10,284**	**228**	**10,512**
Other expenses	**(2,250)**	**(504)**	**(2,153)**	**(228)**	**(907)**	**(42)**	**(6,084)**	**(421)**	**(6,505)**
Strategic costs	**(187)**	**(19)**	**(93)**	**(11)**	**(254)**	**(201)**	**(765)**	**(22)**	**(787)**
Litigation and conduct costs	**(76)**	**3**	**(108)**	**(3)**	**—**	**(243)**	**(427)**	**(39)**	**(466)**
Operating expenses	**(2,513)**	**(520)**	**(2,354)**	**(242)**	**(1,161)**	**(486)**	**(7,276)**	**(482)**	**(7,758)**
Impairment releases	**36**	**54**	**1,073**	**52**	**35**	**—**	**1,250**	**28**	**1,278**
Operating profit/(loss)	**1,968**	**350**	**2,594**	**358**	**(711)**	**(301)**	**4,258**	**(226)**	**4,032**
Total income excluding notable items	**4,445**	**762**	**3,865**	**548**	**473**	**(19)**	**10,074**	**193**	**10,267**
Return on tangible equity (1)	**na**	**na**	**na**	**na**	**na**	**na**	**10.0%**	**na**	**9.4%**
Return on equity (2)	**26.1%**	**17.0%**	**22.0%**	**22.5%**	**(13.1%)**	**nm**	**nm**	**nm**	**na**
Cost:income ratio (1)	**56.5%**	**63.7%**	**59.3%**	**44.2%**	**279.8%**	**nm**	**70.3%**	**nm**	**73.4%**
Customer deposits (£bn)	**188.9**	**39.3**	**177.7**	**37.5**	**2.3**	**15.7**	**461.4**	**18.4**	**479.8**
Average interest earning assets (£bn)	**196.0**	**27.2**	**168.1**	**37.8**	**32.7**	**nm**	**nm**	**15.9**	**524.9**
Net interest margin (1)	**2.08%**	**1.76%**	**1.54%**	**1.01%**	**nm**	**nm**	**nm**	**nm**	**nm**
Third party customer asset rate (3)	**2.66%**	**2.36%**	**2.71%**	**2.26%**	**nm**	**nm**	**nm**	**nm**	**nm**
Third party customer funding rate (3)	**(0.06%)**	**—**	**(0.01%)**	**0.08%**	**nm**	**nm**	**nm**	**0.02%**	**nm**
2020 (4)									
Continuing operations									
Net interest income	3,868	489	2,740	371	(57)	(57)	7,354	122	7,476
Non-interest income	313	274	1,218	126	1,180	(179)	2,932	100	3,032
Total income	4,181	763	3,958	497	1,123	(236)	10,286	222	10,508
Other expenses	(2,295)	(466)	(2,261)	(244)	(1,038)	(19)	(6,323)	(409)	(6,732)
Strategic costs	(226)	(15)	(179)	(49)	(267)	(252)	(988)	(25)	(1,013)
Litigation and conduct costs	(19)	26	10	2	(5)	(120)	(106)	(7)	(113)
Operating expenses	(2,540)	(455)	(2,430)	(291)	(1,310)	(391)	(7,417)	(441)	(7,858)
Impairment losses	(792)	(100)	(1,927)	(107)	(40)	(26)	(2,992)	(139)	(3,131)
Operating profit/(loss)	849	208	(399)	99	(227)	(653)	(123)	(358)	(481)
Total income excluding notable items	4,231	763	3,995	497	1,230	(46)	10,670	222	10,892
Return on tangible equity (1)	na	na	na	na	na	na	(1.3%)	na	(2.4%)
Return on equity (2)	10.2%	10.3%	(4.5%)	6.1%	(3.8%)	nm	nm	nm	na
Cost:income ratio (1)	60.8%	59.6%	59.9%	58.6%	116.7%	nm	71.7%	nm	74.4%
Customer deposits (£bn)	171.8	32.4	167.7	31.3	2.6	6.3	412.1	19.6	431.7
Average interest earning assets (£bn)	181.4	23.8	163.1	31.7	37.9	nm	nm	16.6	483.7
Net interest margin (1)	2.13%	2.05%	1.68%	1.17%	nm	nm	nm	nm	nm
Third party customer asset rate (3)	2.89%	2.53%	2.86%	2.51%	nm	nm	nm	nm	nm
Third party customer funding rate (3)	(0.19%)	(0.11%)	(0.08%)	(0.01%)	nm	nm	nm	(0.04%)	nm

nm = not meaningful

(1) Refer to the Non-IFRS financial measures section for details of the basis of preparation.
(2) NatWest Group's CET1 target is approximately 14% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit adjusted for preference share dividends and tax is divided by average notional equity allocated at different rates of 14.5% (Retail Banking), 15.5% (Ulster Bank RoI), 11.5% (Commercial Banking), 12.5% (Private Banking), 16% (RBS International) and 15% for all other segments, of the period average of segmental risk-weighted assets equivalents (RWAe) incorporating the effect of capital deductions. NatWest Group return on equity is calculated using profit attributable to ordinary shareholders. Refer to the Non-IFRS financial measures section for details of the basis of preparation.
(3) Third party customer asset rate is calculated as annualised interest receivable on third-party loans to customers as a percentage of third-party loans to customers. This excludes assets of disposal groups, intragroup items, loans to banks and liquid asset portfolios. Third party customer funding rate reflects interest payable or receivable on third-party customer deposits, including interest bearing and non-interest bearing customer deposits. Intragroup items, bank deposits, debt securities in issue and subordinated liabilities are excluded from the customer funding rate calculation. Net interest margin is calculated as net interest income as a percentage of the average interest-earning assets, excluding assets of disposal groups and without these remaining exclusions.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Segment performance

Retail Banking

Income statement	2021 £m	2020 £m	Variance £m	%
Net interest income	**4,074**	3,868	206	5
Non-interest income	**371**	313	58	19
Total income	**4,445**	4,181	264	6
Other expenses	**(2,250)**	(2,295)	45	(2)
Strategic costs	**(187)**	(226)	39	(17)
Litigation and conduct costs	**(76)**	(19)	(57)	300
Operating expenses	**(2,513)**	(2,540)	27	(1)
Impairment releases/(losses)	**36**	(792)	828	(105)
Operating profit	**1,968**	849	1,119	132

Performance ratios	2021	2020	Variance
Return on equity (1)	**26.1%**	10.2%	15.9%
Net interest margin	**2.08%**	2.13%	(0.05%)
Cost:income ratio	**56.5%**	60.8%	(4.3%)
Loan impairment rate	**(2bps)**	45bps	(47bps)

(1) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 14.5% of the period average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes), assuming a 28% tax rate.

Capital and balance sheet	2021 £bn	2020 £bn	Variance £m	%
Loans to customers (amortised cost)				
- personal advances	**7.1**	7.3	(0.2)	(3)
- mortgages	**172.8**	163.0	9.8	6
- cards	**3.8**	3.8	—	—
Total loans to customers (amortised cost)	**183.7**	174.1	9.6	6
Loan impairment provisions	**(1.5)**	(1.8)	0.3	(17)
Net loans to customers (amortised cost)	**182.2**	172.3	9.9	6
Total assets	**210.0**	197.6	12.4	6
Customer deposits	**188.9**	171.8	17.1	10
Risk-weighted assets	**36.7**	36.7	—	—

2021 compared with 2020

- In 2021, Retail Banking continued to grow net lending with an measured approach to risk, delivering a return on equity of 26.1% and operating profit of £1,968 million. Lending growth was supported by a strong performance in mortgages and a return to unsecured lending growth in the second half of 2021.
- Retail Banking completed £1.1 billion of Climate and Sustainable Funding and Financing in 2021, which will contribute towards the new NatWest Group target of £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.
- Total income was £264 million, or 6.3%, higher than 2020 reflecting mortgage balance and margin improvement, higher transactional-related fee income and non-repeat of loss on acquisition, partially offset by the impact of the lower interest rate environment on deposit returns, lower average unsecured balances and the annualised impact of regulatory changes on fee income.
- Net interest margin was 5 basis points lower than 2020 reflecting lower deposit returns and lower average unsecured balances, partly offset by higher mortgage margins.
- Other expenses decreased by £45 million, or 2.0%, compared with 2020 primarily reflecting an 8.8% reduction in headcount as a result of continued customer digital adoption, automation and improvement of end-to-end customer journeys, including digitalising the customer account opening processes, leading to an increase in straight through processing within journeys from 45% in December 2020 to 70% in December 2021.
- Strategic costs of £117 million in Q4 2021 include an £85 million impairment of goodwill, reflecting a legacy business in accelerated run down within Retail Banking.
- An impairment release of £36 million primarily reflects ECL provision releases in the non-defaulted portfolio.
- Net loans to customers increased by £9.9 billion, or 5.7%, compared with 2020 as a result of strong gross new mortgage lending and improved retention. Gross new mortgage lending was £36.0 billion with flow share of 11.5%, supporting mortgage balance growth of £9.8 billion or 6.0%, representing a stock share of 11.0%. Cards were stable however, we have seen improved customer spend and demand in the second half of 2021. Personal advances reduced by £0.2 billion as customers made higher overdraft repayments in H1 2021, reflecting the impact of UK Government restrictions partly offset by growth in H2 2021 as customer demand for personal loans increased as the UK economy recovered.
- Customer deposits increased by £17.1 billion, or 10.0%, compared with 2020 as UK Government schemes combined with Covid related restrictions resulted in lower customer spend and increased savings in H1 2021.
- RWAs were broadly stable compared with 2020 primarily reflecting lending growth, offset by continued quality improvements.

Segment performance continued

Private Banking

Income statement	2021 £m	2020 £m	Variance £m	%
Net interest income	**480**	489	(9)	(2)
Non-interest income	**336**	274	62	23
Total income	**816**	763	53	7
Other expenses	**(504)**	(466)	(38)	8
Strategic costs	**(19)**	(15)	(4)	27
Litigation and conduct costs	**3**	26	(23)	(88)
Operating expenses	**(520)**	(455)	(65)	14
Impairment releases/(losses)	**54**	(100)	154	(154)
Operating profit	**350**	208	142	68

Performance ratios	2021	2020	Variance
Return on equity (1)	**17.0%**	10.3%	6.7%
Net interest margin	**1.76%**	2.05%	(0.29%)
Cost:income ratio	**63.7%**	59.6%	4.1%
Loan impairment rate	**(29bps)**	58bps	(87bps)

(1) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 12.5% of the period average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes), assuming a 28% tax rate.

Capital and balance sheet	2021 £bn	2020 £bn	Variance £m	%
Loans to customers (amortised cost)				
- personal	**2.3**	2.2	0.1	5
- mortgages	**11.8**	10.7	1.1	10
- other	**4.4**	4.2	0.2	5
Total loans to customers (amortised cost)	**18.5**	17.1	1.4	8
Loan impairment provisions	**(0.1)**	(0.1)	—	—
Net loans to customers (amortised cost)	**18.4**	17.0	1.4	8
Total assets	**29.9**	26.2	3.7	14
Assets under management (AUMs) (2)	**30.2**	27.0	3.2	12
Assets under administration (AUAs) (2)	**5.4**	5.1	0.3	6
Assets under management and administration (AUMA) (2)	**35.6**	32.1	3.5	11
Customer deposits	**39.3**	32.4	6.9	21
Loan:deposit ratio	**47%**	52%	(5%)	(10)
Risk-weighted assets	**11.3**	10.9	0.4	4

(2) The definition of AUMs/AUAs has been updated to provide clarity on assets where the investment management is undertaken by Private Banking. AUMs now comprises assets where the investment management is undertaken by Private Banking irrespective of the franchise the customer belongs to. AUAs now comprises third party assets held on an execution-only basis in custody. Total AUMA remain as before.

2021 compared with 2020

- In 2021, Private Banking delivered strong growth across AUMA, lending and deposits which has supported a 2021 return on equity of 17.0% and operating profit of £350 million. Digital net new money across NatWest Invest, Royal Bank Invest and Coutts Invest of £0.8 billion in 2021 is more than double 2020. Approximately 2,114 new customers were onboarded into Private Banking, an increase of around 29% compared to 2020.
- NatWest Group completed the sale of Adam & Company's investment management business on 1 October 2021 for a total consideration of £54 million, which has been recorded as a notable item in the Q4 2021 results.
- Total income was £53 million, or 6.9%, higher than 2020 reflecting a £54 million consideration from the sale of the Adam & Company investment management business in Q4 2021 and strong balance growth partially offset by lower deposit returns in a lower interest rate environment.
- Net interest margin decreased by 29 basis points reflecting lower deposit returns and higher liquidity portfolio costs.
- Other expenses were £38 million, or 7.9%, higher than 2020 principally due to investment in digital infrastructure and an increase in headcount related to the enhancement of AUMA growth propositions.
- A net impairment release of £54 million in 2021 mainly reflects ECL provision releases in non-default portfolios.
- Net loans to customers increased by £1.4 billion, or 8.2%, compared with 2020 driven by continued strong mortgage lending growth of £1.1 billion or 10.3%, including gross new lending of £3.3 billion. RWAs increased by £0.4 billion, or 3.7%.
- Customer deposits increased by £6.9 billion, or 21.3%, compared with 2020 reflecting strong personal and commercial inflows as UK Government restrictions resulted in clients continuing to build and retain liquidity.
- AUMAs increased by £3.5 billion, or 10.9%, driven by an increase in AUM net new money (NNM) of £3.0 billion and AUM positive investment performance of £2.1 billion, partially offset by the £1.8 billion impact of the sale of Adam & Company's investment management business and £0.2 billion EEA resident client outflows following the UK's exit from the EU. AUM NNM of £3.0 billion represents 9.3% of opening AUMAs, which is double NNM in 2020.

Segment performance continued

Commercial Banking

Income statement	2021 £m	2020 £m	Variance £m	Variance %
Net interest income	**2,582**	2,740	(158)	(6)
Non-interest income	**1,293**	1,218	75	6
Total income	**3,875**	3,958	(83)	(2)
Other expenses (excluding operating lease depreciation)	**(2,013)**	(2,116)	103	(5)
Strategic costs	**(93)**	(179)	86	(48)
Litigation and conduct costs	**(108)**	10	(118)	(1,180)
Operating expenses	**(2,354)**	(2,430)	76	(3)
Impairment releases/(losses)	**1,073**	(1,927)	3,000	(156)
Operating profit/(loss)	**2,594**	(399)	2,993	(750)

Performance ratios	2021	2020	Variance
Return on equity (1)	**22.0%**	(4.5%)	26.5%
Net interest margin	**1.54%**	1.68%	(0.14%)
Cost:income ratio	**59.3%**	59.9%	(0.6%)
Loan impairment rate	**(104bps)**	173bps	(277bps)

(1) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 11.5% of the period average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes), assuming a 28% tax rate.

Capital and balance sheet	2021 £bn	2020 £bn	Variance £m	Variance %
Loans to customers (amortised cost)				
- business banking	**14.3**	13.5	0.8	6
- SME & mid corporates	**34.6**	32.4	2.2	7
- specialised business	**15.5**	14.8	0.7	5
- large corporates & institutions (1)	**18.8**	21.4	(2.6)	(12)
- real estate (2)	**18.6**	21.5	(2.9)	(13)
- commercial - EU divestment (3)	**—**	5.9	(5.9)	(100)
- other (4)	**0.9**	1.6	(0.7)	(44)
Total loans to customers (amortised cost)	**102.7**	111.1	(8.4)	(8)
Loan impairment provisions	**(1.5)**	(2.9)	1.4	(48)
Net loans to customers (amortised cost)	**101.2**	108.2	(7.0)	(6)
Total assets	**184.6**	187.4	(2.8)	(1)
Customer deposits	**177.7**	167.7	10.0	6
Loan:deposit ratio	**57%**	65%	(8%)	(12)
Risk-weighted assets	**66.4**	75.1	(8.7)	(12)

(1) Segment reporting for income, impairments and loans to customers for large corporates & institutions (LC&I) includes the Western European business segment.
(2) Real estate includes commercial real estate and housing associations.
(3) EU Divestment balances from Q2 2021 integrated within business banking (Q3 2020 - £0.9 billion, Q4 2020 - £1.1 billion) and SME & mid corporates (Q3 2020 - £5.0 billion, Q4 2020 - £4.8 billion), as the Incentivised Switching Scheme (ISS) closed at the end of June 2021.
(4) Other includes shipping and project finance.

2021 compared with 2020

- Commercial Banking delivered a resilient performance with a return on equity of 22.0% and operating profit of £2,594 million including a £1,073 million impairment release as the UK economy continued to recover. Returns have improved through active capital management, pricing discipline, and a targeted sector strategy linked to our purpose.
- Growth in Tyl, our innovative merchant acquiring platform saw over £1.5 billion of transactions in 2021, three times 2020 levels, as transaction activity recovered and customers favoured digital payment solutions and reduced their reliance on cash and branch.
- Commercial Banking completed £5.2 billion of Climate and Sustainable Funding and Financing in 2021, including £2.7 billion in H2 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.
- Total income was £83 million, or 2.1%, lower than 2020 due to reduced deposit returns in a low interest rate environment and lower lending volumes, partially offset by a recovery in transactional banking fee income in H2 2021 driven by the UK economy.
- Net interest margin decreased by 14 basis points in 2021 reflecting lower deposit returns.
- Other expenses, excluding OLD, decreased by £103 million, or 4.8%, compared with 2020 reflecting cost efficiencies and simplifying our operating model enabling better service to our customers including building momentum in our digital service, whilst reducing our headcount by 9.8%.
- Impairment release of £1,073 million primarily reflects ECL provision releases related to the improved economic outlook with Stage 3 defaults remaining at low levels.
- Net loans to customers decreased by £7.0 billion, or 6.4%, compared with 2020 primarily reflecting and targeted sector reductions including real estate, retail and leisure and active capital management of £1.0 billion. Customer liquidity resulted in net revolving credit facility (RCF) repayments of £1.7 billion driven by large corporates & institutions and real estate as well as UK Government financial support scheme repayments of £1.3 billion. RCF utilisation was approximately 19% of committed facilities in 2021, significantly below pre-COVID-19 levels of approximately 27%. These items were partially offset by £1.4 billion lower loan provisions and growth in specialist businesses of £0.7 billion.
- Customer deposits increased by £10.0 billion, or 6.0%, compared with 2020 reflecting customer behaviour to build and retain liquidity.
- RWAs decreased by £8.7 billion, or 11.6%, compared with 2020 mainly reflecting business movements including targeted sector reductions in real estate and retail, improvement in risk parameters and active capital management of £1.5 billion.

Segment performance continued

RBS International

Income statement	2021 £m	2020 £m	Variance £m	Variance %
Net interest income	**383**	371	12	3
Non-interest income	**165**	126	39	31
Total income	**548**	497	51	10
Other expenses	**(228)**	(244)	16	(7)
Strategic costs	**(11)**	(49)	38	(78)
Litigation and conduct costs	**(3)**	2	(5)	(250)
Operating expenses	**(242)**	(291)	49	(17)
Impairment releases/(losses)	**52**	(107)	159	(149)
Operating profit	**358**	99	259	262

Performance ratios	2021	2020	Variance
Return on equity (1)	**22.5%**	6.1%	16.4%
Net interest margin	**1.01%**	1.17%	(0.16%)
Cost:income ratio	**44.2%**	58.6%	(14.4%)
Loan impairment rate	**(33bps)**	80bps	(113bps)

(1) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 16% of the period average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes), assuming a 17.5% (14% prior to Q1 2021) tax rate.

Capital and balance sheet	2021 £bn	2020 £bn	Variance £m	Variance %
Loans to customers (amortised cost)				
- corporate	**12.7**	10.4	2.3	22
- mortgages	**2.4**	2.5	(0.1)	(4)
- other	**0.5**	0.5	—	—
Total loans to customers (amortised cost)	**15.6**	13.4	2.2	16
Loan impairment provisions	**(0.1)**	(0.1)	—	—
Net loans to customers (amortised cost)	**15.5**	13.3	2.2	17
Total assets	**40.6**	34.0	6.6	19
Customer deposits	**37.5**	31.3	6.2	20
Risk-weighted assets	**7.5**	7.5	—	—
Depositary assets (1)	**479.4**	427.5	51.9	12

(1) Assets held by RBSI as an independent trustee and in a depositary service capacity.

2021 compared with 2020

- During 2021 RBS International (RBSI) delivered £358 million of operating profit with return on equity of 22.5% through strong lending and deposit volumes, an impairment release and continued growth in our depositary offering. This was achieved while continuing investment in our digital offering to customers including new payment features on the mobile app for both personal and business customers and the extension of our video banking proposition delivered in 2021.
- RBSI completed £1.5 billion of Climate and Sustainable Funding and Financing in 2021, including £0.9 billion in H2 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.
- Total income increased by £51 million, or 10.3%, compared with 2020 as a result of higher average lending balances in Institutional Banking, including higher non-utilisation fees, and higher depositary fee income.
- Net interest margin decreased by 16 basis points in 2021 reflecting a higher proportion of lower yielding assets with central banks due to the higher volume of short term customer deposits in the year.
- Other expenses decreased by £16 million, or 6.6%, compared with 2020 primarily reflecting the reduction in the bank levy charge for 2021.
- An impairment release of £52 million in 2021 largely reflects releases across Stage 1 and 2 within the wholesale sector.
- Net loans to customers increased by £2.2 billion, or 16.5%, compared with 2020 as a result of higher Institutional Banking sector volumes.
- Customer deposits increased by £6.2 billion, or 19.8%, compared with 2020 as a result of higher call balances in the Institutional Banking sector throughout the year.
- Depositary assets were £51.9 billion, or 12.1%, higher than 2020 reflecting strong performance in the funds sector primarily in the UK.
- RWAs of £7.5 billion are broadly stable compared with 2020 as a result of lending volume growth primarily in the Institutional Banking sector, offset by model updates in the period.

Segment performance continued

NatWest Markets[1]

Income statement	2021 £m	2020 £m	Variance £m	Variance %
Net interest income	9	(57)	66	(116)
Non-interest income	406	1,180	(774)	(66)
Total income	415	1,123	(708)	(63)
Other expenses	(907)	(1,038)	131	(13)
Strategic costs	(254)	(267)	13	(5)
Litigation and conduct costs	—	(5)	5	(100)
Operating expenses	(1,161)	(1,310)	149	(11)
Impairment releases/(losses)	35	(40)	75	(188)
Operating loss	(711)	(227)	(484)	213
Analysis of income by product (2)				
Fixed income	(64)	518	(582)	(112)
Currencies	427	583	(156)	(27)
Capital Markets	336	384	(48)	(13)
Capital Management Unit & other	(29)	(62)	33	(53)
Income before revenue share paid, asset disposals and OCA	670	1,423	(753)	(53)
Revenue share with other NatWest Group segments	(197)	(193)	(4)	2
Income excluding asset disposals and OCA	473	1,230	(757)	(62)
Asset disposals/strategic risk reduction (3)	(64)	(83)	19	(23)
Own credit adjustments (OCA)	6	(24)	30	(125)
Total income	415	1,123	(708)	(63)
Performance ratios				
Return on equity (4)	(13.1)%	(3.8)%	(9.3)%	
Cost:income ratio	279.8%	116.7%	163.1%	

Capital and balance sheet	2021 £bn	2020 £bn	Variance £bn	Variance %
Loans to customers (amortised cost)	7.5	8.4	(0.9)	(11)
Total assets	200.7	270.1	(69.4)	(26)
Funded assets	96.1	105.9	(9.8)	(9)
Risk-weighted assets	24.2	26.9	(2.7)	(10)

(1) The NatWest Markets operating segment is not the same as the NatWest Markets Plc legal entity (NWM Plc) or group (NWM or NWM Group) because the NatWest Markets segment excludes the Central items & other segment.
(2) Product performance includes gross income earned on a group-wide basis, including amounts contributed to other segments.
(3) Asset disposals/strategic risk reduction relates to the cost of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcement on 14 February 2020.
(4) Return on equity is based on segmental operating profit after tax adjusted for preference dividends divided by average notional equity based on 15% of the period average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAe), assuming a 28% tax rate.

2021 compared with 2020

– NatWest Markets has supported its customers' evolving needs with innovative solutions and continued to deliver a more integrated customer proposition across NatWest Group. NatWest Markets has made good progress on building a refocused, sustainable business from which it can grow. NatWest Markets incurred an operating loss in 2021 but has largely completed its RWA reduction and continued to reduce operating expenses, and in Q4 2021, introduced changes to Rates which will improve the strategic alignment with the rest of the business and drive income growth. NatWest Markets performance at the beginning of 2022 has been in line with expectations.
– NatWest Markets completed £9.7 billion of Climate and Sustainable Funding and Financing in 2021, including £3.3 billion in H2 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.
– Income excluding asset disposals/strategic risk reduction and OCA was £757 million, or 61.5% lower than 2020. The performance of Fixed Income was weak in 2021 impacted by subdued levels of customer activity and the reshaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by the initial spread of the COVID-19 virus. Both Currencies and Capital Markets income were lower than in 2020 but performed broadly in line with expectations.
– Other expenses decreased by £131 million, or 12.6%, compared with 2020 reflecting continued reductions in line with the strategic announcement in February 2020.
– A net impairment release of £35 million in 2021 reflects releases against a number of cases throughout the year.
– RWAs decreased by £2.7 billion, or 10.0%, compared with 2020 reflecting lower levels of market risk and counterparty credit risk, including the impact of capital optimisation actions taken throughout the year.

Segment performance continued

Ulster Bank RoI

Continuing operations

Income statement	2021 €m	2020 (1) €m	Variance €m	Variance %	2021 £m	2020 (1) £m	Variance £m	Variance %
Net interest income	116	137	(21)	(15)	100	122	(22)	(18)
Non-interest income	149	113	36	32	128	100	28	28
Total income	265	250	15	6	228	222	6	3
Other expenses	(487)	(462)	(25)	5	(421)	(409)	(12)	3
Strategic costs	(25)	(28)	3	(11)	(22)	(25)	3	(12)
Litigation and conduct costs	(45)	(8)	(37)	463	(39)	(7)	(32)	457
Operating expenses	(557)	(498)	(59)	12	(482)	(441)	(41)	9
Impairment releases/(losses)	33	(157)	190	(121)	28	(139)	167	(120)
Operating loss	(259)	(405)	146	(36)	(226)	(358)	132	(37)
Average exchange rate - €/£					1.163	1.125		

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Capital and balance sheet	2021 €bn	2020 €bn	Variance €bn	Variance %	2021 £bn	2020 £bn	Variance £m	Variance %
Loans to customers (amortised cost)								
- mortgages	7.3	15.2	(7.9)	(52)	6.2	13.7	(7.5)	(55)
- other lending	1.1	5.7	(4.6)	(81)	1.0	5.1	(4.1)	(80)
Total loans to customers (amortised cost)	8.4	20.9	(12.5)	(60)	7.2	18.8	(11.6)	(62)
Loan impairment provisions	(0.5)	(0.9)	0.4	(44)	(0.5)	(0.8)	0.3	(38)
Net loans to customers (amortised cost)	7.9	20.0	(12.1)	(61)	6.7	18.0	(11.3)	(63)
Total assets	27.2	29.6	(2.4)	(8)	22.8	26.6	(3.8)	(14)
Funded assets	27.2	29.6	(2.4)	(8)	22.8	26.6	(3.8)	(14)
Customer deposits	21.9	21.8	0.1	0.5	18.4	19.6	(1.2)	(6)
Risk-weighted assets	10.9	13.2	(2.3)	(17)	9.1	11.8	(2.7)	(23)
Spot exchange rate - €/£					1.190	1.113		

2021 compared with 2020

– Ulster Bank RoI continues to make progress on its phased withdrawal from the Republic of Ireland. On 17 December 2021 UBIDAC entered a legally binding agreement with Permanent TSB p.l.c. (PTSB) for the proposed sale of approximately €7.6 billion of gross performing loans as at 30 June 2021, comprising performing non-tracker mortgages, performing loans in the micro-SME business, the UBIDAC Asset Finance business, including its digital platform, and 25 Ulster Bank branch locations. Completion of the sale is subject to obtaining competition, regulatory and other approvals, including PTSB's holding company shareholder approval, and other conditions being satisfied. The transaction is expected to occur in phases between Q4 2022 and Q1 2023 with the majority of loans expected to transfer by Q4 2022.
– Progress continues with Allied Irish Banks, p.l.c. (AIB) for the transfer of approximately €4.2 billion, plus up to €2.8 billion of undrawn exposures, of performing commercial lending. A key part of the process is to complete the regulatory approvals and the Competition and Consumer Protection Commission (CCPC) has already carried out an extended preliminary investigation and on 31 December 2021 announced its decision to carry out a Phase 2 investigation into the proposed sale. There is no firm date for the completion of this process. Discussions are ongoing with other counterparties about their potential interest in other parts of the bank.
– The values shown above represent the continuing operations of Ulster Bank RoI, including re-presented comparatives for the income statement. The re-presentation is in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
– Total income was €15 million, or 6.0%, higher than 2020 reflecting gains arising from the adjustment of the swap hedging portfolio to align the modelled maturity position of deposits and other balances to the withdrawal plan, offset by lower lending levels and fee income as a result of the decision to withdraw from the RoI market.
– Other expenses were €25 million, or 5.4%, higher than 2020, due to higher VAT costs and regulatory levies, partially offset by a 15% reduction in headcount, lower advertising spend and back office operational costs.
– A net impairment release of €33 million in 2021 reflects improvements in the reducing loan portfolios and economic forecasts.
– Net loans to customers decreased by €12.1 billion primarily due to the reclassification of €10.7 billion of loans to the disposal group.

Segment performance continued

Central items & other

	2021	2020	Variance	
	£m	£m	£m	%
Central items not allocated	(301)	(653)	352	(54)

Funding and operating costs have been allocated to operating segments based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one segment. Residual unallocated items relate to volatile corporate items that do not naturally reside within a segment.

2021 compared with 2020

- Central items not allocated represented a £301 million operating loss in 2021 principally reflecting litigation and conduct charges of £243 million, strategic costs of £201 million and losses on redemption of own debt of £138 million related to the repurchase of legacy instruments, partially offset by a £219 million share of gains under equity accounting for Business Growth Fund, and other Treasury income. 2020 included the day one loss on redemption of own debt of £324 million related to the repurchase of legacy instruments, property-related strategic costs and litigation and conduct charges.

Summary financial statements

NatWest Group's financial statements are prepared in accordance with IFRS. Selected data under IFRS for each of the last three years is presented below.

Summary consolidated income statement	2021 £m	2020 (1) £m	2019 (1) £m
Net interest income	7,614	7,476	7,799
Non-interest income	2,898	3,032	6,188
Total income	10,512	10,508	13,987
Operating expenses	(7,758)	(7,858)	(9,280)
Profit before impairment losses	2,754	2,650	4,707
Impairment releases/(losses)	1,278	(3,131)	(724)
Operating profit/(loss) before tax	4,032	(481)	3,983
Tax charge	(996)	(74)	(439)
Profit/(loss) from continuing operations	3,036	(555)	3,544
Profit from discontinued operations, net of tax	276	121	256
Profit/(loss) for the year	3,312	(434)	3,800
Attributable to:			
Ordinary shareholders	2,950	(753)	3,133
Preference shareholders	19	26	39
Paid-in equity holders	299	355	367
Non-controlling interests	44	(62)	261
	3,312	(434)	3,800

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Summary consolidated balance sheet	2021 £m	2020 £m	2019 £m
Cash and balances at central banks	177,757	124,489	80,993
Trading assets	59,158	68,990	76,745
Derivatives	106,139	166,523	150,029
Settlement balances	2,141	2,297	4,387
Loans to banks and customers - amortised cost	366,672	367,499	334,501
Other financial assets	46,145	55,148	61,452
Other and intangible assets	14,965	14,545	14,932
Assets of disposal groups	9,015	—	—
Total assets	781,992	799,491	723,039
Deposits	506,089	452,345	389,740
Trading liabilities	64,598	72,256	73,949
Settlement balances, derivatives, other financial liabilities and subordinated liabilities	160,658	222,023	206,147
Other liabilities	8,844	9,043	9,647
Owners' equity	41,796	43,860	43,547
Non-controlling interests	7	(36)	9
Total liabilities and equity	781,992	799,491	723,039

Governance

Our Board

Howard Davies
Chairman

Date of appointment:
14 July 2015 (Board), 1 September 2015 (Chairman)

Committee memberships
N

Contribution to the Board:
Howard brings substantial financial services knowledge and experience to the Board, together with a deep understanding of global economic, environmental and social issues. With extensive board level experience, Howard draws on his prior regulatory and supervisory expertise to contribute both strategic and practical insights to Board discussions and debate. Howard is also a highly adept Chairman with valuable leadership and stakeholder management skills.

Relevant experience:
Howard has held several regulatory roles during his career including Chairman of the UK Financial Services Authority and Deputy Governor of the Bank of England. Howard was Director of the London School of Economics and Political Science and is also Professor of Practice at the Paris Institute of Political Studies (Sciences Po).

Howard has also previously served as a non-executive director of Morgan Stanley and Prudential plc, as Chairman of Phoenix plc and as Chair of the UK Airports Commission.

Current external appointments:
- Chairman of Inigo Limited
- Member of the Regulatory and Compliance Advisory Board of Millennium Management LLC
- Chair of the International Advisory Council of the China Securities Regulatory Commission
- Member of the International Advisory Council of the China Banking and Insurance Regulatory Commission

Alison Rose
Group Chief Executive Officer

Date of appointment:
1 November 2019

Committee memberships
N/A

Contribution to the Board:
Alison has been instrumental in leading NatWest Group's progress and performance as a purpose-led organisation, since NatWest Group's purpose was announced in February 2020. Having gained a wealth of frontline banking experience during her 29-year career with NatWest, Alison brings a strong customer focus to Board discussions alongside an essential stakeholder lens. Alison is a passionate supporter of diversity and is executive sponsor for NatWest Group's employee-led networks.

Relevant experience:
Having joined as a graduate in 1992, Alison's diverse career at NatWest Group has included a number of senior leadership roles, including Deputy CEO of NatWest Holdings; Chief Executive of Commercial & Private Banking; Head of Europe, Middle East and Africa, Markets & International Banking; and Global Head of International Banking Capital and Balance Sheet. In 2019, Alison was commissioned by the UK Government to report on the barriers to women starting businesses. She now sits on the Rose Review Board and is responsible for driving forward its recommendations.

Current external appointments:
- Board member of the Institute of International Finance
- Member of the International Business Council for the World Economic Forum
- Trustee of Business in the Community (BITC) and Chair of the Scottish BITC Advisory Board
- Non-executive director of Great Portland Estates plc
- Director of the Coutts Charitable Foundation
- Member of the UK Government's Help to Grow Advisory Council

Katie Murray
Group Chief Financial Officer

Date of appointment:
1 January 2019

Committee memberships
N/A

Contribution to the Board:
Katie is a Chartered Accountant with nearly 30 years experience in finance and accounting gained through several roles across the financial services industry. Katie's deep knowledge and experience in specialist areas including capital management, investor relations and financial planning mean she is well placed to provide valuable input and expertise during Board discussions.

Relevant experience:
Katie joined NatWest Group as Director of Finance in 2015 and was appointed as Deputy Chief Financial Officer in March 2017. She was appointed as Chief Financial Officer in January 2019.

Katie was previously the Group Finance Director for Old Mutual Emerging Markets, based in Johannesburg (2011 to 2015), having held various roles across Old Mutual from 2002. Prior to this Katie worked at KPMG for 13 years. She is a member of the Institute of Chartered Accountants in Scotland.

Current external appointments:
- Member of the Money and Pensions Service Advisory Group

Board Committees

A	Group Audit Committee
N	Group Nominations & Governance Committee
Re	Group Performance & Remuneration Committee
Ri	Group Board Risk Committee
S	Group Sustainable Banking Committee
T	Technology and Innovation Committee

Underline indicates Committee Chairman

Mark Seligman
Senior Independent Director

Date of appointment:
1 April 2017 (Board), 1 January 2018 (Senior Independent Director)

Committee memberships
A N Re

Contribution to the Board:
Mark, a former senior investment banker, brings comprehensive financial services knowledge and substantial FTSE 100 board experience to the Board. A former boardroom adviser, Mark contributes significant banking and corporate transformation expertise in particular, alongside a range of customer and wider stakeholder engagement skills.

Relevant experience:
Mark has held various senior roles at Credit Suisse/BZW during his executive career, including Deputy Chairman, CSFB Europe and Chairman, UK Investment Banking, CSFB.

Mark has served as a non-executive director on company boards across a range of industry sectors, including BG Group plc, as Senior Independent Director of Kingfisher plc, and as Deputy Chairman of G4S plc. He has significant experience of chairing committees and as a Senior Independent Director.

Current external appointments:
- Non-executive director of Smiths Group plc
- Non-executive director and trustee of The Brooklands Museum

Frank Dangeard
Independent non-executive director

Date of appointment:
16 May 2016

Committee memberships
Re T

Contribution to the Board:
Frank is a former investment banker and technology company CEO with substantial global board expertise. This broad background enables Frank to make a valuable contribution to Board discussions, particularly in relation to technology, digital and innovation matters. Frank's experience also encompasses key areas including customer experience, stakeholder engagement, ESG and risk. In April 2018, Frank assumed the role of Chairman of NatWest Markets Plc, which enables him to bring a unique perspective to Board debate.

Relevant experience:
During his executive career, Frank held various roles at Thomson S.A., including Chairman and Chief Executive Officer, and was Deputy Chief Executive Officer of France Telecom. Prior to that he was Chairman of SG Warburg France and Managing Director of SG Warburg.

Frank has also held a number of non-executive roles at Crédit Agricole CIB, EDF, Home Credit, Orange, Sonaecom SGPS and Arqiva Group Limited. He was also Deputy Chairman and acting Chairman of Telenor ASA, an international media communications group.

Current external appointments:
- Chairman of NortonLifeLock Inc.
- Non-executive director of IHS Holding Limited
- Chairman of SPEAR Investments I B.V.
- Chairman of the Advisory Board of STJ Advisors

Patrick Flynn
Independent non-executive director

Date of appointment:
1 June 2018

Committee memberships
A N Ri T

Contribution to the Board:
Patrick contributes significant retail and commercial banking experience to the Board, together with a background in complex organisational restructuring and technology transformation. This experience enables Patrick to provide insightful contributions to Board discussions on complex matters, alongside his significant financial knowledge and expertise.

Relevant experience:
Patrick was the Chief Financial Officer and a member of the Executive Board of ING Group for over eight years to May 2017. Prior to that, he worked for HSBC for 20 years. Patrick is a Fellow of Chartered Accountants Ireland.

Current external appointments:
- Non-executive director and Senior Independent Director of Aviva plc

Morten Friis
Independent non-executive director

Date of appointment:
10 April 2014

Committee memberships
A N Ri

Contribution to the Board:
Morten is a former frontline banker, who subsequently became a Chief Risk Officer in a universal bank. He has in-depth knowledge and expertise in risk management within the financial services industry, which enables him to make a substantial contribution to Board discussions and debate on risk matters. Morten is also knowledgeable in regulatory matters, capital markets, transformation management and corporate resolution.

Relevant experience:
Morten's extensive executive career included various roles at Royal Bank of Canada and its subsidiaries, such as Senior Vice President, Group Risk Management, Chief Credit Officer and then Chief Risk Officer. Previously he was also a Director of RBC Bank (USA); Westbury Life Insurance Company; RBC Life Insurance Company; and RBC Dexia Investor Services Trust Company.

Morten also served as a Non-executive director of Jackson National Life Insurance Company for five years, and was chair of its board risk committee and a member of its audit committee.

Current external appointments:
- Member of the board of directors of the Harvard Business School Club of Toronto

Robert Gillespie
Independent non-executive director

Date of appointment:
2 December 2013

Committee memberships
A N Re Ri

Contribution to the Board:
Having run a global investment bank during his executive career, Robert has in-depth knowledge of banking and its role within the economy. As a Chartered Accountant, Robert understands complex organisations and demonstrates strong stakeholder management and leadership skills, which enable him to provide constructive views and contributions during Board discussions.

Relevant experience:
Robert's career in investment banking specialised in corporate advisory work. He was also Director General of the Takeover Panel from 2010 until 2013. Prior to that Robert held a number of senior positions at UBS including being global head of investment banking, Chief Executive of UBS for EMEA and Vice Chairman of UBS Investment Bank. Robert began his career at Price Waterhouse (now PwC) and then S.G. Warburg which subsequently became part of UBS.

Robert was also previously Chairman of The Boat Race Company Limited.

Current external appointments:
- Non-executive director of Burford Capital Limited
- Professor of Practice at the University of Durham
- Non-executive director of Social Finance Limited

Yasmin Jetha
Independent non-executive director

Date of appointment:
1 April 2020

Committee memberships
S T

Contribution to the Board:
Yasmin brings a wealth of retail banking and customer experience to the Board, as well as valuable technology and innovation insights, and a strong background in general management. Yasmin adds strength and depth to the Board in these important areas, supporting challenge and debate and effective decision-making.

On 1 April 2020 Yasmin re-joined the Board of NatWest Group plc, having first been appointed in June 2017. Yasmin stepped down in April 2018 in order to serve solely as a director of our key ring-fenced entities, and, like the majority of our directors, she continues to serve on these boards in addition to the Board of NatWest Group plc.

Relevant experience:
During her executive career, Yasmin held Chief Information Officer roles at Bupa and the Financial Times, where she later became the Chief Operating Officer. Prior to that Yasmin held a number of senior roles at Abbey National PLC, in a career spanning nearly 20 years, where latterly she served as an executive director on the board.

Yasmin has also held a number of non-commercial roles including Vice Chair of the Board of Governors at the University of Bedfordshire (2008 to 2011) and Vice Chair of the National Committee of the Aga Khan Foundation (UK) Ltd, a non-denominational charity that works with communities in Africa, Asia and the Middle East.

Current external appointments:
- Non-executive director of Guardian Media Group plc
- Non-executive director of Nation Media Group Limited

Mike Rogers
Independent non-executive director

Date of appointment:
26 January 2016

Committee memberships
Re S

Contribution to the Board:
Mike is an extremely experienced retail and commercial banker, with extensive boardroom experience. As a former Chief Executive, Mike brings a broad-based skillset and perspective to the Board, particularly in relation to customer experience, general management and stakeholder engagement.

Relevant experience:
During his executive career Mike was Chief Executive of Liverpool Victoria Group and he held a variety of roles, both in the UK and overseas, at Barclays Bank. This included roles in business banking, wealth management and retail banking where Mike was Managing Director of Small Business, Premier Banking and UK Retail Banking.

Current external appointments:
- Chairman of Experian plc
- Chairman of Aegon UK plc

Lena Wilson
Independent non-executive director

Date of appointment:
1 January 2018

Committee memberships
Re Ri S

Contribution to the Board:
Lena contributes significant knowledge and experience to the Board drawn from a broad executive and non-executive career. She has extensive transformation and development skills, with experience in enterprise, internationalisation, stakeholder management, ESG and general management.

As Chair of the NatWest Group Colleague Advisory Panel since it was established in 2018, Lena provides valuable insights on customer and people issues in particular.

Relevant experience:
Lena has a portfolio of Chair roles in the listed, private equity and professional services sectors. She has been a FTSE 100 non-executive director for 10 years and previously served on the boards of Scottish Power Renewables Limited and Intertek Group plc. Lena was Chief Executive of Scottish Enterprise from November 2009 until October 2017 and prior to that, was Senior Investment Advisor to The World Bank in Washington DC.

Lena was a member of Scotland's Financial Services Advisory Board and Chair of Scotland's Energy Jobs Taskforce. In June 2015 she received a CBE for services to economic development in Scotland.

Current external appointments:
- Chair of Picton Property Income Limited
- Chair of AGS Airports Limited
- Senior Independent Director of Argentex Group plc
- Member of the UK Prime Minister's Business Council for 2022
- Chair of the Advisory Board of Turtle Pack Limited
- Chair of Chiene + Tait LLP
- Visiting Professor, University of Strathclyde Business School

Jan Cargill
Chief Governance Officer and Company Secretary

Date of appointment:
5 August 2019

Contribution to the Board:
Jan works closely with the Chairman to ensure effective and efficient functioning of the Board and appropriate alignment and information flows between the Board and its Committees. She is responsible for advising the Board and individual directors on all governance matters, and also facilitates Board induction and directors' professional development.

Relevant experience:
Jan is a chartered company secretary with over 20 years corporate governance experience. She was appointed Chief Governance Officer and Company Secretary in 2019, and prior to that held various roles in the legal and secretariat functions, including Head of Board and Shareholder Services.

Jan has a law degree and is a Fellow of the Chartered Banker Institute. She is also an Associate of The Chartered Governance Institute and has an INSEAD Certificate in Corporate Governance.

Chairman's introduction

Contents

Dear Shareholder,

I am pleased to present the Corporate Governance Report for 2021.

The Board met mostly virtually during the year and while we missed the opportunity to meet and engage with colleagues in person, virtual meeting technology continued to offer an effective alternative which supported the efficient running of the Board.

The Board spent significant time overseeing the implementation of our strategy and transformation programme alongside other key priorities including our ongoing withdrawal from the Republic of Ireland, capital distributions and financial crime. COVID-19 also remained a key area of focus for the Board in 2021, particularly the support being provided to our customers and colleagues. The three additional independent non-executive directors of NatWest Holdings Limited attend all Board and relevant Board Committee meetings as observers and contribute a ring-fenced bank perspective to Board and Committee discussions.

Further details of the Board's principal activities during 2021 can be found on page 104.

As a Board, we know how important it is to engage with our stakeholders, to listen to them and to consider their interests during Board discussions and decision-making. Understanding the needs of our stakeholders is at the core of our purpose framework as shown on pages 12 to 13.

Examples of how the Board has engaged with key stakeholders and considered their interests, including the impact on principal decisions, can be found on pages 14 to 17 and pages 52 to 53 of the Strategic report and later in this Corporate governance report.

There were no changes to Board or Board Committee membership during 2021, however we continue to keep the composition, skills and experience of the Board under review.

Board effectiveness

In 2021, the Board and Committee evaluation was externally facilitated by Independent Board Evaluation. Further information on how the evaluation was conducted, key outcomes and actions arising can be found on page 112.

UK Corporate Governance Code 2018

All directors are committed to observing high standards of corporate governance, integrity and professionalism.

Information on how the company has applied the Principles and complied with the Provisions of the UK Corporate Governance Code 2018 (the Code) can be found in this Corporate governance report under the Code's five main section headings. A formal statement of compliance with the Code can be found on page 181.

In conclusion I would like to thank my fellow Board members for their outstanding contributions and commitment throughout the year.

Howard Davies
Chairman of the Board

17 February 2022

Board and Committee meetings

The table below shows Board and Committee membership and directors' meeting attendance during 2021. There were six scheduled Board meetings during 2021, the same number as in 2020.

In addition to scheduled meetings, additional ad hoc meetings of the Board and some of its Committees were held throughout the year to receive updates and deal with time-critical matters. There were eight additional Board meetings held in 2021 compared to 16 additional meetings held in 2020. When directors are unable to attend meetings convened at short notice, they receive the papers and have the opportunity to provide their feedback in advance.

In accordance with the Code, the Chairman and the non-executive directors met at least once without executive directors present.

Board and Committee membership and meeting attendance in 2021

	Board		Group Audit Committee (GAC)		Group Board Risk Committee (BRC)		Group Nominations and Governance Committee (N&G)		Group Performance and Remuneration Committee (RemCo)		Group Sustainable Banking Committee (SBC)		Technology and Innovation Committee (TIC)	
Director	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc
Howard Davies	6/6	8/8	–	–	–	–	4/4	–	–	–	–	–	–	–
Alison Rose	6/6	8/8	–	–	–	–	–	–	–	–	–	–	–	–
Katie Murray	6/6	8/8	–	–	–	–	–	–	–	–	–	–	–	–
Frank Dangeard[1]	6/6	7/8	–	–	–	–	–	–	8/8	3/3	–	–	4/4	–
Patrick Flynn	6/6	8/8	5/5	–	8/8	1/1	4/4	–	–	–	–	–	4/4	–
Morten Friis	6/6	8/8	5/5	–	8/8	1/1	4/4	–	–	–	–	–	–	–
Robert Gillespie	6/6	8/8	5/5	–	8/8	1/1	4/4	–	8/8	3/3	–	–	–	–
Yasmin Jetha	6/6	8/8	–	–	–	–	–	–	–	–	5/5	2/2	4/4	–
Mike Rogers[1]	6/6	7/8	–	–	–	–	–	–	8/8	3/3	5/5	2/2	–	–
Mark Seligman	6/6	8/8	5/5	–	–	–	4/4	–	8/8	3/3	–	–	–	–
Lena Wilson	6/6	8/8	–	–	8/8	1/1	–	–	8/8	3/3	5/5	2/2	–	–

(1) Mr Dangeard and Mr Rogers were each unable to attend one ad hoc meeting, due to prior commitments.

How the Board operated in 2021

The Board 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 received reports from the Chairman, Board Committee Chairmen, Group Chief Executive Officer (Group CEO), Group Chief Financial Officer (Group CFO), Group Chief Risk Officer and other members of the executive management team, as appropriate (referred to in the Board annual calendar which follows as 'regular reports'). 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 support succession planning.

The Board and Group Executive Committee (ExCo) operating rhythm continues to support a proactive and transparent agenda planning and paper preparation process. This process includes the following key elements:

- A pre-Board meeting with the Chairman, Group CEO, Group CFO and Chief Governance Officer and Company Secretary to ensure the Board and executive management are aligned on Board agendas.
- A post Board meeting with the Chairman, Group CEO and Chief Governance Officer and Company Secretary to discuss what went well or could be improved after each meeting.
- A look ahead paper at each ExCo and Board meeting setting out key items that will be discussed at the next meeting.

Strategic report
Financial review
Governance
Risk and capital management
Financial statements
Additional information

Principal areas of Board focus in 2021

As in 2020, a short set of Board objectives was adopted for 2021, closely aligned to our purpose and strategic priorities. These have supported agenda planning and helped to guide how the Board spends its time, ensuring appropriate focus on the longer-term and strategic issues. Whilst our response to the COVID-19 pandemic continued to be a priority for the Board, there was a shift away from standalone pandemic-related updates towards integrated reporting on COVID-19 related matters across the Board agenda, including through our regular reports and business reviews.

The Chief Governance Officer and Company Secretary maintains an annual agenda planner designed to ensure that all matters set out in the Board's terms of reference are considered by the Board. The table below is an overview of the main matters considered by the Board during 2021 and also shows the Board training provided. In 2021, we introduced the use of videos into Board training and presentations which has been well received by the Board. They have been used, for example, to deliver background materials as well as insights from colleagues and customers to support Board discussions.

Ad hoc meetings of the Board were held concurrently with scheduled meetings of the Board of NatWest Holdings Limited in March and September, to deal with any time critical matters or to support efficient review of items of mutual interest.

Board annual calendar for 2021

	Spotlight and ad hoc items	Scheduled items	Training
January (ad hoc)	– Strategy updates – Capital distributions – Executive remuneration		
February	– Strategy updates – Budget – Capital distributions – Banking Standards Board presentation (now Financial Services Culture Board or FSCB)	– Regular reports – Business reviews – 2020 Annual Results (including ESG Supplement and Climate-related Disclosures Report) – Legal and regulatory report – Board business insights pack – 2021 Board objectives – 2021 Annual General Meeting arrangements	
March (ad hoc)	– Talent engagement session – Strategy – One Bank transformation – Colleague Advisory Panel report – Directed share buyback – Internal Capital Adequacy Assessment Process – Internal Liquidity Adequacy Assessment Process – Board succession planning – Financial crime		– Operational resilience – Consumer protection
April	– Strategy updates – One Bank transformation	– Regular reports – Business reviews – Risk management framework – Risk appetite – Q1 2021 results – Legal and regulatory report – Board business insights pack – 2021 Annual General Meeting arrangements – Health and safety annual review – Governance Framework annual review	
June	– Talent and executive succession – Recovery plans – Capital distributions – Annual Board strategy session	– Regular reports – Colleague Advisory Panel report – Business reviews – Legal and regulatory report – Board business insights pack – Group money laundering reporting officer report – Financial crime – 2020 Modern Slavery and Human Trafficking statement – Our View mid-year survey results – 2021 solvency stress test results	– Directors' duties in resolution
July	– Prudential Regulation Authority presentation and engagement session – Culture spotlight – One Bank transformation – Brand portfolio – Capital distributions – Resolvability Self-Assessment – On-market share buyback	– Regular reports – Business reviews – H1 2021 results – Legal and regulatory report – Board business insights pack	– Cyber security
September (ad hoc)	– One Bank transformation – Budget and stress scenarios – Climate Biennial Stress Test results – Financial crime		– Financial crime
October	– Strategy updates – One Bank transformation – Our View annual survey results	– Regular reports – Business reviews – Q3 2021 results – Talent and executive succession – Legal and regulatory report – Board business insights pack	– Climate
December	– Strategy updates – One Bank transformation – Annual Board effectiveness review – Budget – Capital distributions – Operational resilience – Our values refresh – Culture measurement report – Annual purpose update – Brand portfolio – Board skills matrix – Executive performance and remuneration	– Regular reports – Business reviews – Colleague Advisory Panel report – Risk management framework – Risk appetite – Board business insights pack – Financial crime – 2022 Annual General Meeting arrangements	

Online training

Included video materials as part of training or Board materials.

Subsidiary governance and ring-fencing

NatWest Group plc is a listed company with equity listed on the London and New York stock exchanges.

NatWest Holdings Limited (NWH) is the holding company for our ring-fenced operations, which include our retail, commercial and private banking businesses. A common board structure is operated such that the directors of NWH are also directors of The Royal Bank of Scotland plc and National Westminster Bank Plc. Known collectively as the NWH Sub Group, the boards of these three entities meet concurrently.

On 3 May 2021, following Court approval, the business of Ulster Bank Limited was transferred into its immediate parent, National Westminster Bank Plc (NWB Plc). This reorganisation saw the Ulster Bank brand in Northern Ireland become a trading name of NWB Plc and simplified the NatWest Group by aligning the legal entity structure with the pre-existing management structure. The simplification ensured continuity of service under the Ulster Bank brand, with customers continuing to receive the same products and services through the same channels. Colleagues became employees of NWB Plc, with their existing benefits and conditions of employment remaining unchanged.

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 attend NatWest Group plc Board and relevant Board Committee 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.

NatWest Markets supports NatWest Group's corporate and institutional customers through NatWest Markets Plc and its subsidiaries.

RBS International serves retail, commercial and corporate customers and financial institutions and operates through The Royal Bank of Scotland International (Holdings) Limited and its subsidiaries.

The Group Nominations and Governance Committee monitors the governance arrangements of NatWest Group plc and its subsidiaries and approves appointments to the boards of principal and material regulated subsidiaries, as described in the Group Nominations and Governance Committee report on page 114.

2018 UK Corporate Governance Code

Throughout the year the company has applied the Principles and complied with the Provisions of the Code, except in relation to:

– Provision 17 that the Group Nominations and Governance Committee should ensure plans are in place for orderly succession to both the board and senior management positions and oversee the development of a diverse pipeline for succession; and
– Provision 33 that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors.

In both instances, the Board considers that these are matters which should rightly be reserved for the Board, as set out in more detail in our statement of compliance on page 181.

In addition, the Board has delegated two particular aspects of the Code's provisions to Board Committees, with regular updates provided to the Board as appropriate:

– The Group Audit Committee has delegated responsibility for reviewing and monitoring NatWest Group's whistleblowing process.
– The Group Sustainable Banking Committee has delegated responsibility for reviewing key workforce policies and practices (not related to pay) to ensure they are consistent with NatWest Group's values and support long-term sustainable success.

For further information please refer to the remainder of this report and the relevant Committee reports on the following pages.

Further information on how the company has applied the Principles and complied with the Provisions of the Code is set out below under the Code's five main section headings.

Board leadership and company purpose

Role of the Board

The Board is collectively responsible for promoting the long-term sustainable success of the company, driving both shareholder value and contribution to wider society. The Board's role is to provide leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board establishes NatWest Group's purpose, values and strategy and leads the development of NatWest Group's culture. The Board sets the strategic aims of the company and its subsidiaries, ensures that the necessary resources are in place for NatWest Group to meet its objectives, is responsible for the raising and allocation of capital and reviews business and financial performance. It ensures that the company's obligations to its shareholders and other key stakeholders are understood and met.

The Board terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. They are available at natwestgroup.com. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2021.

Board Committees

The Board has established a number of Board Committees with particular responsibilities. Please refer to the Committee Chairman reports for further details. Board Committee terms of reference are available at natwestgroup.com.

Purpose, values, strategy and culture

In February 2020, and following an extensive period of stakeholder engagement, the Board approved NatWest Group's purpose and strategy. Throughout 2021, our purpose has continued to inform and drive our response to the 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 climate, enterprise and learning. It highlighted the progress to date on embedding purpose and delivering against public commitments; the key areas of focus for 2022; and an update on stakeholders' perception of NatWest Group and its purpose aligned to the Blueprint for Better Business framework.

Further information on progress against our purpose and strategic priorities can be found in the Strategic report.

The Board assesses and monitors NatWest Group's culture in several ways, as illustrated by the diagram below.

NatWest Group plc – Board responsibilities in relation to culture

– Leads the development of NatWest Group's culture, values and standards.
– Assesses and monitors culture.
– Reviews and approves NatWest Group's values.

Board reporting on culture

What did the Board receive?	When did it receive it?	Key areas of focus
Banking Standards Board (BSB) presentation (now FSCB)	February	BSB's 2020 Survey Annual Report and its review of the embedding of purpose in NatWest Group.
Colleague Advisory Panel reports	March June December	Feedback on discussions from Colleague Advisory Panel meetings. Topics covered included wellbeing support for colleagues, retail banking strategy, purpose, remuneration (including executives and the wider workforce), climate and ways of working.
One Bank Transformation Programme spotlight on organisation, skills and culture	April October	Future of work and strategic workforce planning. This covered new ways of working, colleague journeys, colleague experience, career development, skills and capability, learning, wellbeing and inclusion.
Our View colleague survey	June October December	Insights from the colleague opinion surveys conducted in April and September 2021. Key measures included culture, purpose, building capability, inclusion, engagement and leadership. A follow up paper was presented to the Board in December to address an action from the Board on how to strengthen engagement with middle and senior mangers on leading through transformation.
Culture spotlight	July	An update on the refresh of our values and the alignment to purpose and strategy as well as an overview of cultural strengths, behavioural weaknesses, operating model and future culture.
Culture measurement report	July December	Insights and metrics to allow the Board to assess the status of NatWest Group's 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.
Our values	December	The Board was asked to approve the refreshed values which had been updated to ensure greater alignment to purpose and strategy.
Board business insights pack	Each meeting	Metrics to demonstrate how NatWest Group is delivering for colleagues (culture, purpose and inclusion).

The activities described above have supported the Board in meeting the Code requirement to satisfy itself that the company's purpose, values, strategy and culture are aligned.

Stakeholder 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 stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

Workforce engagement

NatWest Group's Colleague Advisory Panel (CAP) was set up in 2018 to help promote colleague voices in the boardroom and supports our compliance with Code requirements in relation to Board engagement with the workforce.

Through the CAP, 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 we ensure 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 we are reviewing our approach to how the Board engages with the workforce.

The Stakeholder engagement section of the Strategic report on pages 14 to 17 includes examples of how the Board engaged directly with stakeholders, and our section 172(1) statement on pages 52 to 53 describes how stakeholder interests have been considered in board decision-making, including principal decisions.

Set out below is an overview of further ways in which stakeholder views have been communicated to the Board, which often takes place indirectly via management updates.

Stakeholder Group	How stakeholder views have been communicated	Examples of what was shared	How did the Board use that information?
Customers	– Group CEO report – Business reviews – Ad hoc reports to the Board	– Updates on customer engagement activity and customer sentiment. – Competition and Markets Authority service quality results and Net Promoter Scores.	– Allowed the Board to oversee and challenge business performance more effectively and better understand performance versus peers.
Colleagues	– Group CEO report – Business reviews – Colleague specific papers presented to the Board	– Ways of working updates. – Our View survey results. – Culture measurement reports. – Colleague input to the development of our refreshed values.	– Allowed the Board to better understand colleague sentiment and levels of colleague engagement and, in the case of the values refresh, how colleagues' views have been considered and influenced the final proposal.
Communities	– Board training – Ad hoc reports to the Board	– Training materials on climate. – Launch of CareerSense.	– The climate training session updated the Board on progress against our climate ambitions, goals and targets and supported a better understanding of regulatory and investor expectations on climate. – The CareerSense update was a good example of our purpose in action and NatWest Group's support of young people and communities across the UK.
Investors	– Investor feedback reports – Group CFO report	– Detailed investor feedback (both equity market reaction and fixed income market reaction) was shared each quarter following each results presentation. – Feedback on other investor presentations by management. – External market perspectives.	– Investor feedback reports provided the Board with direct feedback from investors on NatWest Group's strategy and financial performance. – The Group CFO kept the Board updated on external market perspectives which included share price performance and trading activity, allowing the Board to monitor investor activity.
Regulators	– Regulatory correspondence – Group CEO and Group CFO reports and business reviews	– Relevant regulatory correspondence that regulators requested be shared with the Board and, where applicable, proposed management responses. – Updates on regulatory engagement.	– Sharing the correspondence and proposed responses allowed the Board to understand key matters being raised by regulators and how management were addressing those. – Kept the Board informed on key topics being discussed by management with regulators, enhancing the Board's understanding of key regulatory priorities.
Suppliers	– Business reviews	– Regular updates on key supplier and partnership relationships and initiatives being undertaken with them.	– Provided the Board with visibility on key supplier activity and how this is supporting our purpose, strategy, financial performance and our ambitions on climate and the environment.

The effectiveness of Board stakeholder engagement mechanisms is considered during the annual Board evaluation.

Further details on NatWest Group's approach to investing in and rewarding its workforce can be found on pages 58 to 61 of the Strategic report.

Workforce policies and practices

As referred to above, the Board has delegated certain Code provisions to Board Committees, with regular updates to the Board on relevant issues.

In October 2021 the Group Sustainable Banking Committee considered key workforce policies and practices as part of its people and culture meeting, where a spotlight on living our purpose included updates on reward, career development, succession planning, recruitment, inclusion and learning frameworks. At that time, it was acknowledged that a refreshed set of values, aligned to our purpose, would be presented to the Board in December 2021 for approval and that workforce policies and practices would be updated where required to ensure ongoing alignment to NatWest Group's values.

The Group Audit Committee retains responsibility for reviewing and monitoring NatWest Group's whistleblowing process.

Conflicts of interest

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.

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. Details of all directors' conflicts of interest are recorded in a register which is maintained by the Chief Governance Officer and Company Secretary and reviewed annually by the Board.

Division of responsibilities

The Board has 11 directors comprising the Chairman, two executive directors and eight independent non-executive directors, one of whom is the Senior Independent Director.

Director biographies and details of the Board Committees of which they are members can be found on pages 98 to 101.

Non-executive director independence

The Board considers that the Chairman was independent on appointment and that all current non-executive directors are independent for the purposes of the Code.

Chairman and Group CEO

The role of Chairman is distinct and separate from that of the Group CEO and there is a clear division of responsibilities, with the Chairman leading the Board and the Group CEO managing the business day to day.

Senior Independent Director

Throughout 2021, Mark Seligman, as Senior Independent Director, acted as a sounding board for the Chairman, and as an intermediary for other directors when necessary. He was also available to shareholders to discuss any concerns they may have had, as appropriate.

Non-executive directors

Along with the Chairman and executive directors, the non-executive directors are responsible for ensuring the Board fulfils its responsibilities under its terms of reference.

The 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 NatWest Group's business activities and ensures no one individual or small group of individuals dominates the Board's decision-making.

The Chairman and non-executive directors meet at least once every year without the executive directors present.

Details of the key responsibilities of the Chairman, Group CEO, Senior Independent Director and non-executive directors are available at natwestgroup.com.

The performance of the Chairman and non-executive directors is evaluated annually and further details of the process undertaken can be found on page 113.

Chief Governance Officer and Company Secretary

The Chief Governance Officer and Company Secretary, Jan Cargill, works closely with the Chairman to ensure effective and efficient functioning of the Board and appropriate alignment and information flows between the Board and its Committees.

The Chief Governance Officer and Company Secretary is responsible for advising the Board and individual directors on all governance matters, and also facilitates Board induction and directors' professional development.

Executive management

The Group CEO is supported by Group ExCo, which considers strategic, financial, capital, risk and operational issues affecting NatWest Group and reviews relevant matters in advance of Board submission. Group ExCo's membership comprises the Group CEO, Group CFO and the Group Chief Risk Officer; who are also members of the wider executive management team. Biographies of the executive management team can be found at natwestgroup.com.

Time commitment and external appointments

It is anticipated that non-executive directors will allocate sufficient time to the company to discharge their responsibilities effectively and will devote such time as is necessary to fulfil their role. Directors have been briefed on the limits on the number of other directorships that they can hold under the requirements of the fourth Capital Requirements Directive.

The Code emphasises the importance of ensuring directors have sufficient time to meet their board responsibilities. Prior to appointment, significant commitments require to be disclosed with an indication of the time involved. External appointments require prior Board approval, with the reasons for permitting significant appointments explained in the Annual Report and Accounts.

Lena Wilson and Frank Dangeard both re-organised their portfolios of appointments and took up new appointments in 2021. Ms Wilson was appointed as a non-executive director and subsequently Chair of Picton Property Income Limited and as a non-executive director and Chair of AGS Airports Limited and Mr Dangeard was appointed Chairman of SPEAR Investments I B.V. These appointments were approved by the Board in advance and the Board considered both potential conflicts and time commitment and was satisfied that each would be able to continue to meet their commitments to NatWest Group given the other changes to their respective portfolios.

The Board continues to monitor 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.

Information

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 the company's expense.

Our Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with our purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider. This aligns with the directors' duties under section 172(1) of the Companies Act 2006 and further details on how the directors have complied with their section 172(1) duties can be found on pages 52 to 53 of the Strategic report.

Our 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, we introduced an additional page to our 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 our broader purpose framework.

Induction and professional development

Each new director receives a formal induction on joining the Board, which is coordinated 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.

All new directors receive a copy of the NatWest Group 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 our resources portal.

Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Internal training relevant to the business of NatWest Group is also provided. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The non-executive directors discuss their training and professional development with the Chairman at least annually. Details of the training and development undertaken by directors during 2021, which is co-ordinated by the Chief Governance Officer and Company Secretary, can be found on pages 104 to 105 (Board annual calendar for 2021).

Composition, succession and evaluation

Composition

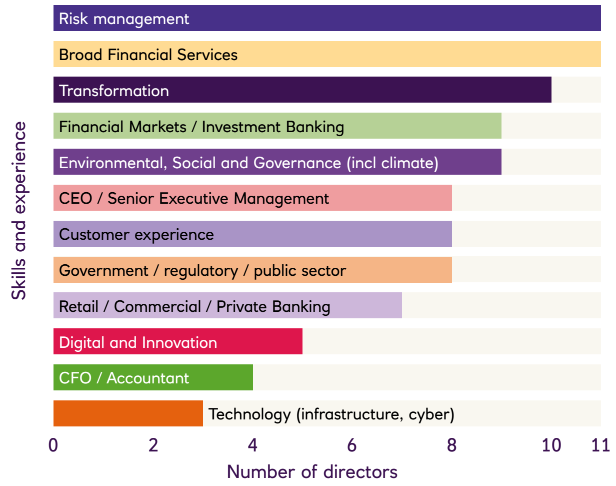
The Board is structured to ensure that the directors provide NatWest Group plc with the appropriate combination of skills, experience, knowledge and diversity, as well as independence.

Given the nature of NatWest 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. Our directors also possess substantial skills and experience in the areas of Transformation, Financial Markets/ Investment Banking, and Environmental, Social and Governance (including climate).

In December 2021 the Group Nominations and Governance Committee reviewed, and the Board approved, a refreshed version of our Board skills matrix, a summary view of which is set out below.

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, and will continue to be considered by the Group Nominations and Governance Committee, and the Board, at least once a year.

Board skills and experience



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

Succession

As set out in its terms of reference the Board is responsible for ensuring adequate succession planning for the Board and senior management, so as to maintain an appropriate balance of skills and experience within NatWest Group and on the Board.

In 2021 the Board received two updates on talent and executive succession planning which enabled them to monitor the internal talent pipeline and provide feedback. These updates included a detailed analysis of the diversity of the talent pool, with a view towards continuing to improve diversity over the longer term.

The Board also held a talent session with potential Executive Committee successors, and members of the Group Sustainable Banking Committee held an informal session with executive talent. These sessions helped our non-executive directors to get to know potential future leaders, through focused debates on strategic topics.

The Group Nominations and Governance Committee supports the Board on Board succession planning, including making recommendations to the Board on Board appointments and Board Committee membership.

In February 2021 (following review and recommendation by the Group Nominations and Governance Committee), the Board approved succession plans for the roles of Senior Independent Director and Committee Chairs, covering orderly transition plans for the short and medium term, and contingency arrangements which could be implemented in case of an emergency. These succession plans are reviewed by the Group Nominations and Governance Committee and approved by the Board at least once a year.

Further information on the role of the Group Nominations and Governance Committee and its activities during 2021 can be found in the Committee Chairman's report on page 114.

Election and re-election of directors

In accordance with the provisions of the Code, all directors stand for election or re-election by shareholders at the company's AGM.

In accordance with the UK Listing Rules, the election or re-election of independent directors also requires approval by a majority of independent shareholders.

Evaluation

In accordance with the Code, an evaluation of the performance of the Board, its Committees, the Chairman and individual directors takes place annually. The evaluation is externally facilitated every three years, with internal evaluations in the intervening years.

An external evaluation was conducted in 2018 by Independent Board Evaluation (IBE), with internal evaluations taking place in 2019 and 2020. IBE returned in 2021 to facilitate their second external Board and Committee evaluation for NatWest Group. Further details on how IBE was selected in 2021, how the 2021 evaluation was conducted and the outcomes and actions arising from that process are set out in this section.

Progress following the 2020 internal Board evaluation

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

2020 actions	2021 progress
Agree a shorter and more focused set of Board objectives for 2021.	– A more concise set of Board objectives was agreed for 2021, supporting effective management of Board priorities and agenda planning.
Explore different options for directors to engage with customers.	– Through a customer engagement programme a number of non-executive directors observed customer facing colleagues in action and heard customer feedback as part of a focus group or customer listening surgery.
Review potential enhancements to Board Management Information on customers and suppliers	– Board reporting was enhanced to include customer measures aligned to purpose and transformation targets, and enhanced tracking of progress against customer advocacy and satisfaction targets. – There was also a review and alignment of customer measures used across the businesses, to ensure greater consistency of reporting. – Our business review template was updated to provide for more detailed reporting on supplier relationships.
Enhance Board visibility of Executive Committee successors.	– Board visibility of the executive talent pipeline was enhanced through Board and Group Sustainable Banking Committee talent sessions. – Senior executives below Executive Committee level continued to present papers at Board meetings, further contributing to their profile in the Boardroom.

Details of progress made against the actions arising from the 2020 internal Committee evaluations can be found in the relevant Committee Chairman Reports.

2021 External Board Committee evaluation

IBE were engaged to facilitate the external evaluation in 2021. IBE had previously conducted the 2018 evaluation and at that time, NatWest Group's corporate governance arrangements were undergoing significant change in preparation for the implementation of ring-fencing.

Following a recommendation from the Group Nominations and Governance Committee, the Board agreed that the 2021 evaluation should be conducted externally in accordance with the Code and that IBE should be appointed again to provide important continuity. The Board concluded that IBE's appointment would also provide a helpful opportunity to review how ring-fencing governance arrangements had embedded since the 2018 exercise.

IBE has no other connection with NatWest Group. The sections of this report which describe the process followed or which attribute opinions to the external facilitator have been agreed with IBE prior to publication.

	How the evaluation was conducted
Objectives and scope	– The Chairman, Group CEO and Chief Governance Officer and Company Secretary briefed IBE on the objectives of the 2021 Board and Committee evaluation. – The NatWest Group plc and NWH Sub Group Boards and Board Committees were confirmed to be in scope for a comprehensive performance review. Focus areas included Board culture, Board composition and succession planning (including skills, diversity and experience), strategy (oversight and implementation), Board focus and priorities, induction, risk management, stakeholder engagement, and quality of meetings and papers.
Information gathering	– IBE held interviews with all of the directors, members of senior management, external advisers and auditors. – The lead evaluator observed the main Board and Committee meetings in October 2021. – The Chief Governance Officer and Company Secretary provided copies of Board and Committee papers and other supporting materials to IBE.
Report preparation	– IBE prepared draft reports for the Board and Board Committees. – IBE's recommendations were based on best practice as described in the Code and other relevant guidelines. – Draft conclusions were discussed with the Chairman and Committee Chairmen in advance of report circulation.
Review and action planning	– Board and Committee reports were presented and discussed at the December 2021 Board and Committee meetings. – In February 2022, the Board agreed an action plan in response to the recommendations set out in IBE's report.

2021 Board evaluation – outcomes and actions

The IBE report identified positive changes in Boardroom culture and dynamics since the last external review in 2018. Board relationships with management were more transparent, and there was a better balance between support and challenge from the Board. Care would be required to ensure this balance was maintained. Whilst working remotely remained challenging and directors missed the opportunity for informal interaction, they were pleased at how quickly and effectively they had been able to adapt.

After a period of stability in terms of Board composition, the IBE report highlighted the importance of prioritising Board succession planning in future. IBE highlighted scope to enhance the Board's technology experience, and the importance of ensuring appropriate focus on diversity (with respect to age, gender, experience and ethnicity). These are matters which the Board and Group Nominations and Governance Committee will keep under review during 2022.

IBE also observed that NatWest Group's ring-fencing governance arrangements, which had just been introduced at the time of the 2018 evaluation, were now considered to be operating effectively with no significant issues or concerns raised.

In February 2022 the Board agreed a detailed action plan in response to the recommendations set out in IBE's 2021 external Board evaluation report, which included the following:-

Theme	2022 actions
Strategy	Introduce a new operating rhythm for Board engagement and oversight with more frequent sessions during the year focused on key strategic topics.
Board focus and priorities	Agree a new set of Board objectives for 2022. Identify opportunities to streamline the Board agenda and other Board activities to facilitate effective management of Board priorities.
Engagement with the business and stakeholders	Identify further opportunities for non-executive directors to engage with the business and key stakeholders either through participation in existing business initiatives or Board specific activity.
Colleague engagement	Review the Board's overall approach to colleague engagement, including the role of the Colleague Advisory Panel, to ensure it remains fit for purpose.

Implementation of the 2021 Board evaluation action plan will be overseen by the Group Nominations and Governance Committee during 2022.

2021 Board Committee evaluations – outcomes and actions

Details of the outcomes of the 2021 external Board Committee evaluations can be found in the relevant Committee Chairman reports. Progress against these actions will be tracked at Committee level during 2022.

2021 Individual director and Chairman effectiveness reviews

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, together with the Senior Independent Director of the ring-fenced bank, 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.

Audit, risk & internal control

Information on how the company has applied the Principles and complied with the Provisions set out in this section of the Code can be found throughout the Annual Report and Accounts. The following sections are of particular relevance:

– the Group Audit Committee Chairman's letter and the report of the Committee (page 116) which sets out the process undertaken to evaluate the effectiveness of both the Internal Audit function and the external auditors in 2021, and the principal findings thereof. It also explains the approach taken to ensuring the integrity of financial and narrative statements, and confirms that it supports the Board in the assessment of NatWest Group's disclosures to be fair, balanced and understandable;
– the viability statement (page 76) which details how the Board has assessed the future prospects of NatWest Group plc and the ways in which risks are considered and managed in order to achieve its strategic objectives;
– the Compliance report (page 181), which explains the internal control framework in place; and
– the Group Board Risk Committee Chairman's letter and report of the Committee (page 124) which explains how the Board oversees the principal and emerging risks facing NatWest Group and how management addresses these.

Remuneration

The Directors' remuneration report on pages 136 to 139 provides information on the activities of the Group Performance and Remuneration Committee, the decisions taken on remuneration during the year and why the Committee believes these are the right outcomes in the circumstances. The report also details how the remuneration policy for executive directors supports the delivery of the company's strategic goals and purpose, with significant delivery in shares to provide long-term alignment with shareholders. Information is also included on wider workforce remuneration and the steps taken to engage with the workforce around remuneration and ensure fair pay and a healthy culture.

Report of the Group Nominations and Governance Committee

Letter from Howard Davies Chairman of the Group Nominations and Governance Committee

Dear Shareholder,

As Chairman of the Board and Chairman of the Group Nominations and Governance Committee I am pleased to present our report on the Committee's activity during 2021.

Role and responsibilities

The Committee is responsible for reviewing the structure, size and composition of the Board, and membership and chairmanship of Board Committees and recommends appointments to the Board. In addition, the Committee monitors NatWest Group's governance arrangements to ensure that best corporate governance standards and practices are upheld and considers developments relating to banking reform and analogous issues affecting NatWest Group. The Committee makes recommendations to the Board in respect of any consequential amendments to NatWest Group's operating model.

The terms of reference of the Committee are reviewed annually, approved by the Board and are available at natwestgroup.com.

Principal activity during 2021

There were no changes to the composition of the Board during 2021. The Committee nevertheless acknowledges the tenure of a number of current Board directors and therefore made succession planning a priority in 2021. The Committee reviewed the contribution of a number of Board members under the Board Appointment Policy which sees non-executive directors appointed for an initial three year term, subject to annual re-election at the AGM. Following assessment by the Committee, they may then be appointed for a further three year term. Non-executive directors may continue to serve beyond six years, subject to a maximum tenure of nine years. The tenures of current Board directors is set out on page 81.

In addition to reviewing the structure, size and composition of the NatWest Group plc Board, the Committee has also continued to oversee work aimed at further enhancing NatWest Group's subsidiary governance framework. A number of our material regulated subsidiaries made appointments to their boards during 2021, which the Committee has overseen. Spencer Stuart and Green Park have both been engaged during the year to support NatWest Group's subsidiary board search activity. The firms are members of the retained executive search panel of suppliers (managed by NatWest Executive Search). Spencer Stuart also provide leadership advisory and senior executive search and assessment services to the Human Resources function within NatWest Group.

In addition to succession planning, the Committee has overseen the process to reach agreement with the PRA in respect of the renewal of regulatory modifications which ensure the continuation of a governance model that is compatible with ring-fencing legislation.

During the year the Committee continued to monitor NatWest Group's governance arrangements to ensure that they remain appropriate by reference to best practices in corporate governance (having regard to relevant legislation, guidelines, industry practice and developments affecting NatWest Group in the markets where it operates).

During 2021 the Committee considered a number of external policy developments and the potential impacts on NatWest Group's corporate governance framework, including HM Treasury's independent review of ring-fencing and proprietary trading, as well as discussion and consultation papers issued by the FCA, PRA and Bank of England on proposals to enhance diversity and inclusion in the financial sector.

Membership and meetings

Throughout 2021 the Committee comprised the Chairman of the Board and four independent non-executive directors. Graham Beale also observes meetings of the Committee in his capacity as Senior Independent Director of NWH Ltd and member of the NWH Ltd Nominations Committee.

The Committee holds a minimum of four meetings per year and meets on an ad hoc basis as required. In 2021, there were four meetings. Individual attendance by directors at these meetings is shown in the table on page 103.

Performance evaluation

The 2021 review of the effectiveness of the Board and its senior Committees was facilitated by Independent Board Evaluation, a specialist board evaluation consultancy. The Committee has considered and discussed the outcomes of the evaluation and accepts the findings, more information on which can be found on page 112. Overall, the review concluded that the Committee's responsibilities had been discharged effectively with no material recommendations being identified for action. The Committee will continue to ensure that the full Board is appropriately sighted on the work of the Committee, including the Board succession activity that will be a key priority for the Committee during 2022.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress during the year.

Boardroom Inclusion Policy

As noted on page 81, the Board operates a Boardroom Inclusion Policy which reflects the most recent industry targets and is aligned to the NatWest Group Inclusion Policy and Principles applying to the wider bank. The policy currently applies to the most senior NatWest Group boards: NatWest Group plc, NWH Ltd, NWB Plc and RBS plc. A copy of the Boardroom Inclusion Policy is available at natwestgroup.com/who-we-are.

Objectives and targets

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.

Monitoring and reporting

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 Report) 33% female representation on the boards), with 36% of the Board being female.

The boards of NatWest Group plc and the NWH Group meet consecutively and share a largely common membership.

When considered together, the director population across both boards currently meets the Parker target and exceeds the FTSE Woman Leaders target with a female representation of 36%.

Diversity and inclusion progress, including information about the appointment process, will continue to be reported in the Group Nominations and Governance Committee's report in the NatWest Group plc Annual Report and Accounts.

The balance of skills, experience, independence, knowledge and diversity on the Board, and how the Board operates together as a unit, is reviewed annually as part of the Board evaluation. Where appropriate, findings from the evaluation will be considered in the search, nomination and appointment process. Further details on NatWest Group's approach to diversity can be found on page 59.

Howard Davies
Chairman of the Group Nominations and Governance Committee
17 February 2022

Report of the Group Audit Committee

Letter from Patrick Flynn Chairman of the Group Audit Committee

Dear Shareholder,

In 2021 the Group Audit Committee (GAC) has continued to operate effectively, supporting NatWest Group to help people, families and businesses to thrive. This report sets out the key areas of focus for the GAC during the year and explains how the Committee discharged its key responsibilities.

A core function of the Committee is to oversee and challenge the processes undertaken by management in the preparation of the published financial and relevant non-financial information. The Committee also assists the NatWest Group Board in carrying out its responsibilities relating to accounting policies and internal control functions. More detail on the remit of the Committee can be found in its terms of reference which are reviewed annually and available at natwestgroup.com.

Scrutinising the integrity and quality of the financial results released by NatWest Group over the course of the year continued to be a priority for the Committee. As part of its review of disclosures such as the quarterly, interim and full year results, the Committee also considered detailed reports from management on the judgments applied during the preparation of the information and legal and regulatory developments. Consideration was also given to management's assessment of the internal controls over financial reporting and the GAC also received reports from both the internal auditors on the internal control environment and the external auditors on internal controls over financial reporting and key accounting and judgmental matters.

The Committee reviewed the annual, interim and quarterly supplements on climate, purpose and ESG matters, as well as the annual Climate-related Disclosures Report. Particular scrutiny was given to the controls and basis of preparation for these releases. The Committee recognises such disclosures will continue to evolve over time. The impact of climate-related issues on financial statements more broadly was also considered by the Committee during the year.

As the economic impacts of the COVID-19 pandemic and measures taken by the Government in response persisted throughout 2021, the Committee dedicated much time to the consideration of accounting judgments. In particular the Committee considered how the judgments were applied to determining post-model adjustments, as well as the actual and forecast impact on credit losses. The performance of internal models used by management for these purposes continued to improve following enhancements implemented in 2020. Benchmarking data provided by the PRA and the external auditor has again offered helpful context to the Committee given the continued uncertain conditions.

The Committee oversight of the performance of the Internal Audit function and ensuring its independence is a key responsibility of the Committee. In February 2021 a new Chief Audit Executive joined NatWest Group and I have supported him in delivering enhancements to the operation and focus of the Internal Audit function.

I have continued to be NatWest Group's whistleblowing champion, and the Committee maintains responsibility for oversight of the independence, autonomy and effectiveness of NatWest group's whistleblowing policies and procedures. In 2021 NatWest Group has continued to offer an effective whistleblowing service to colleagues.

I welcomed the opportunity to respond to the consultation launched by the Department for Business, Energy and Industrial Strategy (BEIS) into audit and corporate governance. Stakeholders were invited to share their views on a range of proposals relating to the UK's corporate governance framework for major companies and the way they are audited. I shared my views as Chairman of the GAC on the most pertinent proposals, which were submitted alongside a detailed NatWest Group-wide response. I would like to extend my thanks to my fellow Committee members and attendees for their contributions to the work of the GAC during 2021.

Patrick Flynn
Chairman of the Group Audit Committee
17 February 2022

Membership

Full biographical details of the members of the Committee during 2021 are set out on pages 98 and 101. The members are all independent non-executive directors who also sit on other Board committees in addition to the GAC (as set out in their biographies). This common membership helps facilitate effective governance across all finance, risk and remuneration matters and ensures that agendas are aligned and duplication of responsibilities is avoided.

Members of the GAC are selected with a view to the expertise and experience of the Committee as a whole and with proper regard to the key issues and challenges facing NatWest Group. As NatWest Group plc is a listed company on the London and New York stock exchanges it has certain obligations as to the expertise and qualifications of the Audit Committee. The Board is satisfied that all GAC members have recent and relevant financial experience and are independent as defined in the SEC rules under the US Securities Exchange Act of 1934 (the 'Exchange Act') and related guidance. The Board has further determined that Patrick Flynn, Mark Seligman and Robert Gillespie are all 'financial experts' for the purposes of compliance with the Exchange Act Rules and the requirements of the New York Stock Exchange, and that they have competence in accounting and/or auditing as required under the Disclosure Guidance and Transparency Rules.

Meetings and visits

Five scheduled meetings of the Committee were held in 2021, four of which took place immediately prior to the release of the financial results each quarter. During the year all members attended the meetings, all of which were held virtually. All meetings were also attended, in an observational capacity, by the two non-executive directors of NatWest Holdings who are members of that entity's Audit Committee.

In conjunction with the Group and NWH Board Risk Committee (BRC) and the NWH Audit Committee, the GAC undertook its annual programme of visits to control functions. Constructive and insightful discussions were held with members of management from the Risk, Internal Audit and Finance teams.

Performance evaluations

In 2021 the annual review of the effectiveness of the Board and its senior Committees, including the GAC, was conducted externally by Independent Board Evaluation. It was determined that the GAC had continued to operate effectively during 2021, meeting its statutory duties. The outcomes of the evaluation were considered by the Committee and subsequently reported to the Board. The Committee will support management's consideration of the recommendation to review the leadership structure of the Finance function, and this was discussed with the Group CFO in the context of talent development and longer term planning for the function. The Committee also welcomed the recommendation to improve the diversity of the Committee membership, and this will be reviewed by the Nominations and Governance Committee as part of its ongoing business. The depth of financial expertise of the Committee was also recognised via the evaluation. The Committee is satisfied it fulfilled its terms of reference in 2021.

The Committee continued to monitor the performance of the external auditor and the Internal Audit function in 2021. Formal assessments were undertaken at the end of the year via an internal process and the Committee reviewed summaries of the feedback provided by relevant stakeholders. Progress made to address the recommendations of the previous year's evaluations was welcomed.

Financial and non-financial reporting

The GAC considered a number of accounting judgments and reporting issues in the preparation of NatWest Group's financial results throughout 2021. The Committee reviewed the quarterly, interim and full year results announcements, the annual reporting suite of documents and other principal financial and non-financial releases for recommendation to the NatWest Group plc Board for approval. This included the disclosures required by the TCFD and the quarterly Climate, Purpose and ESG measures supplements. Consideration was given to the controls surrounding the preparation of these releases.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Expected credit losses	To review and challenge management's judgements in relation to credit impairments and the underlying assumptions, methodologies and models applied, and any post-model adjustments required. To also consider the impact of macro-economic risks on the credit environment.	The GAC focused on the key assumptions, methodologies and post-model adjustments applied to provisions under IFRS 9. The continued economic uncertainty during 2021 and the dislocation between the economics and the credit impacts observed, led management to adopt a measured approach to the release of IFRS 9 provisions in the year. In evaluating management's proposal to release £1.3 billion, the Committee considered the previously implemented enhancements to the internal models and the improvements in the economic environment during 2021. Industry benchmarking data, particularly in the first half of the year, was also helpful to the Committee and informed its considerations. The Committee recognises that post-model adjustments should be limited to considerations beyond model capability and so sought from management confirmation of the criteria which would need to be satisfied to enable their release. The Committee will continue to scrutinise the application of post-model adjustments in 2022.
Treatment of goodwill	To consider the treatment of goodwill throughout the year and ensure the carrying value was appropriate and suitable disclosures were made.	Management did not identify any reason to undertake an out of cycle reassessment of goodwill during 2021. Following discussion and challenge, the Committee was satisfied that goodwill remained recoverable throughout the year, and that appropriate disclosures were included in the quarterly and interim financial releases. The Committee considered and supported management's proposed write down of £85 million of goodwill in RBS (and at higher levels) on the basis of materiality at the end of the year.
Valuation methodologies	To consider valuation methodologies, assumptions and judgments made by management.	The GAC considered valuation methodologies and assumptions for financial instruments carried at fair value and scrutinised judgments made by management.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Provisions and disclosures	To consider the level of provisions for regulatory, litigation and conduct issues throughout the year.	The Committee reviewed the levels of provisions during the year for regulatory, litigation and conduct matters, and was satisfied these were appropriate. The timing of certain litigation provisions was discussed with management and the external auditor, and the Committee concluded that it was only appropriate to record a provision once there was reliable estimate as to the quantum. The Committee welcomed the conclusion of a number of historic conduct and litigation matters during the year.
Viability statement and the going concern basis of accounting	To review NatWest Group's going concern and viability statements.	The GAC considered evidence of NatWest Group's capital, liquidity and funding position and considered the process to support the assessment of principal risks. The GAC reviewed the company's prospects in light of its current position, the identified principal and emerging risks (including climate risk) and the ongoing economic uncertainty resulting from the pandemic. FRC guidance and reviews of peer disclosures were considered as part of the preparation of the viability statement for NatWest Group. The Committee recommended both the going concern assessment and viability statement to the Board. (Refer to the Report of the directors for further information.)
Fair, balanced and understandable	To oversee the review process which supports the Committee and Board in concluding that the disclosures in the Annual Report and Accounts and other elements of the year-end reporting suite of documents, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.	The Committee oversaw the review process for the year-end disclosures which included: central coordination and oversight of the Annual Report and Accounts and other disclosures led by the Finance function; review of the documents by the Executive Disclosure Committee prior to consideration by the GAC; and a management certification process of the year-end reporting suite. The Committee considered whether the annual, interim and quarterly disclosures met the UK Corporate Governance Code requirements to be 'fair, balanced and understandable'. It concluded each time that the releases satisfied the necessary criteria. The external auditor also considered the fair, balanced and understandable statement as part of the year-end processes and supported NatWest Group's position.
Non-financial reporting	To review the principal non-financial disclosures made by NatWest Group and to ensure appropriate controls are in place to support the preparation of the information. These disclosures include the annual Climate-related Disclosures Report and the Climate, Purpose and ESG measures supplement published each quarter.	As NatWest Group's non-financial reporting has continued to evolve in 2021, the Committee has remained focused on ensuring robust and appropriate controls supported the preparation of the disclosures, which aligned with the existing measures in place in relation to financial disclosures. The Committee discussed the merits of publishing this information separately or as part of the interim and full-year results announcements, and concluded that releasing separate documents would be most useful for external stakeholders accessing the information. Industry best-practice and the output of peer reviews were considered to ensure NatWest Group is disclosing an appropriate and useful level of information, and this will continue to be reviewed going forward. The Committee considered the outcome of the reviews of the documents by management via the Executive Disclosure Committee and its sub-committee which focuses specifically on ESG disclosures. The Committee welcomed the extension of the risk and control assessments and the addition assurance work being undertaken by the external auditor. The Committee was satisfied that appropriate steps had been taken by management to limit the legal liability arising from the disclosure of such non-financial information. It received advice from NatWest Group Reputational Risk Committee as to the risk of reputational impacts in the event of a misstatement or future change in methodology which could give rise to suggestions of 'greenwashing'.

Systems of internal control

Systems of internal control relating to financial management, reporting and accounting issues is a key area of focus for the Committee. In 2021 it received reports throughout the year on the topic and evaluated the effectiveness of NatWest Group's internal control systems, including any significant failings or weaknesses.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Sarbanes-Oxley Act of 2002	To consider NatWest Group's compliance with the requirements of section 404 of the Sarbanes-Oxley Act of 2002.	The Committee received interim updates on the status of the bank's internal controls over financial reporting throughout 2021 enabling it to monitor progress and support management's conclusion at the year-end that there were no Material Weaknesses for NatWest Group. Two Significant Deficiencies were addressed by management during the year. The Committee monitored progress and supported management's approach which allowed the matters to be downgraded prior to the end of the year. The Committee also reviewed the process undertaken to support the Group CEO and Group CFO in providing the certifications required under sections 302, 404 and 906 of the Sarbanes-Oxley Act of 2002.
Regulatory and financial returns	To review the controls and procedures established by management of NatWest Group for compliance with regulatory and financial reporting requirements.	In December 2019 the PRA announced an industry-wide review of regulatory returns via means of a skilled persons report. In 2020, the Committee approved the appointment of EY as the skilled person to undertake the review for NatWest Group, given the external auditor's extensive knowledge of our internal systems and processes. The Committee received regular updates on the review and while the skilled person raised a number of findings, there were none which indicated material errors with the regulatory returns. The Committee encouraged management to work collaboratively across the bank to ensure the necessary regulatory deadlines were met while ensuring business as usual work continued to be delivered. Three industry-wide themes were identified by the skilled person reviews: governance and ownership; controls; and data and investment. The Committee reviewed the formal remediation plans submitted to the PRA in response to the industry-wide findings and those specific to NatWest Group. It received assurances from management that appropriate resource was available to execute the plans and that the timescales were manageable. On this basis it approved the plans. The ongoing work to further strengthen the controls surrounding the preparation of regulatory returns has also been closely monitored and supported by the Committee throughout 2021; this will continue in 2022.
Control Environment Certification	To consider the control environment ratings of the businesses, functions and material subsidiaries and management's actions to ensure that the control environment is maintained or strengthened.	Management provided bi-annual reports on the Control Environment Certification, which were supplemented by the views of the second and third lines of defence. Changes in ratings during the year by certain businesses and functions were noted and supported by the Committee. Return to appetite plans have been developed by management for all major areas which was welcomed by the Committee. The most significant plans are regularly reviewed and challenged by the relevant Board Committee.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Notifiable event process	To monitor control breaches captured by the internal notifiable event process.	The Committee received bi-annual updates on the volumes and nature of the most significant control breaches escalated via the internal notifiable event process and any common themes. Process-related issues accounted for the majority of the most significant events in 2021, and the Committee noted the high level of manual elements to processes across the bank. It requested management report on how greater automation could be implemented to NatWest Group's key processes and systems. The work launched by the Chief Transformation Officer in this respect in relation to Customer Journeys was welcomed and will be monitored going forward. Where process issues had not been the cause of control breaches the Committee encouraged management to ensure the root causes of these issues are remediated. The outcome of an internal review of the process to ensure it was operating as expected was also presented to the Committee. All Board directors were alerted to the most significant breaches throughout the year.
Whistleblowing	To monitor the effectiveness of the bank's whistleblowing policies and procedures. The Committee chairman is also the whistleblowers' champion for NatWest Group.	The GAC monitored the effectiveness of the bank's whistleblowing process and received updates on the volume of whistleblowing reports and any common themes. The results of the annual Our View survey indicated that colleagues' awareness of how to raise concerns was high and that the majority of respondents reported they felt safe to do so and that concerns raised would be handled appropriately. The Committee considered the output of Internal Audit's annual review of the whistleblowing process, and welcomed the largely positive results. The GAC Chairman acts as NatWest Group's Whistleblowers' Champion, in line with PRA and FCA regulations, and meets regularly with the whistleblowing team. Whistleblowing is also discussed regularly with the chairs of the principal subsidiary audit committees to ensure a common and coordinated approach across the bank, and the Board is updated on these and the GAC's discussions as appropriate.
Legal and regulatory reports	To note material legal investigations (current and emerging) and any impacts on financial reporting; and to monitor the bank's relationship with relevant regulatory bodies including the FCA and PRA.	Quarterly reports were presented to the Committee setting out updates on new and existing major investigations and litigation cases. The Committee considered provision levels and the impact on each quarterly financial results disclosure and was satisfied in both respects. The Committee also received updates on ongoing regulatory investigations, current and future areas of regulatory focus and the nature of the relationships with the primary regulators.
Other standards of control	In addition, the Committee receives regular updates on matters pertinent to NatWest Group's standards of internal control.	The Committee received an update on the bank's tax position and discussed matters including tax disclosures and provisions, NatWest Group's tax compliance status, the relationship with HMRC, the UK bank levy and emerging and forthcoming tax issues (including the likely post-COVID-19 tax environment and the impact on the OECD Pillar 2 rules on NatWest Group). The GAC reviewed the disclosure on internal control matters in conjunction with the related guidance from the Financial Reporting Council.

Internal Audit

The GAC is responsible for overseeing the Internal Audit function, monitoring its effectiveness and independence.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Quarterly opinions	To consider periodic opinion reports prepared by Internal Audit on the overall effectiveness of the governance, risk management and internal control framework, current issues and the adequacy of remediation activity.	Quarterly opinion reports were provided to the Committee by Internal Audit, setting out its view of the overall effectiveness of NatWest Group's governance, risk management and internal control framework, current issues and the adequacy of remediation activity. Internal Audit also outlined material and emerging concerns identified through their audit work. Over the course of the year Internal Audit reported a gradual improvement in the bank's control environment as the wider economic recovery from the COVID-19 pandemic continued. The Committee welcomed Internal Audit's views on major programmes being undertaken by the bank such as the remediation of financial crime matters, the implementation of the Enterprise Wide Risk Management Framework and delivery of the One Bank transformation programme. The importance of increasing automation across the bank's processes was also evident in Internal Audit's reports, and this was explored further by the Committee, as noted above.
Annual plan and budget	To approve Internal Audit's annual plan and budget prior to the start of each year as well as any significant changes required during the year.	The Committee considered and approved Internal Audit's 2021 plan and budget at the end of 2020. Following the appointment of a new Chief Audit Executive (CAE) certain refinements to the focus of the plan were made and these were discussed with the Committee throughout 2021. The Committee encouraged the function to increase its focus on validating the closure of prior findings by management. The Committee approved an increase to Internal Audit's budget for 2021 to support recruitment to ensure there were appropriate resources available to deliver the plan. In December 2021, the Committee approved Internal Audit's 2022 plan and budget.
Internal Audit Charter and independence	To approve the Internal Audit Charter each year and reviews the independence of the CAE and function as a whole.	The GAC reviewed and approved the Internal Audit Charter which was consistent with prior years. The Committee noted the Independence Statement and confirmed the independence of Internal Audit. In line with the revised industry guidance issued in September 2017 and in order to maintain the independence and perceived independence of both the role of CAE and the wider Internal Audit function, a new CAE was appointed in 2020 and joined NatWest Group in February 2021.
Performance/ evaluation	To monitor and review, at least annually, the effectiveness of Internal Audit.	In line with prior practice and industry guidance, the CAE continued to report to the GAC Chairman in 2021, with a secondary reporting line to the Group CEO for administrative purposes. The GAC assessed the annual performance (including risk performance) of the function and CAE. The 2021 evaluation of the Internal Audit function was carried out internally. Key stakeholders across the bank, including the GAC members, attendees and the external auditors provided feedback, identifying areas of particular strength and those for enhancement. The overall findings were positive, and the Internal Audit function was found to be operating effectively with continued improvement in most areas being noted. Certain areas for continued development were identified, including: the greater use of integrated audits, increased use of digital tools, and building bench-strength. Progress will be overseen by the GAC in 2022.
Visit	To undertake an annual deep dive session with members of the Internal Audit leadership team.	In conjunction with the BRC, the GAC participated in a successful deep dive session with members of the Internal Audit team in 2021. A variety of issues impacting the Internal Audit function were discussed, including succession planning and bench-strength of the function and its recent work to fully implement integrated audits and extend its use of data analytics. The Committee was very encouraged by the innovative approach being taken in these areas and the clear benefits to both the function and the wider business.

External audit

The GAC has responsibility for monitoring the independence and objectivity of the external auditor, the effectiveness of the audit process and for reviewing the bank's financial relationship with the external auditor and fixing its remuneration. Ernst & Young LLP (EY) has been NatWest Group's external auditor since 2016, following a tender process carried out in 2014.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
External audit reports	To review reports prepared by the external auditor in relation to NatWest Group's financial results and control environment.	The Committee received quarterly reports on the audit-related work and conclusions of the external auditor. The reports included EY's view of the judgments made by management, compliance with international financial reporting standards and the external auditor's observations and assessment of effectiveness of internal controls over financial reporting. The GAC also received helpful benchmarking information from EY during the course of the year and in particular relating to the accounting treatment of the impacts of the COVID-19 pandemic. The Committee received all communications from EY required by UK auditing standards, SEC and NYSE rules, including 2021 audit quality and transparency reports.
Audit plan and fees	To consider the scope and planning of the external auditor in relation to the audit of NatWest Group. It is also authorised by the shareholders to fix the remuneration of the external auditor.	The GAC reviewed EY's 2021 plan. It welcomed the external auditor's intention to make greater use of digital tools in its work. In line with the authority granted to the Committee by shareholders at the 2021 Annual General Meeting (AGM) to fix the remuneration of the external auditor, the GAC approved the audit fees for the year including the fee for the 2021 interim results. The Committee received confirmation from the external auditor that the fees were appropriate to enable delivery of the required procedures to a high quality.
Annual evaluation	To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration all relevant professional and regulatory requirements.	In 2021 an internal evaluation was carried out on behalf of the Committee to assess the independence and objectivity of the external auditor and the effectiveness of the audit process. The GAC members, attendees, finance directors of customer businesses and functions, and key members of the Finance team were consulted as part of the evaluation. The process assessed the external auditor's independence, engagement, provision of robust challenge, bench-strength and reporting. The evaluation concluded that the external auditor was operating effectively and with objectivity. Respondents reported improvements in relation to the quality of engagement and challenge in 2021, as well as enhancements in certain aspects of the audit team's bench-strength. Some suggested areas for consideration to further strengthen effectiveness included: refining written reports provided to senior Committees, exploring opportunities to leverage the work undertaken by other teams within EY and Internal Audit, and to continue to share its valuable insights on the emerging area of reporting on climate metrics. Following the evaluation, the GAC recommended that the Board seek the reappointment of EY as external auditor at the next AGM. The Committee noted the positive results of the audit quality reviews of EY's 2020 audit by the FRC and PCAOB during 2021.
Audit partner	To oversee the lead audit partner and resolution of any points of disagreement with management.	In February 2021 Micha Missakian succeeded Jonathan Bourne as EY's lead audit partner for NatWest Group, following the conclusion of Mr Bourne's five year term in role. Mr Missakian attended all meetings of the Committee in 2021. The Committee members met in private session with Mr Missakian twice during the year to ensure the external auditor had an opportunity to raise any points of disagreement with management. No such points were raised by the external auditor in 2021.

Matter	Role of Committee and context of discussion	How the Committee addressed the matter
Additional reports prepared by the external auditor	To review reports prepared by the external auditor in relation to NatWest Group.	During 2021 various additional reports prepared by the external auditor were considered by the Committee. These included the results of the external auditor's assurance procedures on compliance with the FCA's Client Asset Rules for NatWest Group's regulated legal entities for the year ended 31 December 2021. The Committee also received the outcome of EY's written auditor report to the PRA under supervisory statement SS1/16 for the year ended 31 December 2021, noting that the matters identified were already being addressed by management. The Committee Chairman also contributed to a review of the process and its efficacy by the PRA.
Non-audit services	To review and approve, at least annually, NatWest Group's policy in relation to the engagement of the external auditors to perform audit and non-audit services (the policy). All audit and non-audit services are approved by, or on behalf of, the Committee to safeguard the external auditor's independence and objectivity.	The GAC reviewed and approved NatWest Group's non-audit services policy in 2021. Under the policy, audit-related services and permitted non-audit service engagements may be approved by the Group CFO up to certain financial thresholds. Engagements in excess of these limits require the approval of the GAC chairman. Where the fee for a non-audit service engagement is expected to exceed £100,000, a competitive tender process must be held; where the fee is anticipated to be £250,000 or more approval of all GAC members is required. The policy permits the external auditor to undertake engagements which are required by law or regulation or which relate to the provision of comfort letters in respect of debt issuances by the NatWest Group, provided prior approvals are in place in accordance with the policy. The policy also allows NatWest Group to receive services from EY which result from a customer's banking relationship, provided prior approvals are in place in accordance with the policy. All such approvals are subsequently reported to the GAC. During 2021 the Committee approved, on an ad hoc basis, three significant non-audit engagements (where the fees exceeded £100,000) to be undertaken by the external auditor. These related to: assurance over selected ESG metrics; the audit of client money and assets (CASS); and the audit of LIBOR submissions. The latter two engagements are annual audits required under UK regulations and in prior years had been approved as part of the consideration of the total audit fees. Given the external auditor's knowledge of the emerging area of climate-related disclosures and the alignment to other year-end reporting the Committee determined that EY were best placed to undertake this work. The audit to non-audit fee ratio for 2021 was 18%. Further details of the non-audit services policy can be found at natwestgroup.com. Information on fees paid in respect of audit and non-audit services carried out by the external auditor can be found in Note 6 to the consolidated accounts.

Report of the Group Board Risk Committee

Letter from Morten Friis Chairman of the Group Board Risk Committee

"BRC has focused on oversight of NatWest Group's principal risks, including financial crime risk management and model risk management, whilst also overseeing improvements in the quality of underlying risk management frameworks and reporting."

Dear Shareholder

I am pleased to present my second report as Chairman of the Board Risk Committee (the Committee or BRC).

This report describes how the BRC has fulfilled its role overseeing and advising the Board in relation to current and potential future risk exposures and risk profile; and in overseeing the effectiveness of risk management frameworks. In carrying out this important role, the Committee helps to ensure that NatWest Group is purpose-led in its decision-making, building long-term value in the business. More detail on the remit of the Committee can also be found in its terms of reference which are reviewed annually and available at natwestgroup.com.

During 2021 the committee ensured its time was prioritised to focus on oversight of NatWest Group's principal and emerging risks, including improvements to the management of financial crime risk, model risk improvements, and the risk impacts of developments in the external environment as a result of COVID-19. It has also maintained oversight of the continued enhancement of the enterprise-wide risk management framework and the development of regular risk reporting to drive more insightful reporting to the Board.

It is expected that these will continue to be areas of focus in 2022 as NatWest Group drives towards return to appetite in a number of areas and further impact of COVID-19 is experienced.

Further information on key topics considered during the year and areas of focus and challenge by the Committee is provided on the following pages.

I would like to thank my fellow Committee members for their continued commitment, support and challenge throughout the year.

Morten Friis
Chairman of the Group Board Risk Committee
17 February 2022

Membership

BRC comprises four independent non-executive directors. The details of the members and their skills and experience are set out on pages 98 to 101.

Patrick Flynn is chairman of the Group Audit Committee of which Robert Gillespie and I are also members. Robert is also chairman of the Group Performance and Remuneration Committee (RemCo) and Lena Wilson sits on this Committee. This common membership across Committees helps to ensure effective governance across the committees.

Regular attendees at BRC meetings include: the Group Chairman, Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Legal Officer and General Counsel, Group Chief Audit Executive and the external auditor. External advice is sought by the Committee where appropriate.

Two non-executive directors of NWH Ltd (the ring-fenced bank) attended Committee meetings as observers in their capacity as members of NWH Ltd's BRC. Meetings of the Group and NWH Ltd's BRCs share much of a common agenda and are generally run in parallel.

Meetings and visits

There were eight scheduled meetings of the Committee held in 2021 and one ad hoc meeting of members only was required to discuss executive remuneration matters. The majority of meetings were held virtually during the year due to the pandemic but there was one in person meeting arranged in the second half of the year when circumstances allowed. Details of meeting attendance can be found on page 103.

Outside of formal meetings, the Committee also held an additional meeting on financial crime and met with the Risk Leadership Team to help build relationships and provide the team with greater insights on the Committee's perspectives. Members of the Group and NWH Ltd's BRCs also undertook a programme of visits to the Risk, Internal Audit and Finance functions, in conjunction with members of the Group and NWH Ltd's Audit Committees.

Performance evaluation

Throughout the year the Committee acted in accordance with its terms of reference. The annual review of the effectiveness of the Board and its Committees, including BRC, facilitated by Independent Board Evaluation, a specialist board evaluation consultancy.

Overall, the review concluded that the Committee operated effectively and had evolved in a positive way. Some areas for potential enhancement were also identified which included streamlining reporting and driving action to address major issues of reputational significant to NatWest Group. These will be areas of focus for 2022.

Key matters considered by the Committee in 2021

Matter	Context of discussion	How the Committee addressed the matter
Financial crime	Oversight of the management and return to appetite of financial crime risk, which continues to be a top risk for NatWest Group.	Given the critical importance of the management of financial crime, the Committee held an additional focus session in January 2021 to discuss the detailed return to appetite plans and proposed management information requirements to ensure the Committee was provided with appropriate reporting to track progress throughout the year. The Committee received quarterly updates from all three lines of defence which included updates on progress on return to appetite plans, transformation, emerging risks and issues, and the Skilled Person's report findings. In addition, the Committee considered the Money Laundering Reporting Officer's (MLRO's) report, from the newly appointed MLRO, and considered the enterprise-wide financial crime risk assessment. The CRO reported on the financial crime risk profile and progress on remediation as part of the risk management report at each meeting. Throughout the year, the Committee challenged management on return to appetite slippage, adequacy of resource and external support, and the pace of transformation and remediation to drive improvements in financial crime to ensure we can protect our customers.
Model risk	BRC maintained close oversight of management activity to return to appetite for model risk.	The Committee evaluated the appropriateness of the model risk management framework, including required model changes, regulatory approval thereof, and the return to appetite plan. The Committee requested a number of additional spotlight sessions in March, July, September and October 2021 to maintain close oversight of progress. In intervening months, updates were given via the risk management report. The Committee requested additional metrics to differentiate between models where remediation and validation had been completed but regulatory approval had not been obtained from those models where management action was still underway and there was particular focus on progress of IFRS9 and Internal Ratings Based (IRB) models. The Committee held management to account in relation to return to appetite plans and sought clarity on accountabilities. Specific consideration of the impact of model weaknesses was considered as part of separate discussions regarding capital distributions, ICAAPs and stress testing updates.

Matter	Context of discussion	How the Committee addressed the matter
Enterprise Wide Risk Management Framework (EWRMF) enhancement (including risk appetite)	BRC monitored the effectiveness of the risk management framework including further significant enhancements to the risk governance arrangements of NatWest Group.	The EWRMF is NatWest Group's primary risk management and risk governance document providing a framework to deliver strategy in a safe and sustainable way. A number of key enhancements to the EWRMF were considered by BRC and recommended to Board during 2021, including: the elevation of the EWRMF to a Board-approved framework; the assimilation of and enhancement to the pre-existing Board-approved Risk Appetite Framework within the EWRMF; transitioning all principal risk appetite measures to Board approved measures; and requiring all principal risk policies to be approved by the Committee. Further details of these changes can be found in the Risk management section of the report on page 188. These enhancements better align NatWest Group with peers and regulatory expectations. The Committee considers the implementation of the EWRMF to be of significant importance to NatWest Group's robust risk management and requested regular updates on the progress of the implementation of the EWRMF via the risk management report. The Committee oversaw the refresh of both qualitative risk appetite statements and the quantitative risk appetite measures in line with the enhanced EWRMF and monitored the risk profile of NatWest Group relative to risk appetite via the risk management report. The risk appetite refresh included the introduction of climate risk as a principal risk with associated risk appetite statement and measures aligned to external climate commitments and NatWest Group's strategic ambition, acknowledging that management of this long-term risk will continue to evolve. A more strategic approach to reputational risk appetite was introduced and the Committee challenged management to ensure conduct risk appetite is a key focus of the Board, as well as more generally ensuring risk appetite triggers and limits are appropriately set. Changes to the manner in which earnings stability risk appetite is managed and monitored and the framework to manage capital targets were reviewed by the Committee and recommended for Board approval. The Committee also challenged management to develop a more quantitative approach to risk appetite for all non-financial risks, including conduct, compliance and operational risk and these were introduced as part of the risk appetite refresh in December 2021. The Committee oversaw the enhancement of the approach to ensure alignment between risk appetite measures. All of these changes were subject to detailed review and challenge by the Committee. The Committee received specific spotlights in respect of all principal risks during the year.

Matter	Context of discussion	How the Committee addressed the matter
Risk profile and reporting	Time was spent at every BRC meeting reviewing NatWest Group's current and future risk profile relative to risk appetite, with a particular focus on COVID-19 impacts, and scrutinising management's actions to monitor and control exposures.	Risk management reports – The Committee considered detailed analysis on NatWest Group's risk profile, including the UK and global economic outlook, top and emerging risks and threats, and NatWest Group's performance against risk appetite at each of its meetings via risk management reports. During 2021, the format and content of the report evolved, including integration with the Nerve Centre management information tool which provided additional optional detail to directors. The Committee sought a number of changes to the report to drive more insightful reporting, including more detail on actions being taken to mitigate top risks, implementation of EWRMF, credit risk and the Commercial Real Estate portfolio and this work will continue into 2022. The ongoing impact of COVID-19 on the economy, our customers and our colleagues was a key element of discussions throughout the year, particularly the manner in which the better than expected recovery was managed from a risk perspective. Other key areas of focus included financial crime and model remediation; the control environment and issues related thereto; regulatory compliance and conduct issues; embedding climate risk; operational and change risk; and management of the correlation of top risks. Reports on legal and regulatory developments and litigation risks were considered quarterly. The CRO also reported on key matters discussed at the Executive Risk Committee. Updates from Subsidiary Risk Committees – Quarterly reports were received from the Chairmen of the management risk committees of the franchises and the board-level risk committees of material regulated subsidiaries providing an overview of issues being overseen and a channel for escalation of issues. The Chairmen of the Board Risk Committees of material regulated subsidiaries were invited to join meetings throughout the year, providing updates on key areas of focus.
Capital, funding and liquidity risk	BRC completed a detailed review of capital, funding and liquidity requirements and also reviewed the capital distribution proposals.	ICAAPs, ILAAPs and budget stress tests – The BRC considered the budget and budget stress test as well as the ILAAP and ICAAP for NatWest Group and recommended them to the Board for approval. It challenged management to ensure that prior regulatory feedback had been addressed and that Risk and Internal Audit improvement recommendations would be incorporated in 2022 submissions. The Committee reviewed and recommended to the Board the scenarios to be used during 2022 for the Budget, IFRS 9, Earnings Stability, the ICAAP and the ILAAP and noted that management would continue to use this suite of scenarios throughout 2022, in response to prior feedback from the Committee. Capital distributions – The Committee provided detailed review of proposals to increase capital distributions to shareholders, prior to approval by the Board, including creation of an on-market buyback plan, following the improved projected capital position of NatWest Group in comparison to the initial view of impacts from COVID-19. The Committee challenged management on the CET1% target, the manner in which capital would be deployed over the plan, and how excess capital would be managed.

Matter	Context of discussion	How the Committee addressed the matter
Stress testing	BRC reviewed in detail the stress testing activity undertaken by management to identify and monitor risks and threats and in relation to the SST and CBES, challenging and scrutinising the outputs.	Stress testing capabilities – The Committee also received an update on improvements in the stress testing capabilities and realignment of stress testing activity and accountabilities within NatWest Group. This included the development of enhanced scenario analysis capabilities to support the calibration of risk appetite measures, earnings stability risk profile and dynamic capital planning targets. Bank of England stress tests – The BRC performed a detailed review of the 2021 Bank of England Solvency Stress Test (SST) and the Biennial Exploratory Stress Test, examining the impact on NatWest Group of potential climate change scenarios (CBES) and recommended the results of both stress tests to the Board. The Committee approved the scenarios for these stress tests, under delegated authority from the Board, including scenario expansion, and considered significant judgments, the impact of model weaknesses, the results and proposed management actions. The Committee acknowledged the limitations of the CBES in its preliminary year and that NatWest Group will continue to develop its modelling and data capabilities. To ensure directors had sufficient understanding of the CBES activity in its introductory year, the Committee received a series of supporting training video materials to help contextualise the process and results.
Recovery plans and the resolvability self-assessment	BRC monitors and challenges the development of plans which would allow NatWest Group to be dealt with effectively in the event of financial failure.	Recovery Plan – BRC performed the detailed review of the NatWest Group Recovery Plan prior to approval by the Board. The Committee sought confirmation from management that NatWest Group had adequate capacity and capabilities in a recovery scenario and requested that the dynamic nature of capital planning targets and their impact on CET1 recovery level thresholds be clarified. Resolvability self-assessment – The Committee reviewed management's approach to its first Resolvability self-assessment and reviewed and recommended the results of the self-assessment to the Board for approval. The Committee discussed the risks to resolvability and sought comfort on observations from Risk and Internal Audit regarding the limited restructuring options. In advance of approval, the Board undertook a training session on directors' duties in Resolution.
Control environment	BRC continued to monitor the effectiveness of internal controls required to manage risk.	Control Environment Certification and oversight – The Committee was provided with updates regarding the control environment ratings of NatWest Group, franchises, functions, services, and legal entities. Particular areas of focus were NatWest Markets and RBSI and the Committee sought comfort from management on the key activities to improve ratings, including financial crime, model risk and surveillance systems. The Committee received regular updates on trends in the NatWest Group Notifiable Event Process notifications and management focus on the culture of escalating issues timeously. The Committee reviewed and supported management's report on the effectiveness of internal controls required to manage risk. Risk culture – To support the Board in its role, BRC received updates on progress to align NatWest Group's culture to its purpose and strategy, which includes refreshing the approach to risk culture under the banner 'Intelligent Risk Taking' as a fundamental pillar within the One Bank culture. This places emphasis on risk appetite alignment with strategic goals, analytically supported decisions and behaviours such as openness, challenge and raising issues early. The Committee encouraged management to consider tolerance for failure and clarity on expectations as the cultural behaviours were refined. It also sought clarity on how the updated articulation of risk culture would align with other existing employee tools and it was confirmed this has been considered.

Matter	Context of discussion	How the Committee addressed the matter
Financial and strategic risks	Regular monitoring of key risks is a pivotal part of BRC's role both via routine risk reporting and via regular focused reports.	Credit and market risk – In addition to reporting on credit and market risk within the risk management report, BRC received separate updates in respect of the retail and wholesale credit risk portfolios, the single name concertation framework, commercial real estate exposures, credit decisions made by the Executive Credit Group and traded and non-traded market risk. These updates provided insight into the sources of the risk, including asset quality, risk management approach and risk appetite, controls and testing and monitoring activity undertaken. The Committee also received specific spotlights on Commercial Banking credit risk and stewardship and preparation for expected increased levels of problem debt due to COVID-19 and plans established to manage this increase. Financial risk from climate change – BRC received quarterly updates on management plans to address the financial and non-financial risks arising from climate change, including the inclusion of climate related risks within the existing EWRMF and the development of new risk appetite measures to assist monitoring of NatWest Group's risk profile. The Committee also received assurance from management in relation to the NatWest Group Climate Change Programme closure activity as NatWest Group transitions to the integration of climate-related matters into business-as-usual activity.

Matter	Context of discussion	How the Committee addressed the matter
Non-financial risks	BRC continued its oversight of NatWest Group's non-financial risks, including major change programmes and strategic transformation initiatives.	Transformation/major change programmes – BRC considered progress on the delivery of NatWest Group's transformation and change programme and its position relative to risk appetite, including oversight of red rated programmes and consideration of a new reporting style. It received updates on key regulatory programmes, including LIBOR transition, IRB models transformation, and GDPR readiness. BRC requested greater visibility of how interdependencies between programmes were managed, monitored how strategic risks were being managed and challenged management on slippage of Objectives and Key Results, adequacy of capabilities and budget prioritisation. The Committee also challenged the proposed risk appetite measure which was subsequently changed. Conduct risk and regulatory compliance risk – In addition to the review of changes to risk appetite measures, the Committee received regular updates on the conduct and regulatory compliance risk profile, the elements driving the elevated conduct and compliance risk profile, both, internally and externally, and actions being taken to return to appetite. A spotlight on conduct and regulatory compliance highlighted the steps being taken to embed regulatory compliance within the risk operating model across NatWest Group. The Committee supported the Board in overseeing management's progress in embedding compliance with the UK ring-fencing rules in support of the submission of its regulatory attestation. Operational risk, resilience, and cyber security – BRC received regular updates on NatWest Group's operational risk profile and risk appetite, with a particular focus on the impact of COVID-19 on operational resilience, outsourcing and information and cyber security. The Committee considered the bank's preparation for compliance with the new Operational Resilience Regulatory Policy and recommended a new list of Important Business Services and associated impact tolerances to the Board for approval. In addition, separate updates on information security were reviewed and the BRC dedicated time to the consideration of cyber risk, the external threat landscape, and the action being taken by management in response. The Committee received confirmation that there was sufficient investment in this area and there would continue to be focus on change capacity and effective prioritisation. The Committee received a third-party management dashboard to facilitate oversight of the identification and management of third-party related risks. The Committee sought additional clarity on the process for re-tender and management of cloud service providers. Data management and BCBS239 – BRC received reports on the data management risk profile, including the risk implications of proposed data strategy changes, required to support NatWest Group's refreshed purpose-led strategy. The Committee also received regular updates on compliance with BCBS239, challenging management on its approach to assessment of NatWest Group's compliance status. Changes to the Risk Data Aggregation & Reporting Framework were reviewed and approved by the Committee under Board delegated authority.

Matter	Context of discussion	How the Committee addressed the matter
Accountability and remuneration	BRC continued to provide oversight over the risk dimension of performance and remuneration arrangements, working closely with RemCo.	Accountability – The Committee regularly considered developments in significant material events and investigations. This included resultant accountability review recommendations, ensuring appropriateness of the recommendations from a risk perspective. Remuneration – The risk and control goals and associated long term incentive performance measures of the NatWest Group Executive Committee (ExCo) were reviewed, with additional focus on underlying objectives for the Group Chief Risk Officer. In addition, the Committee reviewed the risk management performance and long term incentive performance conditions, pre-grant and pre-vest assessments for ExCo, ensuring fair reflection of risk management performance in award and vesting outcomes. More generally, the Committee considered and recommended to RemCo adjustments to NatWest Group's bonus calculation, to reflect NatWest Group's risk management performance. Remuneration policy – Proposals for the 2022 Executive Director Remuneration Policy were considered by the Committee and recommended to RemCo from a risk management perspective. The Committee also reviewed relevant changes to the Material Risk Taker identification process. Further detail on how risk is considered in remuneration decisions can be found in the Report of the RemCo on page 136.

Report of the Group Sustainable Banking Committee

Letter from Mike Rogers Chairman of the Group Sustainable Banking Committee

"The Committee has continued to oversee the embedding of purpose across NatWest Group, with enhanced focus on customer service and experience."

Dear Shareholder,

I am pleased to present my fourth report as Chairman of the Group Sustainable Banking Committee (the Committee or SBC).

The journey towards being purpose-led

As the Group continues its journey towards being purpose-led, the Committee has played an important oversight role. On behalf of the Board, we have focused our efforts on NatWest Group's progress against our purposeful commitments and ambitions.

In response to feedback arising from the 2021 performance evaluation, it was agreed that the Committee should enhance its focus on customer service and experience. This is now reflected in our terms of reference and refreshed sustainable banking pillars – Climate; Customers; Enterprise; People & Culture; and Conduct & Ethics.

2021 Highlights

We held several spotlight sessions throughout the year, covering our five SBC pillar topics. Committee members challenged the actions taken by management to run the bank as a sustainable business and sought the views of internal and external stakeholders wherever possible. Meeting time is prioritised towards meaningful debate and discussion.

Below are the key discussion points and outcomes for 2021.

Climate

At its annual climate spotlight session, the Committee discussed external developments relating to climate and their potential impact on NatWest Group, including key messages emerging from an NGO roundtable and an update on COP26 preparations. The Committee also considered a detailed update on progress against NatWest Group's climate-related goals and targets.

A franchise-led session on climate-related returns and opportunities included deep dives on clean buildings and voluntary carbon markets. Updates were also considered on climate measurement and reporting; managing the financial and non-financial risks arising from climate change; how NatWest Group was reducing its own carbon footprint; and investor insights. Later in the year, the Committee also received a deep dive session on NatWest Group's first carbon budget in the context of our carbon emission reduction commitments. A key outcome was to challenge management on climate transition activity, specifically to maintain a opportunistic perspective and to consider the sustainable business model and performance impacts of exiting climate sectors as part of climate budgeting activity.

Discussion and questions focused on accelerating the transition to net zero for customers in their daily lives and for businesses, including creating new products, services, and sustainable funding and financing. The Committee was impressed by the excellent levels of collaboration demonstrated across NatWest Group and noted the benefits of effective partnerships with third parties on climate-related initiatives. There was debate on how NatWest Group maintains a leadership position while promoting industry-wide progress, and on fostering meaningful partnerships. A key management action was to report back on which ESG surveys and NGO reports were most valued by NatWest Group's influential investors, to direct appropriate resources.

The discussion continued to build Board level knowledge on the financial risks from climate change. The discussion should influence future proposition and strategy design, particularly around how NatWest Group helps customers to transition, the approach to investor relations and future climate budgeting.

Customers (including enterprise)

The Committee received an update on customer service and experience, focused on three key customer segments: Under 30s, Affluent, and Small and Medium-sized Enterprises (SMEs). Franchise CEOs and their teams presented on the range of measures which had been introduced to support customers and communities because of the pandemic.

Discussion and questions focused on the impact of the pandemic on customers' needs for products and services. Areas of debate included the steps being taken within each segment to enhance customer service and experience, as well as peer comparisons and broader industry trends.

An external speaker connected to a youth charity joined to help us understand how young people had been hardest hit by the economic crisis arising from the pandemic.

A key outcome was a greater understanding of how youth opinions and expectations of banks had evolved as a result of the pandemic, allowing both management and the Board directors present to better consider the opportunities and needs relating to this important customer segment during future strategy design.

People & Culture

Reflecting an enhanced level of focus on culture at Board level, the Committee's People & Culture meeting concentrated on the cultural change involved in building a purpose-led bank. The meeting began with a 'Living our purpose' spotlight session covering some of the diversity, equity and inclusion initiatives which focused on community learning and social mobility. We were joined by two guest speakers – one of NatWest Group's apprentices who joined the bank from school, and charity partner of CareerSense (NatWest Group's employability programme which aims to support 13 to 24 year olds to have the skills, knowledge and experience to take control of their future) – who helped us understand how these programmes are changing the lives of young people.

The Committee also discussed the results of the latest Our View survey where employees respond to questions covering wellbeing, purpose, building capability and leadership. Linked to this was an update from Internal Audit on their Behavioural Risk reviews, where team sub-cultures are assessed using behavioural science for indicators of potential future conduct issues.

Key areas of discussion and challenge were the need to coordinate and potentially simplify the range of diversity, equity and inclusion policies and practices, culture measurement reporting improvements and assurance of management action to address behavioural sub-culture findings.

A key outcome and example of constructive, Board level challenge was the request for a further deep dive on the branch culture findings, where the Committee felt more detail and understanding was needed about behaviours, products and practices involved, and the improvements planned for.

Conduct & Ethics

Following discussion at the People & Culture session, the Committee received a deep dive presentation on branch culture which focused on safe sales practices, the ongoing branch transformation activity and culture improvement plans which focus on customer feedback rather than product targets. The report and presentation were well received and demonstrated a robust management response to the issues raised.

Spotlight sessions on customer trust, fraud and human rights were also presented, followed by a group discussion with external insights from a guest speaker who challenged NatWest Group's approach and shared practical suggestions based on experience of leading on human rights activity for a global consumer goods company.

Discussion and challenge focused on the social dimension of the ESG agenda; an area in which interest and expectations are increasing. The Committee listened to customer calls about romance and cryptocurrency scams which prompted discussion about some of the conduct and ethical dilemmas NatWest Group and the wider industry are facing around customer behaviour and responsibility.

A specific conduct-related action was for management to provide data on colleague abuse and related support, given the worrying trend seen in service industries generally.

Supporting long-term value creation

Given its purpose responsibilities, the Committee continues to receive a purpose dashboard providing a useful snapshot of NatWest Group's progress against key purpose targets and metrics.

The Committee also considered and provided advice to the Group Performance and Remuneration Committee on customer, strategy, people and culture targets and performance, advocating for sustainable targets with the incentive framework.

Committee members enjoyed meeting potential executive-level successors in July 2021, when we explored with top talent how NatWest Group can continue to support, build relationships, and grow within the communities NatWest Group serves.

Membership, meetings and escalation

There were no changes to the Committee's membership during 2021. Membership of the SBC continues to comprise three non-executive directors as members, with two non-executive directors from NatWest Group's ring-fenced bank board observing, along with management attendees. More details of membership and attendance for the SBC can be found in the Corporate governance report.

The Committee's operating rhythm, including the number of scheduled meetings held in the year and escalation mechanisms, has not changed since last year's report. Two ad hoc meetings were scheduled to accommodate executive remuneration policy matters. Authority is delegated to the SBC by the Board and a regular report of the Committee's activities is provided to the Board. The Committee's terms of reference are available at natwestgroup.com and these are reviewed annually and approved by the Board.

Performance evaluation

The annual review of the effectiveness of the Board and its senior Committees was conducted externally in 2021. The report on the SBC was a positive one. I was pleased to read that the agendas feel well-purposed and my fellow directors enjoy the range of presentations and insights as much as I do. We discussed recommendations relating to driving harder to action and effecting change in the areas within our remit, noting the successes and limitations of our current meeting structure and schedule.

We agreed to maintain a keener eye on management actions going forward which should support enhanced management accountability. I would also like to continue to see customer experience and service remain at the heart of each of our sessions.

Areas of focus for 2022 will follow this year's structure with the same dedicated meeting themes. The structure will retain some flexibility to allow us to respond to any emerging issues within the Committee's remit should something significant arise. Challenging views and a diverse range of insights will continue to be sought to support the 2022 meetings.

The Committee operated within its Terms of Reference during the year.

Conclusion

As I envisaged in last year's report, the Committee has continued to oversee Purpose progress across the Group during what has been a critical time of embedding, with enhanced focus on customer service and experience.

We have continued to benefit from a broad range of internal and external stakeholder perspectives, and our discussions have been all the richer for it.

I would like to take this opportunity to thank everyone who has contributed to the Committee's activities during 2021, including my fellow directors, attendees, and presenters, for their commitment and dedication.

Mike Rogers
Chairman of the Group Sustainable Banking Committee
17 February 2022

Report of the Technology and Innovation Committee

Letter from Yasmin Jetha Chairman of the Technology and Innovation Committee

"The Committee has played an important role in helping to support and challenge management plans to use technology and innovation as part of its journey to become a relationship bank for a digital world."

Dear Shareholder,

I am delighted to present my second report as Chairman of the Technology and Innovation Committee (the Committee or TIC).

Role and responsibilities

TIC is responsible for supporting the Board by overseeing, monitoring, and challenging the actions being taken by management in relation to technology and innovation. In doing so, the Committee also gives due consideration to NatWest Group's purpose.

Authority is delegated to TIC by the Board and a regular report of the Committee's activities is provided to the Board. The terms of reference are available at natwestgroup.com. These are reviewed annually and approved by the Board.

Principal activity during 2021

During 2021, the Committee has played an important role in helping to support and challenge management plans to use technology and innovation as part of its journey to become a relationship bank for a digital world. TIC focused on the principal themes of digitising the core, future ready, innovation, partnerships and ventures, and emerging threats and opportunities. As agreed, as part of the 2020 Committee evaluation, it deliberately focused on a smaller number of deep dives into specific aspects of each theme, including competitor position and link to purpose. Key highlights included:

Digitising the core

The Committee received a number of spotlight sessions on the development of existing technology, architecture, and processes to enhance customer experience and maintain the health and resilience of IT systems.

The Committee considered management programmes designed to automate pioneer customer journeys, including Account Opening and Pay a Bill or Person, which impact 70 to 80% of customer interactions and the majority of the customer base. The Committee considered how the activity would improve customer experience, reduce cost, and utilise One Bank capabilities to drive a consistent approach. Committee discussions focused on digitising the front to back architecture; the use of digital journeys in branch and telephony channels; the benefits from immediate decisioning; and from simplifying the product offering and supporting processes and technology.

The Committee also discussed how predictive analytics, including machine learning, was being used within the Retail and Private Banking businesses, primarily to assist with identification of potential customer needs and plans to extend the use of such techniques to the Commercial Banking business.

TIC also considered how Open Finance was changing the sector and the changes required to core systems and architecture. The Committee noted the increased use of Application Programming Interfaces (APIs) to improve the NatWest Group's internal architecture, maximise re-use of assets and to improve customer experience. In addition, the external consumption and monetisation of bank produced APIs in conjunction with partners was also considered. The Committee discussed potential opportunities presented by the development of FreeAgent (integrated lending for NatWest Group customers based on cashflow forecast), Payit (Open Banking payments offering), and data sharing to support new SME customers onboarding.

The Committee received an update regarding changes in the use of technology by the Risk function. TIC discussed technology and data transformation underway, including the use of robotic process automation and workflow tools; movement of risk engines to a cloud-based solution; data transformation; and use of 'Software as A Service' applications for solutions. The Committee discussed and challenged how proposed changes to the logical data architecture could improve regulatory reporting and noted that approach reduced complexity via data consolidation and assigning end to end ownership for such data.

The update on the use of technology and innovation as part of NatWest Group's security and cyber defences, included the evolution of the threats faced by NatWest Group; the strength of NatWest Group's defences against such attacks to date; and the continuous innovation approach being implemented. Mr James Lyne, Head of Research and Development at the SANS Institute and member of NatWest Group's Technology Advisory Board provided an external perspective on how NatWest Group compared to competitors and challenges being faced by the industry.

Future ready

The Committee considered a number of actions being taken within the organisation to transform data and technology capabilities and deploy forward-looking technology.

TIC received an update on how new technology was empowering colleagues to adapt to a digital future by providing modern software, such as Workday, which had seen high adoption rates. Implementation of Ask Archie, NatWest Group's chatbot, and accelerated adoption of tools such as Microsoft Office 365 and Zoom as a result of COVID-19 were also considered. The Committee discussed and challenged the mindset and behaviour changes needed to embrace adoption, the technology challenges posed by legacy technology platforms, and contention between tools which were managed via One Bank design oversight.

The Committee discussed the manner in which potential acquisitions would be considered from a technology and innovation perspective. Discussion focussed on external threats, lessons learned from prior acquisitions and potential targets.

Innovation & partnerships and ventures

Being powered by innovations and partnerships is a key part of NatWest Group's strategy.

TIC considered an update on the framework and approach to partnership working from a technology and innovation perspective. This was supported by certain deep dives on existing strategic relationships. TIC also discussed the potential income threat from payments disruption and potential opportunities to address this threat.

The Committee received updates regarding key Venture's initiatives, including Tyl and Rapidcash. In relation to Tyl, the Committee noted that it extended beyond helping businesses to receive payments by helping customers to run and grow their business as well as giving back to the community. The Committee discussed and challenged growth plans and how the business was proposed to be scaled following reduced growth, partly as a result of COVID-19. The competitive environment, emergence of non-traditional payment providers, and the potential to make greater use of merchant acquiring data to help customers and drive further development was also considered.

Regarding Rapidcash, TIC noted the transition of the business into Commercial Banking as a market leading product with the potential to disrupt the asset finance market by resolving issues such as long onboarding times, links to customers' accounting software packages to provide 'always on' lending and use of an invisible trust account to resolve customer pain points.

Emerging threats and opportunities

TIC considered the potential threats and opportunities presented by big technology companies, including innovation from China-based technology companies. The Committee noted the collaborative approach taken by management to deepen relationships beyond supplier relationships into partnership working to solve customer needs.

The Committee discussed the evolution of digital currencies, exploration of central bank digital currencies and growth of tokenised assets and the potential threats and opportunities presented. It was agreed that this would continue to be monitored.

Membership and meetings

The Committee is comprised of three non-executive director members, Frank Dangeard, Patrick Flynn, and me. More details of membership and attendance at meetings can be found on page 103 of the Corporate governance report.

The Committee is supported by management and the Group CEO, Group CFO, Chief Administration Officer, Chief Risk Officer, Director of Innovation, Director of Strategy & Corporate Development and Chief Technology Officer are all standing attendees.

External insights were also provided through the updates provided by management.

The Committee held four scheduled meetings during 2021.

Performance evaluation

The annual review of the effectiveness of the Board and its Committees, including TIC, was facilitated by Independent Board Evaluation, a specialist board evaluation consultancy. Throughout the year the Committee acted in accordance with its terms of reference and, overall, the review concluded that the Committee operated effectively, and had responded to prior feedback regarding focus on a smaller number of spotlight items.

The review suggested that, given the importance of technology and innovation, the Committee could arrange its work in a way that would be more accessible to all Board members. As a result, it was agreed that appropriate agenda topics would be opened to all Board Directors in future and that consideration would be given to reducing the number of Committee meetings held taking into account the sessions opened up to the full Board in future years.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress during 2022.

Conclusion

I am delighted to chair this Committee as it continues to support the Board in an area core to NatWest Group's purpose to champion potential, helping people, families, and businesses to thrive.

Together with my fellow directors, we will retain our focus on monitoring the future technology and innovation landscape and its impact on NatWest Group in order to ensure continued resilience and help NatWest Group become a relationship bank in a digital world. The Committee will continue to shape opportunities arising from management's response to both threats and opportunities that align with NatWest Group's purpose.

I want to take the opportunity to thank the Committee members and attendees for their continued commitment during 2021.

Yasmin Jetha
Chairman of the Technology and Innovation Committee
17 February 2022

Directors' remuneration report

Contents

Letter from Robert Gillespie, Chairman of the Group Performance and Remuneration Committee

Dear Shareholder,

On behalf of the Board I am pleased to set out the Directors' remuneration report for 2021. There continues to be heightened public interest in pay, as the wider economy and society attempts to recover from the impact of the COVID-19 pandemic. Economic conditions have improved, which has led to an increasingly competitive external market for key talent and skills. Many companies are having to manage higher than usual attrition rates. Furthermore, the level of inflation in the UK economy has increased significantly, as have forecasts of its level in the coming year, which has given rise to heightened expectations of general salary increases. For many individuals, the experience of working from home has led to significant changes in how working environments are now perceived. As a result, we have had many important matters to consider during the year.

As part of this report, we have set out proposals for a new Directors' Remuneration Policy (the Policy). Subject to approval from shareholders, this will apply from the 2022 Annual General Meeting (AGM), with the first awards being granted under the new Policy in March 2023. This letter explains why we are seeking approval for this new policy which is significantly different from the existing policy which has been in force since 2017. The report also details the remuneration decisions we made under the existing Policy for 2021.

Summary of the year

NatWest Group has delivered a strong operating performance in 2021, returning to profitability with an attributable profit of £2,950 million. NatWest Group's share price also saw a sharp recovery throughout the year, increasing around 35% and outperforming our UK peers. Our capital distribution plan has helped return £3.8 billion to shareholders through buybacks, both directed and on-market, and dividends. Our strong capital position and continued capital generation mean that NatWest Group is well placed to invest for growth, to provide the support our customers need as the economy recovers and to drive sustainable returns to shareholders.

We have also been acutely aware in our deliberations that during 2021 the Financial Conduct Authority (FCA) imposed a fine of £265 million on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 over five years ago. My report explains how we have taken this matter into account in our pay decisions.

Wider workforce remuneration

The Committee has a very keen interest in wider workforce remuneration. Our colleagues enable us to achieve our purpose of helping people, families and businesses to thrive. It is therefore vital they are paid fairly and in ways that support our values and culture.

I met with the Colleague Advisory Panel (CAP) during the year and we had a good discussion on our approach to executive and wider workforce remuneration. We know how important it is to have fair and transparent pay structures for all. One of the suggestions from the CAP was to explore how our Fair Pay Charter could receive a higher profile within the bank which the Committee is taking forward. I also explained certain challenges we have been facing with the current Policy for executive directors, as described later in my letter. Further details regarding my engagement with the CAP is set out on page 154.

Over the year we have seen demand rise rapidly for certain skill sets. This has put pressure on retaining talent within NatWest Group. With the decisions we make as a Committee, we seek to recognise these demands while meeting our commitment to pay colleagues fairly, in line with our Fair Pay Charter.

I am pleased that the lowest level of pay for UK-based colleagues at NatWest Group has exceeded the Living Wage foundation benchmarks in the UK for several years. We take a similar approach across our major hubs outside the UK. The fixed pay investment we have made over the last few years has typically been higher than the rate of inflation for that period. This investment has been targeted primarily towards our most junior and lowest paid colleagues, areas where specialist skills are required leading to high attrition rates and those lowest in their salary ranges.

I know from speaking to colleagues that they are concerned by the economic conditions especially in our main hub in the UK. Our 2022 pay discussions with our recognised trade unions are still ongoing, but we believe the proposed salary increases, which would provide an expected 3.6% on average across the wider global workforce from April 2022, demonstrate a materially improved pay position with fair outcomes for our colleagues. For the most junior colleagues in the UK, the minimum proposed salary increase would be £600 and the majority of them would be in line to receive at least 4%.

We have agreed a bonus pool of £298 million in respect of 2021 for those colleagues who are eligible to receive a bonus award. This is 44% higher than the 2020 bonus pool, which was significantly reduced to reflect the impact of COVID-19. It is also 3% lower than the 2019 bonus pool, which was agreed prior to COVID-19. We have followed a consistent process for determining the bonus pool since 2014. When determining the pool, we considered a balanced scorecard of strategically important measures, including financial performance, customer outcomes, colleague experience and risk performance. In 2021, we included a new measure of progress against our climate ambitions.

A material downward adjustment was applied to the 2021 bonus pool to reflect the fine imposed on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 and ongoing financial crime remediation considerations. This adjustment was apportioned across all business areas to reflect the impact on the bank's financial performance and to reinforce to colleagues the need to ensure the effective management of financial crime. Whilst progress has been made in recent years on NatWest Group's management of financial crime, an all-colleague financial crime performance goal has been introduced in 2022 so that it continues to receive the appropriate focus. We have also initiated an accountability review into the events that led to the breaches of the Money Laundering Regulations 2007. The possible need for individual pay adjustments to prior year awards, using the malus and clawback provisions in the NatWest Group remuneration construct, will be considered as part of the accountability process.

Revised remuneration policy for executive directors

The current Policy was introduced in 2017 and renewed in 2020. The Committee believes it has worked well in supporting our culture of prudent risk taking, by introducing a significantly restrained variable pay position for executive directors in return for more consistent pay outcomes during a time of significant transition for the organisation.

The Committee has been mindful that the current Policy is not aligned to standard market practice and that some of its unique features have been subject to challenge. Over the last year, we have listened carefully to shareholders and other stakeholders.

We have also been mindful that the bank is nearing the end of its long process of normalisation and the Government continues to sell its shareholding which will result in a normalised shareholder base. Finally, we have found the operation of the pre-vest test more difficult than expected. We have concluded in the light of all these factors that substantial change to our existing Policy is required and that now is the appropriate time for NatWest Group to transition to a more market-standard remuneration model rather than waiting until the next triennial vote on the Policy in 2023.

Under regulatory requirements, which have been in force for a number of years, regulated banks may only offer variable pay equal to 100% of fixed pay, unless shareholder approval is obtained to increase the ratio to 200% of fixed pay. NatWest Group did not seek shareholder approval and has operated on a 1:1 structure. The Board is not seeking to change this position as it believes the current construct supports our belief in prudent risk taking and the maintenance of restrained compensation levels. We do, however, believe that executives should be incentivised using a structure that balances both short-term and longer-term performance, while maintaining our focus on prudent risk management. We are, therefore, proposing that our current long-term incentive (LTI) construct is replaced by a more widely accepted and competitive construct based around annual bonus plus Restricted Share Plan (RSP) awards.

In total, the changes set out in this report would result in expected total compensation increasing by 19% for the CEO and by 13% for the CFO, once the transition period is complete. This would bring both executive directors closer to, but still below, the average expected total compensation paid by the other major UK banks.

We recognise that the move to a more normal construct which involves an increase to total compensation represents a material change and intend to make the transition to the new Policy over two years. The phasing will mean that no more than half of the increase will apply in year one.

The Committee is highly aware that any increase in compensation will be closely scrutinised by shareholders. It is, therefore, important for us to be clear on why we believe the combination of annual bonus plus RSP represents the best cultural and strategic fit for our organisation and why the proposed opportunities under each element are appropriate. By introducing a market-aligned annual bonus mechanism we will increase the performance alignment within the package to annual performance based on formulaic and weighted measures and targets. This will provide greater transparency on performance outcomes and a more direct link between pay and the delivery of our strategic targets. The market-aligned RSP will also ensure that we continue to retain a level of balance within the package between annual performance and longer-term alignment with the shareholder experience.

Delivering a remuneration package which is sufficiently competitive both in structure and quantum to attract and retain our senior team has been a significant consideration in determining the proposed new arrangements. You can find detailed information about the new Policy on pages 140 to 152 below.

The Committee has consulted widely with shareholders and the final form of the proposals being put forward for shareholder approval reflects much of the feedback we have received. In my discussions with some of our major shareholders, it has become clear that the current management team is highly regarded and that it would be imprudent to ignore this when setting an appropriate pay scale. Further details of the consultation findings are set out in this report.

The Board believes that these proposals are in the company's best interests as they move our remuneration policy into line with market norms and provide a more competitive package to our executive directors, which is a very important factor in attracting and retaining highly talented colleagues. The Board, therefore, recommends that shareholders vote in favour of the new Policy.

Executive director pay for 2021 and salaries for 2022

Alison Rose

At the time of the last Policy renewal in 2020, we committed to considering salary increases for Ms Rose during the life of the Policy. No increases have been made since her appointment in 2019. In December 2021, we noted the proposed average salary increase for the wider global workforce and agreed that a reduced rate of increase would be appropriate for the executive directors. As a result, Ms Rose's salary will increase by 2% under the existing Policy from 1 April 2022.

In considering performance against the LTI targets for 2021, we agreed that Ms Rose's performance has been highly impressive. Finance and climate performance was strong with targets achieved and despite a marginal 'miss' on the 'building capability' target, our people scores were good. Targets for supporting enterprise were also met and customer performance had improved in most areas. In terms of risk performance, while there had been some progress, it was noted that there was more work to do on the control environment.

External assessments of Ms Rose's performance were also very favourable, especially in relation to leadership on COVID-19 schemes and COP26. Board members welcomed Ms Rose's frankness and transparency during the year.

Our overall assessment of Ms Rose's performance for 2021 led the Committee to agree that an LTI award of £1,598,000 would be an appropriate outcome, which represents 145% of salary and 83% of the maximum LTI award. In order to ensure parity of treatment with the wider workforce, the LTI outcome reflected an adjustment to mirror the downward adjustment to the 2021 bonus pool for the fine imposed on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 and ongoing financial crime remediation considerations. Ms Rose's LTI award will be granted in March 2022.

Katie Murray

Ms Murray's salary has remained unchanged since her appointment to the Board in January 2019 and the Committee agreed that an increase of 2% would be appropriate. The increase will take effect from 1 April 2022.

In considering an LTI award for 2021, we agreed that Ms Murray had also performed well during the year. Along with the achievements noted against LTI targets for Ms Rose, Ms Murray had successfully delivered the quarterly results, with proactive investor engagement and made good progress on refreshing the annual reporting process. Cost reduction targets were also met for Finance and NatWest Group.

Our overall assessment of performance for 2021 led the Committee to agree that an LTI award of £1,057,500 would be an appropriate outcome, which represents 141% of salary and 71% of the maximum LTI award. In line with the approach taken for Ms Rose, the LTI outcome reflected an adjustment to mirror the downward adjustment to the 2021 bonus pool for the fine imposed on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 and ongoing financial crime remediation. Ms Murray's LTI award will be granted in March 2022.

2019 LTI award vesting outcome

Following an assessment of her performance in 2018, Ms Rose received an LTI award over 2019, while CEO of Commercial & Private Banking. Ms Murray was on a different remuneration construct for the 2018 performance year and did not receive an LTI award in 2019.

The Committee carried out a pre-vest assessment at the end of 2021 for awards granted in 2019 which vest in 2022. This involved considering whether anything had come to light since grant that would change our original view of performance of the beneficiaries of the award during the 2018 financial year.

We used a structured set of questions and evidence factors to guide discussions. From the analysis, we agreed that customer and risk were areas that merited further consideration. Supported by external opinion, we concluded that although customer performance had declined in one business area, it was not due to factors within management's reasonable control. Therefore, no adjustment was made relating to customer.

On risk performance, the pre-vest test confirmed there had been no material deterioration in risk culture or profile over the relevant period. However, management performance relating to financial crime remediation over the 2018 performance year was considered to be an area that merited further investigation using the Risk & Control underpin.

The Group Board Risk Committee (BRC) concluded that, while management had taken significant action to drive delivery of the financial crime remediation programme, there had not been a full appreciation of scale, complexity and interdependencies of the programme at the time of the 2019 LTI grant, resulting in delays to the proposed return to appetite.

The BRC recommended that an adjustment be considered and as a result we applied a pre-vest reduction of 5% of Ms Rose's original maximum 2019 LTI award resulting in a reduction of 32,234 shares vesting. A pre-vest reduction of 5% of the original maximum was also made to the 2019 LTI award held by the former CEO, Ross McEwan.

The total adjustments made to their respective maximum 2019 LTI award levels, when combined with adjustments made pre-grant, amounted to 17% for Ms Rose and 11% for Mr McEwan. You can find full details of the pre-vest assessment for both Ms Rose and Mr McEwan on page 159 to 160.

2019 LTI award to Alison Rose

	Maximum	Granted	Shares to vest
Shares	644,672	568,829	536,595
Value	£1.7m	£1.5m	£1.197m

The £1.197 million value reflects an aggregate reduction of 17% of the maximum LTI award level for Ms Rose across pre-grant and pre-vest stages. It also reflects the fall in the share price over the performance period.

While the performance cycle has completed, the shares from this award will vest in tranches up to 2026. Malus and clawback provisions help ensure that recipients maintain a long-term focus in their decision-making and aligns with regulatory expectations.

Approach to windfall gains

In my report last year, I highlighted that windfall gains had become a focal point for shareholders due to share price volatility as a result of the pandemic. When the LTI grants were made in 2021, the share price had risen over the prior year resulting in fewer shares being granted to satisfy a given quantum of award. We, therefore, did not consider there were any obvious potential windfall gains implications for award levels that should be addressed at the time of grant. We continue to believe that vesting, rather than at grant, is the best time to consider any adjustments for windfall gains.

To guide our judgment, we continue to operate a framework designed to assess whether windfall gains have arisen over the period from grant to vest and the factors to be considered in making any adjustments.

Gender and ethnicity pay reporting

The Committee considers gender and ethnicity pay gap metrics to be another important indicator and full details can be found in the Strategic report and at natwestgroup.com. This is the fourth year that we have published ethnicity pay gap information on a voluntary basis. We are confident that colleagues are paid fairly and policies and processes are kept under review to make sure this continues to be the case.

Climate in remuneration

From 2020, we have included a climate goal and related measures in our executive director performance goals. Climate will continue to be an integral part of the annual bonus scorecard to be introduced under the new Policy proposals.

As mentioned above, the bonus pool agreed for the wider workforce was also determined for 2021 having regard to performance against strategically important measures, including our climate ambition. This ensures that the work of colleagues in supporting the transition to a low carbon economy is being reflected in pay decisions.

Looking ahead

The Committee understands the expectations of shareholders, colleagues and wider society relating to the oversight of remuneration continue to evolve. It is also very aware that the bank's commitment to purpose, to equality of opportunity and to fighting climate change must be fully reflected in compensation outcomes for its employees in general and its leaders in particular. I have referred to all these matters throughout this letter and the Committee will continue to focus on these and other emerging issues in the coming year.

The Committee is focused on ensuring the smooth transition to the new Policy, assuming it is approved by shareholders at the 2022 AGM. Set out later in this document is the annual bonus scorecard expected to be used in respect of 2022. We would expect the bonus scorecard to continue to evolve to ensure that it is incentivising progress against NatWest Group's purpose-led targets and wider societal needs.

We have committed to publish our climate transition plan which will support alignment with the Paris Agreement. Future climate targets will in turn evidence progress towards longer-term climate objectives. We will also continue to engage with colleagues to explain the alignment of our approaches to executive and wider workforce remuneration and to listen to their feedback.

This is my last report as the Chairman of the Committee as I will have completed nine years as a director of NatWest Group later this year. It has been a great privilege to perform the role of Chairman of the Committee for the last five years. I believe it is imperative for NatWest Group to be able to motivate and retain colleagues of great ability at every level in the firm and therefore to be able to evidence the link between its remuneration policies, culture and purpose. I strongly believe that the proposed changes to the Policy are an important step in the evolution of NatWest Group to being a purpose led organisation and hope shareholders will vote for its approval at the forthcoming AGM.

Robert Gillespie
Chairman of the Group Performance and Remuneration Committee

17 February 2022

Remuneration at a glance

Delivering a restrained but competitive level of pay for executive directors which is aligned with our cultural values

What is driving the move to a new Policy?

Under the current Policy we deliver variable pay through a single long-term incentive arrangement, which operates in a different way to those more commonly seen in the market, particularly in the case of the main UK banks. The LTI-only construct operates within a 1:1 variable to fixed pay ratio with executive directors receiving a significantly restrained but more predicable level of pay, thereby encouraging safe and secure growth within appetite.

However, it has become apparent through our stakeholder engagement process that certain shareholders continue to have reservations with regard to the current Policy and its unique features, in particular, the lack of formulaic, weighted performance measures, and the removal of pro-rating. The Committee has given considerable thought to how it should address such feedback and, conscious that we are continuing on a trajectory towards private ownership, believe now would be an appropriate time to introduce a more market-aligned annual bonus and RSP construct for executive directors.

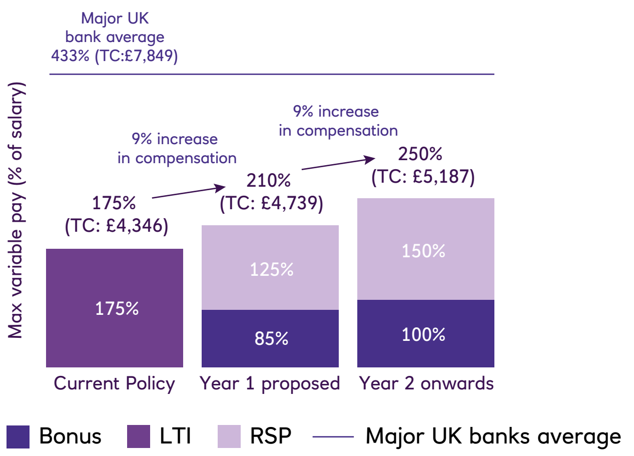
Why are we increasing total compensation?

The Committee has also been mindful that while we have successfully recruited highly talented executive directors under the current Policy, our compensation levels are falling too far behind our nearest competitors. The Board is very pleased with the performance of the executive directors since appointment. We believe that continuing an approach that is materially behind our peers is imprudent and that a move towards a more flexible remuneration structure, which delivers more competitive levels of pay, is justified and in the best interests of the business.

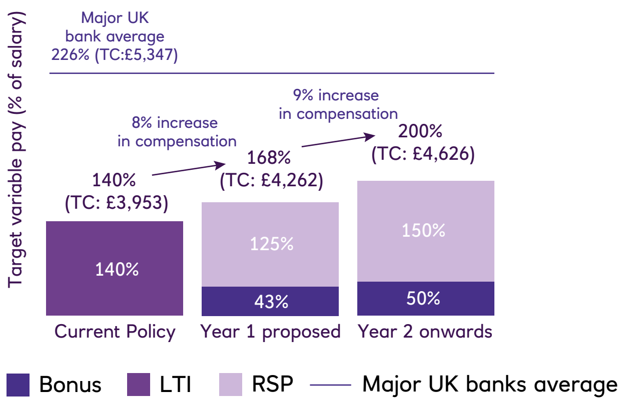
The new Policy will result in an increase to total compensation for executive directors, with maximum variable pay set at 100% of base salary for annual bonus and 150% of base salary for RSP awards. While this enables us to deliver more competitive levels of pay, maximum compensation levels for the CEO would still be the lowest compared with other major UK banks and significantly lower than peers who continue to operate traditional long-term incentive plan (LTIP) constructs, demonstrating continued restraint on executive pay. The increase in variable pay levels should also be viewed in the context of us making further changes to the Policy which will introduce less favourable leaver treatment, increased shareholding requirements and longer holding periods for the fixed share allowance.

We recognise moving to a more normal construct represents a material change and intend to make the transition in two phases. For the first year, maximum awards will be limited to 85% of base salary for annual bonus and 125% of salary for the RSP. The charts opposite illustrate the transition for the CEO from our current Policy and also show that compensation levels will move closer to, but still below, the average maximum and target compensation levels at the other major UK banks. The CFO will also be below the average maximum and target compensation levels at the other major UK banks.

NatWest Group CEO maximum variable pay
% of salary (£000 total compensation (TC) maximum)



NatWest Group CEO target variable pay
% of salary (£000 total compensation (TC) target)



How does the new Policy ensure continued shareholder alignment?

With the adoption of the RSP, we will replace our current leaver terms with market aligned best practice leaver terms, with pro-rating reintroduced in good-leaver scenarios for RSP awards. Shareholding requirements will be increased from 400% to 500% of salary for the CEO and from 250% to 300% of salary for the CFO and the fixed share allowance release period will be extended from three to five years.

As is the case under the current Policy, around 67% of expected remuneration would continue to be delivered under the new Policy in shares, which will be subject to deferral and retention requirements. Along with the proposed increase in shareholding requirements, this will continue to ensure close symmetry between executives, shareholders and the financial health of the business.

With bonus expected to vest at 50% of maximum opportunity, the combination of the RSP and bonus means that we are still guiding towards an expected vesting level of 80% for variable remuneration outcomes. This is aligned with the position under our current LTI-only construct which is expected to vest at 80% of maximum opportunity. However, in the case of the new Policy, the expected vesting level of 80% depends on executive directors achieving on-target performance across the annual bonus scorecard.

How does the RSP operate in practice and does it satisfy shareholder guidelines?

The Committee will be required to assess the performance of executives under the RSP construct, both at the pre-grant and pre-vest stage. The pre-grant test will measure whether executives have achieved satisfactory performance over the performance period prior to grant, using the existing performance management processes that apply to all colleagues across the bank.

RSP awards will also be subject to an underpin assessment at pre-vest stage. The underpin assessment is designed to ensure that sustainable performance has been achieved over the course of the vesting period.

While RSP awards are expected to be granted and vest at 100% of maximum opportunity, the combination of the RSP pre-grant and pre-vest tests enable the Committee to make downward adjustments, potentially to zero, in order to guard against payments for failure.

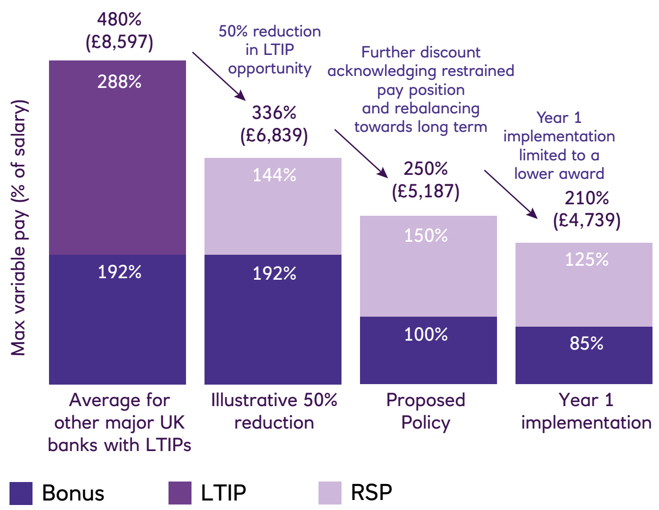
We know that shareholder guidelines normally expect an appropriate discount, of at least 50%, to be applied when introducing RSP awards compared to a traditional LTIP with performance conditions. As our current Policy differs in a number of ways to traditional practice and has already delivered a more restrained pay position, with significantly reduced maximum total compensation levels, it would not be appropriate to apply the 50% discount to our current LTI construct.

Recognising that the principle of a 50% discount to an LTIP equivalent construct remains important to stakeholders, the Committee is satisfied that the proposed move to the RSP is aligned with the spirit of the guidelines as it delivers more than a 50% reduction when the RSP construct is compared with more traditional LTIP constructs envisaged by the guidance. This is illustrated further in the chart opposite.

Engagement with stakeholders on remuneration

Every year we undertake an engagement programme with major shareholders and other stakeholders before the Committee makes final decisions on pay awards. In late 2021 and early 2022, we met with several institutional shareholders, UK Government Investments, proxy advisors and the UK regulators to discuss our approach to remuneration for the 2021 performance year and our proposed policy amendments for executive directors.

NatWest Group CEO variable pay
% of salary (£000 total compensation maximum)



One of the principal areas of focus during meetings was the transition to the new Policy including the new variable pay structure with annual bonus and RSP awards. The Committee Chairman explained that NatWest Group remained committed to prudent yet competitive compensation levels that would assess long-term performance and ensure alignment with shareholder interests. Discussions also highlighted that under the new Policy shareholders would expect continued adherence to best practice and transparent remuneration disclosures. The Committee acknowledged the need to ensure the ongoing alignment of all aspects of the new Policy with market best practice. A summary of the new Policy and how it compares to the current Policy can be found on the next page, followed by the main Policy tables which set out further details.

In addition to the above discussions, we also held three virtual shareholder events with retail shareholders in 2021 to ensure we heard from the wider shareholder base on matters of importance. The event held in November 2021 focused on climate and one of our shareholders asked how we link executive pay to ESG measures including climate. Yasmin Jetha, one of our directors who was present at the event, confirmed that climate measures had been introduced for executive directors in 2020 which assessed performance with reference to progress towards climate positive operations, the funding and financing of climate and sustainable finance, and the setting of sector specific targets for emissions reduction. Ms Jetha's response also noted that executive director performance had, for several years, also been assessed with reference to social and governance measures, with diversity and inclusion targets having been in place since 2017. Further shareholder events are planned for 2022. Shareholders play a vital role in helping us develop remuneration practices that meet the needs of all our stakeholders and we are grateful for their involvement in the process.

It is also now more important than ever that we listen to our colleagues and use the insight we gain to attract, engage and retain the talent we need for the future. In November 2021, the Committee Chairman met with our Colleague Advisory Panel to discuss executive and wider workforce pay. The outcome of such discussion is summarised in more detail in the 'colleague listening strategy' section later in this report.

Comparing the new Policy with the current Policy

The main features of the Policy as applied in 2021 is summarised in the table below. The table also includes details of how the Policy is intended to apply in 2022 if approved by shareholders at the 2022 AGM.

Timing	Key elements		Current Policy	Proposed Policy
Paid over performance year	Fixed pay	Salary	Any increase will not normally be greater than the average salary increase for NatWest Group employees over the period of the Policy. Other than in exceptional circumstances, the salary of an executive director will not increase by more than 15% over the course of this Policy.	
			Implementation in 2021: CEO: £1,100,000 CFO: £750,000	Implementation in 2022: 2% increase under existing Policy from 1 April CEO: £1,122,000 CFO: £765,000
		Pension	Pension contribution, aligned to the wider workforce, at 10% of base salary.	
		Benefits	£26,250 standard benefit funding Other benefits can be paid within the terms of the Policy.	
		Fixed Share Allowance	100% of base salary Shares released over three years.	100% of base salary Shares released over five years.
Paid in the year after the performance year, share element subject to 12-month retention period.	Annual bonus	Maximum benefit	Not part of Policy for 2021	Maximum award: 100% of base salary Phased maximum: 85% of base salary for first awards in 2023 for performance year (PY)2022
		Operation		Awarded upfront with a 50/50 split of cash and shares.
		Metrics		Annual bonus assessed based on a weighted scorecard of strategic measures, as set out below. A risk modifier will also apply, enabling risk performance to be assessed and awards reduced, potentially to zero. Metrics — Weighting RoTE — 30% Income growth — 10% Cost reduction — 10% Capital — 10% Climate — 10% Customer — 10% Purpose, Culture and People — 10% Enterprise and Capability — 5% Personal — 5%
Paid over years three to seven after grant with a 12-month retention period after each vesting.	Long-term incentives		**LTI award**	**RSP award**
		Maximum benefit	CEO: 175% of base salary CFO: 200% of base salary Final award in 2022 for PY2021.	Maximum award: 150% of base salary Phased maximum: 125% of base salary for first awards in 2023 for PY2022.
		Operation	Delivered in shares, vesting in equal tranches over years three to seven with a 12-month retention period following each vesting.	
		Metrics	Performance assessed over year before grant with further tests before vesting. Balanced scorecard in line with our strategic aims, performance assessed in the round.	RSP awards subject to satisfactory performance before grant and an underpin assessment after three years to check performance has been sustainable.
Ongoing	Share ownership	Shareholding requirements	CEO: 400% of salary CFO: 250% of salary	CEO: 500% of salary CFO: 300% of salary
		Post-employment requirements	Equal to the lower of the shareholding requirement immediately prior to departure or the actual shareholding on departure, to be held for a period of two years post departure.	
Ongoing	Malus and clawback	Operation	Any variable pay awarded is subject to malus prior to vesting and clawback for seven years from grant, extended to ten years in certain circumstances. See page 157 for further details.	

The Directors' Remuneration Policy (the Policy)

Subject to approval from shareholders, the new Policy set out below will be effective from the date of the 2022 AGM. It will apply for a period of three years, until the 2025 AGM, unless a revised Policy is approved by shareholders before then.

Fixed pay for executive directors

Purpose and link to strategy	Operation	Maximum potential value
Base salary Providing fair levels of base salary and other elements of pay supports the recruitment and retention of high-calibre executives to develop and deliver strategic priorities. Base salary set at a competitive level which means there is less reliance on variable pay. This helps to discourage excessive risk-taking.	Base salary is paid monthly in cash and reviewed annually. Rates are determined based on the individual's role, skills and experience and are benchmarked against market practice. We use a peer group, which includes comparable roles in other financial services groups of a similar size, to determine the appropriate level of base salary. We amend this peer group from time to time to ensure it remains relevant. Salaries will be increased by 2% from 1 April 2022. — 1 January 2022 / 1 April 2022 **CEO** £1,100,000 / £1,122,000 **CFO** £750,000 / £765,000	Any future salary increases will take in-role performance into account and will be considered against peer companies. Any increase will not normally be greater than the average salary increase for NatWest Group employees over the period of the Policy. Other than in exceptional circumstances, an executive director's salary will not increase by more than 15% over the course of this Policy. See the recruitment policy section for new directors.
Fixed share allowance Additional fixed pay that reflects the skills and experience required and the complexities and responsibilities of the role. It further supports the delivery of a balanced remuneration policy offering a suitable mix of fixed and variable pay.	This is a fixed allowance paid entirely in shares. Individuals receive shares that vest immediately subject to any deductions required for tax purposes. A retention period will also apply. Shares will be released annually on a pro-rata basis over five years from the date of award(1). As shares are held beneficially, the directors will be entitled to any dividends paid on those shares. The fixed share allowance will broadly be paid in arrears, in four instalments per year or at any other frequency that the Committee deems appropriate. The fixed share allowance is not pensionable and no performance conditions apply.	An award of shares with an annual value of up to 100% of base salary at the time of award, or such higher amount as represents this value rounded up to the nearest whole share.

(1) If regulatory requirements emerge that prohibit allowances from being delivered in shares, or deem that such allowances will not qualify as fixed remuneration, then NatWest Group reserves the right to provide the value of the allowance in cash in order to ensure compliance with such requirements.

Purpose and link to strategy	Operation	Maximum potential value
Benefits Providing a range of flexible and market competitive benefits that colleagues value and that help them carry out their duties effectively.	Executive directors can select from a range of standard benefits including a company car, private medical cover, life assurance and critical illness insurance. Executive directors are also entitled to travel assistance connected with company business including the use of a car and driver. NatWest Group will meet the cost of any tax due on the benefit. On rare occasions when executive directors are accompanied by their spouse or partner to business events, NatWest Group may also meet the costs and any associated tax liability. Executive directors are also entitled to holiday and sick pay. NatWest Group may offer further benefits including, but not limited to, relocation assistance in line with market practice. We may also put in place certain security arrangements for executive directors when that is deemed appropriate and meet the cost of any tax due on these benefits.	A set level of funding for standard benefits (currently £26,250 and subject to periodic review). We disclose the total value of benefits provided each year in the Annual Report on remuneration. The maximum potential value of benefits will depend on the type of benefit and cost of providing it, which will vary according to market rates. Any non-standard benefits are subject to approval from the Board.
Pension Encouraging planning for retirement and long-term savings.	This involves the provision of a monthly pension allowance paid in cash and based on a percentage of salary. Recipients have the opportunity to use the cash to participate in a defined contribution pension scheme. – CEO – 10% of base salary – CFO – 10% of base salary	In compliance with the UK Corporate Governance Code (the Code), the pension allowance rates for executive directors are aligned with the rate for the wider workforce (currently 10% of base salary)[1]. This rate may be increased or reduced to remain aligned with the wider NatWest Group.

(1) 10% of base salary is in line with the rate applicable to the vast majority of the workforce. Over 99.64% of employees in the UK receive this rate.

Variable pay for executive directors

Purpose and link to strategy	Operation	Maximum potential value	Performance assessment
Annual bonus To support a culture where individuals are rewarded for the delivery of superior performance, taking into account NatWest Group's strategic objectives and purpose. Performance will be assessed based on a range of financial and non-financial measures that encourage long-term value creation for shareholders. Part of the annual bonus award is paid in shares with a holding period. Awards are also subject to malus and clawback adjustments to support long-term decision-making.	Annual bonus awards will operate as follows: – performance will be assessed against a balanced scorecard of measures to determine the amount of any award for a particular year; – awards will be paid 50% in shares and 50% in cash; – awards will be paid in combination with RSP awards to meet or exceed the deferral period for variable pay in order to comply with regulatory requirements; – a post-vesting retention period will apply to the amount delivered in shares in line with regulations (currently 12 months); and – malus provisions apply prior to vesting and clawback applies for seven (and potentially up to ten) years from the date of award. Awards will be subject to any other terms as regulators require from time to time. We may calculate the number of shares awarded using a share price that is discounted to reflect the absence of the right to receive dividends or equivalents during the vesting period. If regulations permit the use of dividend equivalents in future, awards may be eligible to receive dividend equivalents instead. The discounted share price will be calculated with reference to estimated dividend yields based on market consensus and the length of the vesting period. An independent adviser will then review it. For the avoidance of doubt, there is no intention to reflect special dividends in the calculation. We will grant annual bonus awards on a discretionary basis. They will be delivered through one of NatWest Group's shareholder-approved employee share plans.	The maximum value of annual bonus awards will be set at 100% of base salary for executive directors (or an amount which represents such value rounded up to the nearest whole share). The value of awards can also reflect a discount for long-term deferral, in line with the Prudential Regulation Authority (PRA) Rulebook and European Banking Authority (EBA) guidelines. The level of the award to be paid can vary between 10% for threshold performance and 100% for maximum performance. Target performance will pay out at 50% of maximum opportunity. Threshold and maximum targets will be disclosed at the end of the performance period in the 2022 Directors' Remuneration Report, alongside the actual level of performance achieved.	The Committee will set and assess performance against the scorecard with weightings that apply to each category. The measures and targets we use will reflect NatWest Group's strategic priorities for the year and align with our purpose. Financial measures will account for between 50% and 60% of the annual bonus opportunity. A range of non-financial measures will be included in a strategic category accounting for at least 30% of the overall scorecard. Personal measures may also be used up to a maximum of 10% of the overall scorecard. A risk modifier will also apply, enabling risk performance to be assessed and awards reduced, potentially to zero. The Committee has discretion to vary the performance measures and weightings in appropriate circumstances. However, financial measures will always account for at least 50%. The Committee also has discretion to determine the appropriate bonus outcome when the assessment of performance against the formulaic measures and targets would drive an unrepresentative outcome or when it is necessary to consider strategic, economic, or societal impacts that were not or could not have been accounted for at the point of agreeing the bonus scorecard. We will set out further details on the performance measures and weightings and a detailed assessment of performance against targets in the relevant year's Annual Report on remuneration. You can find the proposed performance measures and weightings for the 2022 financial year on page 166.

Variable pay for executive directors continued

Purpose and link to strategy	Operation	Maximum potential value	Performance assessment
RSP awards To support sustainable performance over a multi-year period. We will deliver awards entirely in shares with payments deferred over many years. This creates simple and effective alignment with the returns that shareholders receive over the long term. Awards are subject to malus and clawback adjustments to discourage excessive risk-taking and other inappropriate behaviours.	RSP awards will operate as follows: – an award will be granted in shares provided satisfactory performance has been achieved in the prior year; – performance will be assessed using our established performance management processes that apply to all colleagues across the bank; – after three years, performance against pre-determined underpin criteria will be used to ensure there is no payment for failure; – subject to the underpin assessment, awards will vest in combination with annual bonus awards to meet or exceed the deferral period for variable pay under regulatory requirements (currently between years three to seven after grant); – a post-vesting retention period will apply to the shares in line with regulations (currently 12 months); and – malus provisions can be applied prior to vesting and clawback applies for seven (and potentially up to ten) years from the date of award. Awards will be subject to any other terms regulators require from time to time. We may calculate the number of shares awarded using a share price that is discounted to reflect the absence of the right to receive dividends or equivalents during the vesting period. If regulations permit the use of dividend equivalents in future, awards may be eligible to receive dividend equivalents instead. The discounted share price will be calculated with reference to estimated dividend yields based on market consensus and the length of the vesting period. An independent adviser will then review it. For the avoidance of doubt, there is no intention to reflect special dividends in the calculation. We will grant RSP awards on a discretionary basis. They will be delivered through one of NatWest Group's shareholder-approved employee share plans.	The maximum value of RSP awards will be set at 150% of base salary for executive directors (or an amount which represents such value rounded up to the nearest whole share). The value of awards can also reflect a discount for long-term deferral, in line with the PRA Rulebook and EBA guidelines. Depending on the Committee's assessment of the RSP underpin criteria, the vesting level of the award can vary between 0% and 100% of the original number of shares granted. The expected vesting level of the RSP award is 100% of maximum opportunity.	Executive directors will be granted an RSP award provided performance over the prior year is considered by the Committee to be satisfactory, when assessed using our established performance management processes. Before vesting takes place, the Committee will review the outcomes of the business against underpin criteria determined by the Committee. In the first year of operation, the underpin criteria will consider whether a sustainable level of performance over the period has been achieved with reference to: 1. the level of capital held relative to the maximum distributable amount; 2. total distributions paid relative to our distribution policy; and 3. any material deterioration in the risk or regulatory compliance profile or control environment of NatWest Group, or a serious conduct or reputational event. Following the underpin assessment, RSP awards may vest in full, in part or lapse in their entirety. The Committee will also retain the right to consider other factors and apply discretion before deciding on the final vesting outcome. This will aim to mitigate any potential unintended consequences that might arise and ensure that the outcome is fair. You can find more information on the RSP in the implementation of Policy for 2022 on page 167. The Committee is committed to transparency and will explain its reasons for applying discretion or for not doing so. We also reserve the right to change the underpin criteria when granting new RSP awards over the Policy period.

Other elements of the Policy for executive directors

Purpose and link to strategy	Operation	Maximum potential value
Shareholding requirements Executive directors must build and continue to hold a significant shareholding both during and after employment. This helps to further align their interests with returns to shareholders over the long term.	Shares held outright, including those acquired under the fixed share allowance, qualify towards the shareholding requirement. Unvested shares from annual bonus and RSP awards count on a net-of-tax basis towards the shareholding requirement once performance conditions have been assessed. When any applicable retention periods have passed, executive directors can dispose of up to 25% of the net-of-tax shares received until the shareholding requirement is met. Any shares purchased voluntarily will count towards the requirement but are excluded from the restriction on sale. On leaving, executive directors are required to hold shares of a value equal to the lower of their shareholding requirement immediately prior to departure or the actual shareholding on departure, for a period of two years. The requirement includes vested and unvested shares that have been assessed for performance but shares purchased voluntarily are excluded from the post-employment shareholding requirement. A fixed number of shares for the post-employment requirement will be determined at the date of departure. Procedures are in place to help enforce the shareholding requirements, both during and after employment. Executive directors are required to agree to be bound by the terms of the requirements and to use prescribed nominee accounts to hold shares subject to restrictions.	CEO – 500% of salary. CFO – 300% of salary. Requirements may be reviewed in future but are not expected to be reduced.
Employee share plans Providing an opportunity for executive directors to purchase shares in the company voluntarily.	The plans provide an opportunity for executive directors to contribute from salary and acquire shares under one or more of NatWest Group's all-employee share plans in operation from time to time. In the UK, this currently includes: – the Sharesave plan where monthly savings over a fixed period may be used to purchase shares at an agreed option price; and – the Buy As You Earn plan where shares can be purchased from pre-tax salary. Executive directors may participate on the same basis as other eligible employees. All-employee share plans are not subject to performance conditions.	The statutory limits that are imposed by HMRC in the UK or the limits under the relevant share plan rules.
Legacy arrangements To ensure NatWest Group can continue to honour payments due to executive directors.	In approving this Policy, authority is given to honour any previous commitments or arrangements entered into with current or former directors. This includes any share awards granted under the 2014 Employee Share Plan. For the avoidance of doubt, all outstanding LTI awards granted under previous policies will continue to vest in line with the terms agreed at the time of grant. LTI awards are subject to performance assessments prior to grant and again before vesting. Awards are deferred over three to seven years and a 12-month retention period applies after each vesting. Authority is also given to honour arrangements agreed with an employee prior to appointment as an executive director that may have different terms or performance conditions.	In line with existing commitments and arrangements.

Remuneration for the Chairman and non-executive directors

Purpose and link to strategy	Operation	Potential value
Fees Competitive fixed remuneration that reflects the skills, experience and time commitment required for the role. Fees are set at an appropriate level to attract individuals with the attributes needed to oversee the Board's strategy.	Fees are paid monthly in cash. The Board retains discretion to pay fees in cash, shares or a combination of the two. The level of remuneration reflects the responsibility and time commitment required, and the level of fees paid to directors of comparable major UK companies. We review fees regularly, and the Board may choose to apply an increase within the limits of the Policy on an annual or less frequent basis. The Chairman receives an all-inclusive fee. Non-executive directors receive a basic Board fee with additional payments when serving as a member or Chairman of a Board Committee or performing an additional role such as the Senior Independent Director. Non-executive directors may also receive fees as directors of subsidiary companies. Additional fees may be paid for new Board Committees provided these are not greater than fees payable for the existing Board Committees as detailed in the Annual remuneration report. No variable pay is provided, enabling the Chairman and non-executive directors to maintain appropriate independence, focus on long-term decision-making and constructively challenge performance of the executive directors.	The rates for the year ahead are set out in the Annual Report on remuneration. Any increases to fees will not normally be greater than the average inflation rate or salary increases for the wider workforce over the period of the new Policy. However, we take into account that any change in responsibilities, role or time commitment may merit a larger increase. Other than in exceptional circumstances, fees will not increase by more than 15% over the course of this Policy.
Benefits Providing a level of benefits in line with market practice.	The Chairman and non-executive directors are also entitled to travel assistance connected with company business, including the use of a car and driver where deemed appropriate. Where this is a taxable benefit for the recipient, NatWest Group will meet the cost of any tax due on the benefit. On rare occasions when directors are accompanied by their spouse or partner to business events, NatWest Group may also meet the costs and any associated tax liability. We may also offer other benefits in line with market practice. In line with evolving working practices and our efforts to discourage unnecessary travel and costs, the Board has moved to a hybrid model where meetings take place both 'in person' and remotely. In light of the change, NatWest Group will consider providing assistance and meeting reasonable costs on a case-by-case basis to support the Chairman and non-executive directors in the effective undertaking of their roles from another location. If additional tax liabilities arise from this practice, NatWest Group will also meet these costs when deemed appropriate. The Chairman is entitled to private medical cover and life insurance cover provided the Board considers the costs to be reasonable. Reasonable expenses incurred in connection with the performance of duties will also be reimbursed.	The value of the private medical and life insurance cover provided to the Chairman as well as other benefits provided under the new Policy will be in line with market rates and disclosed in the Annual remuneration report.

Other policy elements for directors

Provisions	Operation
Recruitment policy	Our Boardroom Inclusion Policy is in place to ensure that NatWest Group can attract, motivate and retain the best talent and avoid limiting potential caused by bias, prejudice or discrimination. When recruiting new directors, our Policy aims to be competitive and to structure pay in line with the framework applicable to current directors (as stated in the tables above), while recognising that some adjustment to quantum may be necessary to secure the preferred candidate. The pension allowance for new executive directors will be in line with that of the wider UK workforce. We can continue to honour existing commitments in the event of an internal promotion. A buy-out policy exists to replace awards forfeited or payments foregone, which is in line with regulatory requirements. The Committee will minimise buy-outs wherever possible and ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing. No sign-on awards will be offered on joining. Any awards granted following recruitment may be made under such NatWest Group employee share plans as are in place from time to time or otherwise in accordance with the relevant provisions in the Listing Rules. We will disclose full details in the next remuneration report. The maximum level of variable pay which may be granted to new executive directors will be guided by, but not limited to, arrangements for existing executive directors. In any event this will not exceed the limit of one times the level of fixed pay. The maximum level excludes any buy-out arrangements.
Notice and termination provisions	**Executive directors** As set out in our executive directors' service contracts, NatWest Group or the executive director is required to give 12 months' notice to the other party to terminate the employment. The Committee will ensure that any proposals relating to termination payments are fair and reasonable and recognise that failure is not rewarded. There are no pre-determined provisions for compensation on termination, other than when we determine that a redundancy payment is properly due under our redundancy policy in place from time to time. There is discretion for NatWest Group to make a payment in lieu of notice (based on salary only) which is released in monthly instalments. The executive director must take all reasonable steps to find alternative work and any remaining instalments will be reduced as appropriate to offset income from any such work. **Chairman and non-executive directors** Instead of service contracts, the Chairman and the non-executive directors have letters of appointment that reflect their responsibilities and time commitments. There are no notice periods and we will pay no compensation in the event of termination, other than standard payments for the period served up to the termination date. Under the Board Appointment Policy, non-executive directors are appointed for an initial term of three years, subject to annual re-election by shareholders. At the end of this initial term, a further three-year term may be agreed. Non-executive directors may be invited to serve beyond six years, up to a maximum tenure of nine years. The Chairman is not subject to the Board Appointment Policy but is subject to the Code's requirements relating to the maximum tenure period for chairs. All directors stand for annual election or re-election by shareholders at the NatWest Group's AGM. **Effective dates of appointment for directors:** Howard Davies – 14 July 2015; Frank Dangeard – 16 May 2016; Yasmin Jetha – 21 June 2017[1] Alison Rose – 1 November 2019; Patrick Flynn – 1 June 2018; Mike Rogers – 26 January 2016 Katie Murray – 1 January 2019; Morten Friis – 10 April 2014; Mark Seligman – 1 April 2017 Robert Gillespie – 2 December 2013; Lena Wilson – 1 January 2018 (1) Yasmin Jetha's first appointment to the Board. In preparation for the ring-fencing regime, Ms Jetha stepped down from the Board in 2018 to serve solely as a director of some of our subsidiary companies before re-joining the Board on 1 April 2020.

Provisions	Operation
Treatment of outstanding share plan awards on termination	On termination, we will treat awards in accordance with the relevant plan rules or other terms on which they were granted. Individuals will only qualify for good leaver treatment if they leave due to ill-health, injury, disability, death, retirement (as agreed with NatWest Group), redundancy, the employing company ceasing to be a member of NatWest Group, transfer of the employing business, or any other reason if, and to the extent, the Committee decides in any case. Malus and clawback provisions will continue to apply to all leavers, and could be used to adjust awards if subsequent issues relating to executive directors' performance come to light. In the event of a change of control, outstanding awards will be treated in line with the provisions of the relevant plan rules, as approved by shareholders. **Fixed share allowances** Shares will continue to be released over the applicable retention period helping to ensure that former executive directors maintain an appropriate interest in shares. In all leaver circumstances, executive directors will continue to be eligible to receive a pro-rated fixed share allowance to reflect the period up to the termination date. **LTI awards (under the existing Policy)** LTI awards normally lapse on leaving unless the termination is for one of the specified good leaver reasons. LTI awards held by good leavers will normally vest on the original vesting dates, subject to the performance conditions being met and the rules of the relevant plan. No pro-rating applies after grant for LTI awards granted from 2018 onwards. The existing Policy allows good leaver retirement to be granted provided the individual is not leaving to work in a capacity considered to be competing directly and materially with NatWest Group. The new Policy introduces a more typical and less favourable definition of retirement that will not allow good leaver retirement treatment where individuals take up a commensurate role elsewhere or a role with a company providing banking services. The new Policy will also address the concerns from some shareholders by introducing pro-rating for RSP awards in good leaver circumstances. **Annual bonus awards (for performance year 2022 and later years)** Any deferred bonus awards that are unvested will normally lapse on leaving unless good leaver circumstances apply, in which case the awards will normally continue to vest on the original vesting dates. Provided that individuals leave in good-leaver circumstances, they will be eligible to be considered for an annual bonus award for their final year of employment. **RSP awards (for performance year 2022 and later years)** RSP awards that are unvested will normally lapse on leaving unless specified good-leaver circumstances apply. For good leavers, awards are pro-rated for time served during the three-year performance period and will normally continue to vest on the original vesting dates. Individuals will not be eligible to be considered for an RSP award for the final year of employment.
Contractual provisions	Contracts include standard clauses covering remuneration arrangements and discretionary incentive plans (as set out in this report). The contracts also reference: reimbursement of reasonable out-of-pocket expenses; annual leave; redundancy terms and sickness absence; the performance review process; directors' and officers' insurance; the disciplinary procedure; and terms for dismissal in the event of personal underperformance or breaches of NatWest Group's policies. The Committee retains the discretion to make payments (including but not limited to professional and outplacement fees) to: facilitate smooth handovers; mitigate against legal claims; and/or procure reasonable assistance with investigations or claims, subject to any payments being made pursuant to a settlement or release agreement.

Summary of proposed changes for executive directors

Under the new Policy, LTI awards will be replaced with annual bonuses and RSP awards. This will provide a more market-aligned and competitive remuneration package for executive directors, while incentivising growth and the delivery of our purpose-led strategy. It will also align more closely to shareholder expectations, with pro-rating applying to RSP awards in good leaver circumstances and annual bonus outcomes being determined with reference to weighted performance measures and robust strategic targets. RSP awards will contribute to nearly 67% of expected pay being delivered in shares, further supporting the delivery of sustainable long-term performance. The fixed share allowance retention period will also be extended from three to five years, further aligning remuneration to the long term. The pay levels under the Policy were decided after considering relevant market positioning for similar roles at comparable financial services companies. They remain relatively modest compared to other major UK bank peers. We selected performance measures for annual bonus and RSP awards to reflect a cross section of our main strategic deliverables. There will be greater transparency on the link between performance and pay outcomes through weighted annual bonus measures with non-financial targets being set to reflect our purpose-led strategy.

Other changes under the new Policy for executive directors

Performance conditions	Leaver terms	Shareholding requirement
While LTI awards under the existing Policy are based on assessing performance in the round, we will base bonus awards under the new Policy on a weighted scorecard of annual measures and targets aligned with our strategic priorities. Financial measures will account for at least 50% of the bonus scorecard supported by strategic and personal measures. RSP awards will be based on a simpler pre-grant test than the existing Policy with an underpin assessment at the end of three years to ensure there are no payments for failure.	As is currently the case, any outstanding awards will be forfeited on leaving unless the individual leaves for a specified good leaver reason. Under the existing Policy no pro-rating applies to LTI awards after grant in agreed good leaver circumstances. RSP awards under the new Policy will be subject to pro-rating in good leaver circumstances. In addition, we will adopt a more typical definition of 'retirement', that is more in line with shareholder expectations and does not allow good leaver status where individuals take up a commensurate role elsewhere or a role with a company providing banking services.	Shareholding requirements will increase from 400% of salary to 500% of salary for the CEO and from 250% of salary to 300% of salary for the CFO. This increase recognises that shareholders expect executive directors to have significant shareholdings where RSP constructs are being introduced. The change moves NatWest Group towards the highest levels of market practice on shareholder requirements and reinforces the long-term alignment of executive remuneration with shareholders.

Changes to the policy for the Chairman and non-executive directors

We reviewed the remuneration policy for the Chairman and the non-executive directors during 2021, following which only one change will be made. To recognise working practices have changed, and also to discourage unnecessary travel, the Board has moved to a hybrid model whereby meetings take place both in person and remotely. The change under the Policy will allow the Chairman and non-executive directors to receive assistance when they are attending Board meetings from another location, including meeting any costs that are considered reasonable and appropriate. Arrangements will be considered on a case-by-case basis.

The Committee retains discretion to make minor amendments to the Directors' Remuneration Policy that reflect changing legal or regulatory requirements or guidelines. We will not make any material changes to the advantage of directors without first reverting to shareholders for approval.

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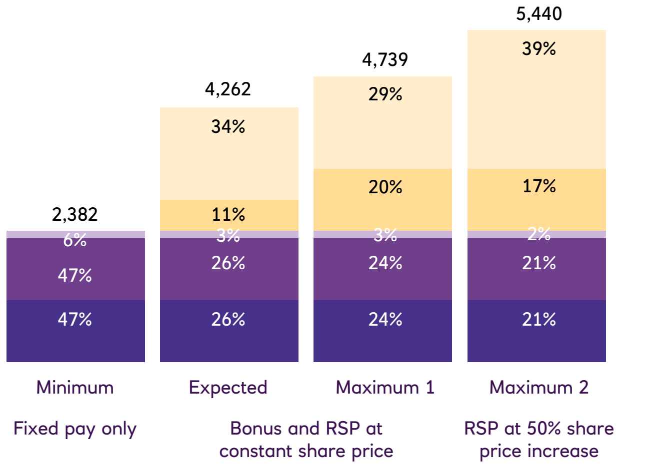
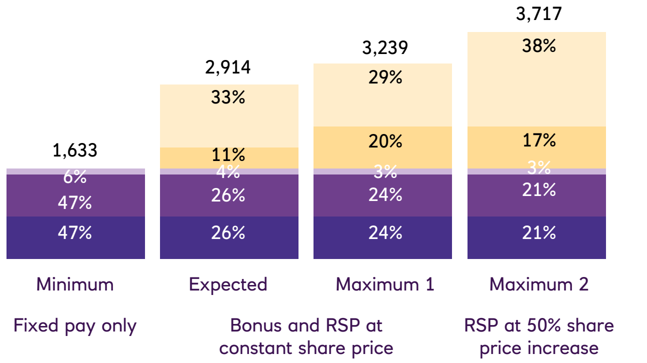
Illustration of annual remuneration for executive directors under the new policy

Chief Executive Officer (£000’s)



Chief Financial Officer (£000’s)



Base salary | Fixed share allowance | Pension & benefits | Annual bonus | RSP award (vesting value)

(1) The charts above are for illustration only, with minimum representing fixed remuneration (base salary, fixed share allowance, pension and standard benefit funding).
(2) The charts reflect remuneration receivable in the first year of the new Policy which, as noted earlier in this report, is being introduced on a phased basis. The maximum annual bonus award will be limited to 85% of base salary in year one rising to 100% of base salary in year two. The maximum RSP award will be limited to 125% of base salary in year one rising to 150% of base salary in year two.
(3) The expected value assumes annual bonus payments will be made at 50% of maximum opportunity and RSP awards will vest at 100% of maximum.
(4) Maximum 1 in the charts assumes both annual bonus and RSP awards are paid and vest in full, at 100% of maximum. Maximum 2 extends this to show the impact of a 50% increase in the share price for RSP awards over the period from grant to vest. The benefits figure includes standard benefit funding as outlined in the Policy but excludes any potential other benefits under the Policy such as travel assistance in connection with company business. We will disclose the value of any taxable business expenses in the total remuneration table each year.

Aligning executive pay with ESG performance and our purpose-led strategy

In addition to considering financial measures, the process to determine variable pay for executive directors under the new Policy will continue to reflect progress against our Environmental, Social and Governance (ESG) priorities. The combined bonus scorecard for 2022 and the assessment of satisfactory performance under the RSP will align with the five principles of a purpose-led business, as set out in the Blueprint for Better Business (BfBB) framework. The five principles form part of our purpose framework and you can find more details of this on page 13 of the Strategic report.

	Five principles of a purpose-led business				
	A guardian for future generations	Honest and fair with customers and suppliers	A good citizen	A responsible and responsive employer	Has a purpose which delivers long-term sustainable performance
Variable pay for 2022	Tackling climate change is core to our purpose. Several climate measures are included in the bonus scorecard for executive directors. The climate category accounts for 10% of annual bonus awards for 2022. This includes three measures as follows: 1. Carbon emissions from own operations 2. Funding and financing committed to climate and sustainable finance 3. Develop climate transition plan for publication with 2022 annual results.	Putting customers at the heart of what we do will help people, families and businesses to thrive. We target customer satisfaction and the likelihood that customers will recommend our brands in annual bonus decisions. A weighted Net Promoter Score (NPS) will account for 10% of the annual bonus awards for 2022. RSP awards will also be assessed to ensure that performance has been sustainable before the vesting takes place.	We can only deliver on our purpose-led strategy by continuing and deepening our relationships with all our stakeholders. There are targets to encourage and grow businesses and to increase financial capability. The Committee has discretion when making decisions to ensure outcomes are fair and appropriate. Variable pay can also be recovered from individuals if we believe the payments are no longer justified.	We are committed to creating a diverse workforce with an equitable and inclusive culture. This will also help us in serving our diverse range of customers and communities in the ways they need. There are targets to increase the percentage of females and Black, Asian and Minority Ethnic colleagues in the top layers of the organisation. Together the Purpose, Culture and People targets account for 10% of annual bonus awards for 2022.	A very high proportion of pay is delivered in shares over many years. This encourages executive directors to think and act in the best long-term interests of all our stakeholders. 10% of the 2022 annual bonus award will be based on maintaining efficient and safe levels of capital. If risk performance is not at the required level, annual bonus awards can be adjusted. RSP awards also take financial and risk considerations into account prior to vesting.
ESG alignment	E		S		G

Our ‘Colleague Listening Strategy’

It is more important than ever that we listen to colleagues and use the insight we gain to attract, engage and retain the talent we need for the future. This helps us improve by assessing colleague[1] sentiment and our progress in creating a great place to work.

Regular engagement

- Twice a year, a colleague opinion survey (Our View) allows people to have a say on what it feels like to work at NatWest Group.
- Just over 46,700 (81%) of our colleagues participated in the latest survey and there is regular engagement throughout the year.
- Question and answer sessions take place with senior executives throughout the year.
- Feedback from colleagues forms part of the People and Culture measures that impact executive pay.
- Engagement on remuneration also takes place with representatives from Unite in Great Britain and Offshore and the Financial Services Union in Northern Ireland and the Republic of Ireland.

Colleague Advisory Panel (CAP)

The CAP was established in 2018 to help us promote colleague voice in the boardroom. The CAP is chaired by Lena Wilson, one of our non-executive directors, and allows colleagues to engage directly with senior management and the Board on topics that are important to them. It includes colleagues who volunteered to be involved, representatives from trade union bodies and works councils, the colleague-led networks and junior management teams.

After each meeting, the Board receives a summary and a follow-up call is then held with the CAP so that CAP members can hear how their views were shared and what happened as a result. 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 November 2021, the Committee Chairman met with the CAP to discuss executive and wider workforce remuneration. There was a focus on fairness, simplicity, transparency and inclusion which runs through all colleague remuneration.

Members were appreciative of the presentation, saying it was a very clear explanation of NatWest Group’s approach to remuneration. They were keen to see how our Fair Pay Charter could receive a higher profile and also discussed NatWest Group’s approach to salary increases and the impact of the rising cost of living. The Committee Chairman explained that the combination of inflation and higher living costs was something employers had not faced for some time. The COVID-19 pandemic had also had a significant impact across society. Economic factors alongside the external pay market and longer-term business affordability would all need to be taken in to account when deciding our investment in fixed pay.

Climate was the overall theme of the November meeting and the Committee Chairman referred to this in his presentation. He highlighted that executive directors had specific performance goals and measures linked to climate cost, our climate footprint and colleague feedback, all of which was considered when deciding their pay awards. New ways of working were also discussed, and the Group Chief People and Transformation Officer highlighted that focus groups were being run to understand the cost impact of working from home.

A number of actions were agreed at the meeting for further consideration and the Chair of the CAP provided the Board with an update on the feedback received from colleagues.

(1) Colleagues means all employees and, in some instances, other members of the wider workforce (including contractors and agency workers).

Our View survey

The Our View colleague opinion survey compares responses from colleagues at NatWest Group against those from other companies, known as the Global Financial Services Norm (GFSN). In general, the scores from the Reward category in Our View have declined over the last year although they remain above the GFSN in all but one category. The reduction in scores was anticipated as the impact of the global pandemic on our financial performance meant investment in fixed pay was constrained last year and our bonus pool was reduced. Some colleagues also felt they had limited opportunity over the last year to use some of the benefits they had purchased under our benefit scheme.

	2021 favourable score	Versus 2020	Versus GFSN
Total Reward[1]	76	-4	+4
Colleagues who think they are paid fairly for the work they do	67	-6	+4
Understand how their pay is determined	87	-2	+13
Understand how their bonus is determined	72	-5	-5
Believe NatWest Group’s benefit programme fits their needs	80	-1	+5
Manager regularly gives them recognition for work well done	87	no change	+5

(1) NatWest Group Our View scores for 2021 exclude Ulster Bank RoI.

Pay gaps and pay ratio disclosures

Pay equality, including neutrality in respect of protected characteristics, is a core feature of our approach, to support equal pay for equal work. You can find the latest gender and ethnicity pay gap reporting for NatWest Group together with the steps being taken to address the position in the ‘Our Colleagues’ section of the Strategic Report and at natwestgroup.com. You can also see the CEO-to-employee pay ratios and further information on remuneration for the wider workforce later in this report.

Further information on our wider workforce approach.

Fair reward is one of the key things we are committed to in order to provide a great place to work for everyone. Our Fair Pay Charter is one of the ways we do this and you can find further information on our approach in our ESG Supplement. The ‘Our Colleagues’ section of the Strategic Report also sets out how we helping colleagues to thrive and realise their potential, how we support their wellbeing and how we create a diverse, equitable and inclusive culture.

How we align wider workforce and executive pay

Consistent with our approach to executive pay, our remuneration policy for all colleagues aims to be simple, transparent and to promote the long-term success of NatWest Group. It encourages a culture where individuals are rewarded for sustained performance in line with risk appetite and for demonstrating the right behaviours. These principles apply to everyone with adjustments made where necessary to comply with local requirements. As set out on the previous page, the Committee Chairman met with colleagues through the CAP in November 2021 to discuss how we take a consistent approach to workforce remuneration. He also highlighted some of the challenges being faced with the existing Policy for executive directors. The proposed introduction of annual bonus for executive directors under the new Policy will create closer alignment with the remuneration construct for the wider workforce. A significant proportion of our colleagues are eligible to receive annual bonus awards, subject to performance.

All colleagues	Certain colleagues depending on location, grade or job			Senior executives only
Base salary and pension funding	**Benefits and share plans**	**Role-based allowances**	**Annual bonus**	**RSP awards**
A competitive level of salary paid in cash and reviewed annually. Set to reflect the talents, skills and competencies that the individual brings to the business. Additional funding is provided which colleagues can use to save in a company pension scheme. Colleagues in the UK receive pension funding at 10% of base salary. The same rate applies to executive directors. Rates in other locations reflect market practice in those locations.	Some colleagues receive funding which they can use towards the cost of benefits or take as cash. Benefits offered include private medical cover, dental cover, personal accident insurance, life assurance and critical illness insurance. Individuals in some jurisdictions can also join share plans, providing an efficient way to buy NatWest Group plc shares and align their interests with our shareholders.	Role-based allowances reflect the skills and experience required for certain jobs. These are part of fixed remuneration for regulatory purposes. They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are released in instalments over a minimum three-year period with a five-year period applying to executive directors.	This is a way of rewarding individuals for superior performance. The annual bonus pool is based on a balanced scorecard of measures across our core strategic areas and our purpose. Allocation from the pool depends on the performance of the business area and the individual. Awards are made in cash and/or shares with larger amounts paid out over several years.	These encourage a sustainable long-term performance. Awards are delivered entirely in shares to provide direct alignment with our shareholders. We carry out performance checks prior to grant and again after three years to ensure satisfactory and sustained performance has been achieved. Awards are paid out in equal amounts across years three to seven following grant, followed by a 12-month retention period. RSP participants are also subject to shareholding requirements.
Fixed pay			Variable pay	

To drive consistency, we have agreed a set of NatWest Group-wide Remuneration Policy Principles which are designed to:

1. support a performance culture – we recognise colleagues' skills and experience, the responsibilities of their job and their geographic location. Ultimately, we 'pay for performance', underpinned by a robust performance management process;
2. be market facing – we benchmark ourselves against a core peer group and ensure our pay is fair, competitive and affordable; and
3. ensure compliance and governance – our reward design must be within policy, meet the expectations and requirements of our regulators and be appropriately aligned with the expectations of our shareholders and customers.

- A simple and transparent pay policy supports colleagues in doing the right thing.
- Our more junior colleagues are typically paid through fixed pay only, which was increased when variable pay was removed.
- This provides them with greater security and allows them to fully focus on the needs of the customer.

Pay for executive directors is aligned with the wider workforce, with two main differences:

i. the use of RSP awards; and
ii. a requirement to maintain a holding of shares in NatWest Group, both during and after employment.
These differences are deliberate and recognise that it is in the best interests of our stakeholders for executive directors to have a significant proportion of their remuneration paid in shares and subject to long-term holding requirements.

Our approach to the UK Corporate Governance Code (the 'Code')

This table supplements other information in this report by demonstrating some of the ways in which we meet the requirements and spirit of the Code. We continue to monitor and reflect on best practice when developing our remuneration practices. By introducing weighted annual bonus measures, rather than assessing performance in the round, the new Policy for executive directors creates a more direct link between the delivery of our strategy and pay and performance outcomes. We consider both the outcomes and how they have been achieved to encourage and reward behaviours in line with our values. Malus and clawback provisions together with long holding periods reinforce the need for recipients to act in the best interests of our stakeholders.

Provision	Our approach
Review workforce remuneration and alignment with culture	– Every year we consider how pay has been distributed across NatWest Group, analysing performance ratings by grade and diversity categories. Checks are in place to ensure decisions are made fairly. – Over the last year, we also offered colleagues the opportunity to join Sharesave in the UK, Poland and India. This simple savings plan encourages colleagues to think about their financial wellbeing and provides an option to buy shares and align their interests with our shareholders. – We also review the annual spend on fixed pay (approximately two-thirds of the workforce receive fixed pay only). We have targeted recent increases towards our most junior and lowest-paid colleagues, areas where specialist skills are required leading to high attrition rates and those lowest in their salary range. – The Committee also approves, and reviews the implementation of, the Group-wide remuneration policy principles, and approves the bonus pool for bonus-eligible colleagues across the wider workforce. – Targets exist to help build colleagues' capability, strengthen our culture and build a diverse workforce within an inclusive environment. These form part of the performance measures that are aligned with our strategy and affect the pay of executive directors and bonus-eligible colleagues. – An accountability review process allows us to respond where new information would change our variable pay decisions. The Committee works closely with other Board Committees to consider how to reflect progress on culture in remuneration. – The governance of culture is clearly laid out with specific Senior Management Function roles having defined accountabilities, which are taken into account in determining pay decisions for such roles.
When determining the executive director remuneration policy, we consider factors including clarity, simplicity, risk, predictability, proportionality and alignment to culture	– Most of the remuneration for executive directors is share-based and subject to deferral and retention requirements, creating significant alignment with our shareholders. – There is clarity for executives on how performance will be assessed and the behaviours expected of them. We provide detailed disclosure on decisions made to give our shareholders transparency. – We take risk into account at various stages of the performance assessment process, with underpins and malus and clawback provisions providing us with further tools to adjust awards, if necessary. – We have set out scenarios of the possible rewards to executive directors under the new Policy on page 152 along with the impact of a 50% share price appreciation over the performance period for RSP awards. – Variable pay cannot be awarded above the level of fixed pay. We believe that this is a restrained and proportionate approach to executive remuneration. RSP awards will be subject to a satisfactory and sustainable level of performance having been achieved, having regard to our purpose-led strategic goals. RSP awards will also be deferred over many years to encourage long-term thinking.
Discretion	– We can apply discretion under our share plan rules where appropriate. The Committee has in the past applied downwards discretion in determining variable pay outcomes and did so again this year in respect of the 2019 LTI awards due to vest in March 2022. – The Committee can also determine whether an individual would qualify as a good leaver on departure and, subject to meeting any regulatory requirements, decide that awards held by good leavers should vest earlier than the normal vesting date. – Discretion is only used to ensure a fair outcome. We will disclose any use of discretion. – Further discretions include the ability to: treat variable pay awards in a range of ways in the event of a change of control, but only within the terms of the share plan rules approved by shareholders; change any performance measures, targets, and adjust awards if major events occur.

Scope to adjust variable pay through malus and clawback	– Malus allows us to reduce the amount of any unvested variable pay awards, potentially to zero, prior to payment. Clawback allows the recovery of variable pay awards that have already vested.
	– The circumstances in which NatWest Group may apply malus or clawback include:
	  – conduct which results in significant financial losses for NatWest Group;
	  – an individual failing to meet appropriate standards of fitness and propriety;
	  – an individual's misbehaviour or material error;
	  – NatWest Group or the individual's business unit suffering a material failure of risk management; and
	  – for malus and in-year bonus reduction only, circumstances where there has been a material downturn in financial performance.
	– This list is not exhaustive and further circumstances may be considered where appropriate.

Annual remuneration report

Single total figure of remuneration for executive directors for 2021 (audited)

	Alison Rose 2021 £000	Alison Rose 2020 £000	Katie Murray 2021 £000	Katie Murray 2020 £000
Base salary	**1,100**	1,100	**750**	750
Fixed share allowance[(1)]	**1,100**	674	**750**	750
Benefits[(2)]	**81**	81	**30**	47
Pension[(3)]	**110**	110	**75**	75
Total fixed remuneration	**2,391**	1,965	**1,605**	1,622
Annual bonus	**n/a**	n/a	**n/a**	n/a
Long-term incentive award[(4)]	**1,197**	650	**–**	–
Total variable remuneration	**1,197**	650	**–**	–
Total remuneration	**3,588**	2,615	**1,605**	1,622

(1) The fixed share allowance is based on 100% of salary and, as part of fixed remuneration, is not subject to any performance conditions. In April 2020, Ms Rose announced she would forgo 25% of her fixed pay for the rest of the year. A reduction of £426,078 was applied to her fixed share allowance and NatWest Group made a comparable donation to the NET Coronavirus Appeal.
(2) Includes standard benefit funding at £26,250 per annum. In addition, Ms Rose received travel assistance in connection with company business (£25,314) and assistance with home security (£29,703). Ms Murray also received travel assistance (£990) and home security arrangements (£2,519) for 2021.
(3) The executive directors receive a monthly cash allowance and can choose to participate in the company's defined contribution pension arrangements.
(4) The 2021 value for Ms Rose relates to an LTI award granted in 2019, prior to becoming an executive director. The Committee assessed performance prior to vesting as set out below and on the next page. No discretion was exercised as a result of the share price changing over the performance period. Ms Murray was not eligible for an LTI award in 2019.

Vesting of 2019 LTI award (audited)

The table summarises the number of shares due to vest to Ms Rose following the pre-grant and pre-vest performance assessments and the estimated vesting value for the 2019 LTI award, shown in the single total figure of remuneration above. No dividend equivalents were paid prior to vesting.

Alison Rose 2019 LTI award	Maximum shares at grant	Reduction at pre-grant test	Shares granted	Further reduction at pre–vest test as a percentage of original maximum	Shares to vest	
	644,672	c.11.76%	568,829	5%	536,595	
	Maximum value at grant	Reduction in value from pre-grant test	Value of Shares granted	Reduction in value at pre-vest test	Reduction due to fall in share price	Vesting value[(1)]
	£1,700,000	£200,000	£1,500,000	£85,000	£218,000	£1,197,000

(1) Share price at grant was £2.637 and the vesting value was based on share price of £2.23, the average over the three-month period from October to December 2021.

2019 LTI award – Pre-vest performance assessment framework

LTI awards were made in early 2019 following an assessment of performance over the 2018 financial year. Before vesting, the Committee carries out a further review to consider whether anything has come to light which might call the original award into question. Internal control functions and PwC, as independent advisers, the Group Board Risk Committee (BRC) and the Group Sustainable Banking Committee (SBC) support the Committee in this assessment, with the outcome set out below.

Looking back to performance for 2018 and 'knowing what we know now', has NatWest Group

Core questions

1. Remained safe and secure, taking into account financial results and the capital position?

2. Been a good bank for customers taking into account customer and advocacy performance?

3. Operated in an environment in which risk is seen as part of the way we work and think?

4. Operated in a way that reflects its stated values?

Evidenced by

Has NatWest Group breached a minimum capital ratio over the period?	Has there been a material fall in the NatWest Group share price over the period?	Has Net Promoter Score (NPS) fallen across the business?	Have there been indicators of a material deterioration in the risk culture or profile, taking into account annual assessments by the Risk function and the BRC?	Has the Financial Services Culture Board (FSCB)[(1)] survey position fallen materially?	Have colleague engagement scores fallen materially?

Analysis

NO NatWest Group has remained well capitalised since 2018.	**NO** The share price has risen by 4% since the end of 2018.	**NO** for six segments. **YES** for one of the five targeted customer brands.	**NO** No material deterioration in risk culture or profile since 2018.	**NO** Scores improved consistently since 2018.	**NO** Engagement Index has increased since 2018.

Potential underperformance?

YES

Where the answer is 'Yes', three further questions are considered:
1. Is the underperformance due to factors within management's reasonable control in the circumstances?
2. Can the underperformance be linked back to the performance year to which the award relates, rather than to performance developments since?
3. Is it appropriate to reflect the underperformance in the current pre-vest test (i.e. if the underperformance has not been adequately reflected in other ways such as subsequent pre-grant tests for awards granted in the interim)?

If the answer to each of these questions is "Yes", the Committee may decide that a further adjustment prior to vesting is appropriate, and it has the discretion to decide the amount.

NO

Achievement of 'threshold level of sustainable performance' has been evidenced.

No adjustment proposed, subject to the underpins below.

Further analysis

The areas of customer and risk were investigated with a specific focus on Financial Crime (FC) remediation.
- Supported by external opinion, we concluded that while NPS had declined within Ulster Bank ROI over the period, it was not considered to be due to factors which related to the 2018 award year or were within management's reasonable control.
- Although on risk there had been no material deterioration in risk culture or profile over the period, it was felt appropriate that the management performance relating to FC remediation should be assessed using the Risk & Control underpin.

(1) FSCB was formerly the Banking Standards Board. NatWest Group will cease to take part in the FSCB survey from 2022. Going forwards the LTI pre vest test culture assessment will be assessed using Our View; NatWest Group's internal colleague opinion survey.

Risk & Control and Stakeholder Perception underpins

We use the underpins to give us scope to consider significant risk, stakeholder or reputational matters not already captured in the performance assessment, taking into account advice from the BRC and the SBC. We can use the underpins to consider events arising during the period between grant and the end of year three. Having reviewed the facts relating to management performance with regard to FC remediation, and recognising its significance, BRC agreed it would be appropriate for the Committee to consider an adjustment to 2019 LTI vest levels.

BRC assessment and recommendation to invoke the Risk & Control underpin

Following a detailed investigation by management, the BRC concluded that, while management had taken significant action to drive delivery of the FC remediation programme, there had not been a full appreciation of the scale, complexity and interdependencies of the programme at the time of the 2019 LTI grant which had resulted in technology and programme delays. This had led to target dates being pushed out for critical deliverables to return within risk appetite, with such delays not being fully reflected at grant or in subsequent grants. Following the steps above, the BRC recommended that the Committee consider applying the Risk & Control underpin for the 2019 LTI awards.

Assessment by the Committee and final outcome (audited)

After considering the Risk & Control underpin and the organisational significance of the FC remediation programme alongside the Group's other priorities and performance in 2018, the Committee agreed that the awards of three individuals holding 2019 LTI awards would be adjusted. Ross McEwan was viewed as having supervisory responsibility for the delivery of the FC remediation programme and Alison Rose was considered to have had joint primary responsibility for the delivery of the programme, during 2018. The third individual, who is not currently an executive director and has not held such a role in the past, was also considered to have joint primary responsibility for the programme in 2018. The Committee considered at length the differing level of involvement of and responsibilities held by the three individuals, to ensure that fair and proportionate adjustments were made.

Mr McEwan received an LTI award of 625,712 shares out of a maximum of 663,633 shares in 2019 after the application of the pre-grant performance assessment. Under the pre-vest assessment above, a further reduction of 5% of the maximum award was applied using the Risk & Control underpin, resulting in a balance of 592,530 shares. Ms Rose received a 2019 LTI award of 568,829 shares following the pre-grant test, representing a 11.76% reduction from the maximum possible award. The Committee and the Board agreed that a further reduction of 5% of Ms Rose's 2019 LTI maximum award level would be appropriate using the Risk & Control underpin, resulting in a balance of 536,595 shares. Applying a consistent reduction for Mr McEwan and Ms Rose was considered to be appropriate as whilst Mr McEwan was not primarily responsible for the delivery of the programme, he continued to play a significant role as Group CEO and was expected to provide clear line manager direction and oversight given the importance of the FC remediation programme. These pre-vest reductions to the 2019 LTI awards of Mr McEwan and Ms Rose resulted in a total reduction, based on their respective maximum 2019 LTI awards, of 11% for Mr McEwan and 17% for Ms Rose. Further details on Mr McEwan's arrangements can be found in the payments to past directors' section.

Scheme interests – LTI awards granted during 2021 (audited)

	Grant date	Face value	Award price	Shares awarded[1]	Vesting levels	Performance requirements
Alison Rose	–	–	–	–	Between 0% – 100% with no set minimum vesting	The award was subject to a pre-grant assessment of performance over 2020. A further assessment will take place following the end of the 2023 financial year to check that nothing has come to light that would change the original decision. This assessment will operate in a similar way to the framework for the 2019 LTI award pre-vest assessment, as set out above.
Katie Murray	8 March 2021	£682,000	£1.6746	407,262		

(1) An indicative PY 2020 award of £899k was approved in principle for Ms Rose. However, as Ms Rose confirmed in April 2020 that she did not wish to be considered for a 2021 LTI award, due to the impact of COVID-19, she declined this award. The conditional share award granted to Ms Murray equates to c.91% of base salary. The number of shares was calculated taking into account performance and the maximum potential award for Ms Murray. The award price was based on the average share price over five business days prior to grant. Subject to the pre-vest assessment, these awards will vest in equal amounts between years 2024 and 2028. Service conditions and malus provisions apply up until vest, and clawback provisions apply for a period of at least seven years from the date of grant.

Pre-grant assessment of performance in 2021 (for LTI awards to be granted in 2022)

For each of the core performance areas, the Committee considers whether the executive directors have achieved what would reasonably have been expected of them over the performance year prior to grant. We use a robust process to review performance against pre-set goals relevant to NatWest Group's strategic aims for that year, but apply our judgment without a formulaic range for vesting or mechanistic weightings. Risk & Control and Stakeholder Perception underpins also apply, under which we can consider if there are any other factors that would lead to a downwards adjustment. The CFO's performance was assessed in line with the framework set out below and also with reference to the performance of the Finance function.

A further performance assessment will take place in early 2025 before any vesting takes place. This will operate in a similar way to the pre-vest framework in place for the 2019 LTI awards, as described in detail on page 159. It will consider whether anything has come to light that would indicate the assessment below did not represent a correct view of performance at that time.

Core strategic areas	Measures and targets to assess pre-grant performance	Performance against targets for 2021	Ratings
Scorecard Financial & Business Delivery **Purpose alignment** Has a purpose which delivers long-term sustainable performance	**Run a safe and secure bank** Achieve cost reduction target by reducing other expenses, excluding operating lease depreciation, by around 4% in comparison to 2020. **Priority** Achieve CET1 ratio targets for NatWest Group of 15.3% and NWH Group of 14.5%, with appropriate repatriation of capital to NatWest Group. **Priority** Above market rate net lending growth across the retail and commercial businesses, excluding UK Government financial support schemes. Increase focus on climate lending. **Priority** Achieve RoTE target of 0.8% for NatWest Group. Progress towards execution of the NatWest Markets strategic review by achieving the majority of the remaining RWA reduction towards our medium-term target of £20 billion by the end of 2021. **Priority**	NatWest Group cost savings were £256 million or 4.0% meaning the target has been met. NatWest Group CET1 was 18.2% at year end and exceeded the target. In the year, NatWest Group made significant shareholder distributions. NWH Group CET1 was 15.9% with appropriate capital repatriation to NatWest Group, which also exceeded the target. Across the UK and RBSI retail and commercial businesses, and excluding UK Government support schemes, net lending increased by 2.6%. Mortgage growth exceeded the market, however commercial lending was behind market as we have sought to reduce certain exposures, through targeted sector reductions and capital actions, whilst continuing to focus on supporting customers through sustainable lending. Significant outperformance on RoTE which was 9.4% for the year, benefiting from a significant impairment release. NatWest Markets did not achieve its 2021 RWA reduction target.	Partially met
Scorecard Risk & Control **Purpose alignment** Has a purpose which delivers long-term sustainable performance	**Maintain a robust control environment** NatWest Group and NWH Group to achieve a control environment rating of '2', with evidence to support progress against regulatory responsibilities and priorities. Compliance with minimum controls under ring-fencing rules. **Priority**	The control environment rating across NatWest Group and NWH Group remained a '3', meaning the target was not met. NatWest Group is materially compliant with ring-fencing requirements. Internal arrangements including frameworks, processes and controls have been developed to facilitate demonstration of compliance with the ring-fencing regime	Not met
	Material progress towards our desired risk culture NatWest Group and NWH Group to each achieve a '2' systematic risk culture rating as a minimum, with key Enterprise Wide Risk Management Framework (EWRMF) milestones delivered and decisions made through application of a 'purpose' lens. **Priority**	NWH Group risk culture has improved to systematic. However at NatWest Group level, risk culture is still assessed as being proactive and as such the target has not been met. Group key risk policies and key components of the non-financial risk framework were delivered for implementation on 1 January 2022 meaning the EWRMF element of the risk culture measure was achieved in line with target.	Partially met
Scorecard Customer & Stakeholder **Purpose alignment** Honest and fair with customers and suppliers A good citizen	**Meaningful increase in customer advocacy** Achievement of targets across the top four customer journeys prioritised for 2021. Aiming for Net Promoter Score (NPS) improvement of: – Six points for NatWest Account Opening or be fourth or better; – Two points for NatWest Commercial Lending; – Two points for NatWest Day-to-Day Business Servicing. Maintain NPS for NatWest Mortgages or be second or better.	As at Q3 2021, customer NPS performance was positive with targets met for two out of four customer journeys. NatWest Account Opening NPS exceeded target by six points, up 12 points year on year and ranking third. NatWest Lending NPS missed target by one point. NatWest Day-to-Day Business Servicing has exceeded its target by five points. NatWest Mortgages NPS missed its target as a result of dropping one point and dropping one place to third.	Partially met

Core strategic areas	Measures and targets to assess pre-grant performance	Performance against targets for 2021	Ratings
	Increase the likelihood that customers will recommend our brands Achievement of NPS targets for our core customer facing businesses. **Priority** Aiming for NPS improvement of: – One point for NatWest Retail Main Bank or be fifth or better; – Four points for NatWest Business Banking and be third or better; and – Five points for Mid-Markets NPS or be first by five points.	As at Q3 2021, customer NPS performance has been positive with targets met or exceeded for two out of the three core customer facing businesses. NatWest Retail main bank NPS exceeded its target by five points, up six points year on year. NatWest is now ranked third compared to equal seventh a year ago. NatWest Business Banking NPS missed its target by two points and continues to be ranked third. After a strong start to the year, NPS flattened following NatWest Group asking customers to pay back their loans (in line with approach advised by the Government), which contributed to a change in sentiment. NatWest Business Mid-Markets NPS increased by four points but met target by regaining first position and its lead over the next best competitor.	Partially met
	Improve the financial capability of our customers, colleagues and communities Aiming to help an additional 500,000 customers to start saving at least £100. **Priority** NatWest Group to reach 3.2 million individuals through agreed financial capability interactions.	We have supported an additional 471,000 customers to start saving at least £100. We have reached 6.1 million individuals through financial capability interactions.	Partially met
	Remove barriers to UK enterprise growth Support removal of barriers to UK enterprise growth through networking and funding interventions. Support 35,000 businesses through enterprise programmes with 200,000 customer interactions to help them start, run and grow a business. **Priority** Support to be distributed: – 75% to UK regions outside London and the South East; – 60% to females; – 20% to Black, Asian and Minority Ethnic individuals; and – 10% to people intending to create purpose-led businesses.	NatWest Group supported c.54,500 businesses through enterprise programmes with c.200,000[1] customer interactions focused on supporting businesses to start, run and grow. Support was distributed: – 79% to UK regions outside London and the South East; – 60% to females; – 26% to Black, Asian and Minority Ethnic individuals; and – 52% to people intending to create purpose-led businesses.	Met
A guardian for future generations	**To be a leading bank in helping to address the climate challenge** Progress towards Climate Positive own operations by 2025. Reduce carbon emissions from our direct operational footprint by 25% of NatWest Group's 2019 baseline position. Providing £8 billion of funding and financing for climate and sustainable finance in 2021. Complete footprint estimate of 2019 total financed emissions. Develop estimates aligned with the 2015 Paris Agreement for a further four sectors. **Priority**	Progress has continued to be made against the carbon emissions target, with NatWest Group exceeding the target with a 46% reduction in emissions in 2021. Funding and financing for climate and sustainable finance totalled £17.5 billion, meaning the target has been exceeded. NatWest Group has completed its footprint estimate of 2019 total financed emissions. We developed 2019 financed emissions estimates for a further eight sectors, meaning the target has been exceeded.	Exceeded

(1) Represents approximate number of interactions delivered by enterprise programmes during 2021 which is based upon data provided by third parties delivering these interactions without further independent verification by NatWest Group.

Core strategic areas	Measures and targets to assess pre-grant performance	Performance against targets for 2021	Ratings
Scorecard People & Culture **Purpose alignment** A responsible and responsive employer	**Build the capability of our colleagues to realise their potential.** Achieving the capability targets as measured through the 'Our View' colleague survey, NatWest Group to be 15 points above and NWH Group to be 16 points above the Global Financial Services Norm.	NatWest Group and NWH Group building capability scores both missed the target by one point.	Not met
	Build up and strengthen a healthy culture. Achieving the culture targets as measured through the Our View colleague survey. NatWest Group to be seven points above and NWH Group to be eight points above the FSCB. **Priority**	NatWest Group and NWH Group culture scores both exceeded the target by two points.	Exceeded
	Embed our shared purpose across the business and brands Achieving the shared purpose target as measured through the 'Our View' colleague survey. NatWest Group and NWH Group to be six points above the FSCB. **Priority**	NatWest Group and NWH Group shared purpose scores exceeded the target by three points and four points respectively.	Exceeded
	A diverse workforce and inclusive environment To increase the percentage of females in the top three layers of NatWest Group from 39% to 40% on aggregate. To increase the percentage of Black, Asian and Minority Ethnic UK employees in the top four layers of NatWest Group from 10% to 11% on aggregate. Achieving the inclusion target as measured through the 'Our View' colleague survey. NatWest Group and NWH Group to be 13 points above the Global Financial Services Norm.	The percentage of females in top three layers of NatWest Group, in aggregate, increased from 39% to 40% as at Q3 2021, meaning the target has been met. The percentage of Black, Asian and Minority Ethnic UK employees in the top four layers of NatWest Group, in aggregate, increased from 10% to 11% as at Q3 2021, meaning the target has been met. The NatWest Group and NWH Group inclusion index scores both exceeded target by one point.	Met

Outcome of the pre-grant assessment for LTI awards to be granted in 2022 (audited)

In assessing performance against the above framework, the Committee also received advice from the BRC and the SBC in making its final assessment. As part of its 'performance in the round' judgment, the Committee noted that targets had been met or exceeded for five of the areas above, while five were partially met and two were missed, albeit narrowly in both cases. The highlighted priority measures were a key focus for the Committee as it applied its judgment to assess performance for the year.

Alison Rose (audited)

Turning to individual performance, Ms Rose was considered to have had a strong year. NatWest Group's underlying financial performance was viewed as strong, which had resulted in significant shareholder distributions across 2021. Progress had been made against NatWest Group's Enterprise and Climate goals and NatWest Group's contribution to COP26 was considered to have been strong. People scores remained strong, despite a marginal 'miss' on building capability, and Customer scores were improved in most areas. NatWest Group continued to be behind target on its Risk performance, although progress had been made in some areas. Taking into account performance against the core goals as set out above, the Committee agreed an LTI award level of £1,598,000 would be appropriate, which represents 145% of salary and 83% of the maximum LTI award. In order to ensure parity of treatment with the wider workforce, the LTI outcome reflected an adjustment to mirror the downward adjustment to the 2021 bonus pool for the fine imposed by the FCA on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 and ongoing FC remediation considerations.

Katie Murray (audited)

Ms Murray's performance was also considered to be strong in 2021, with highlights including her proactive engagement with investors, the refresh of NatWest Group's Annual Report and Accounts process and reporting frameworks and on scenario modelling, with improvements having been delivered in forecasting capabilities. Ms Murray had shown excellent leadership on the cost and investment agenda and had made progress on the Finance transformation agenda. In light of performance achieved, the Committee agreed that an LTI award of £1,057,500 would be appropriate, which represents 141% of salary and 71% of the maximum award available. In line with the approach taken for Ms Rose, the LTI outcome reflected an adjustment to mirror the downward adjustment to the 2021 bonus pool for the fine imposed on NatWest Bank Plc for breaches of the Money Laundering Regulations 2007 and ongoing FC remediation considerations.

	Maximum award	Reduction for pre- grant performance	LTI award to be made in 2022	Award level agreed by Committee (% of maximum)
Alison Rose	£1,925,000	£327,000	£1,598,000	83%
Katie Murray	£1,500,000	£442,500	£1,057,500	71%

Remuneration for the Chairman and non-executive directors

A change was made to the level of fees for the Group Performance and Remuneration Committee, with the Committee Chairman receiving an increase from £60,000 to £68,000 per annum and members receiving an increase from £30,000 to £34,000 per annum with effect from 1 July 2021. Committee fees had not changed since 2014 and the review took place after considering the time commitment against the other NatWest Group Board Committees and market practice. The number of meetings remained consistently high and was not expected to change due to the heavily-regulated nature of remuneration at large banks. The annual engagement with our stakeholders on remuneration also required a significant amount of work, particularly for the Committee Chairman. After reflecting on current and expected future time commitment, it was agreed to bring the rates in line with those currently paid for the BRC and the Group Audit Committee. No directors are involved in decisions regarding their own remuneration.

The temporary increase in the fees for the Chairman of the CAP, to reflect additional engagement with the workforce due to COVID-19, came to an end on 1 April 2021 with fees reverting from £30,000 to £15,000 per annum. For NatWest Group plc Board directors who also serve on the Boards and Committees of NatWest Holdings Limited, National Westminster Bank Plc, The Royal Bank of Scotland plc and Ulster Bank Limited, the fees below reflect membership of all five boards and their respective Board Committees. Directors may also receive fees for membership of other subsidiary company Boards and Committees, the value of which is included below. No variable pay is provided to the Chairman and non-executive directors.

Total remuneration for the Chairman and non-executive directors in 2021 (audited)

	Fees		Benefits[1]		Total	
Chairman (composite fee)	2021 £000	2020 £000	2021 £000	2020 £000	2021 £000	2020 £000
Howard Davies	750	750	13	12	763	762

Non-executive directors

	Board £000	N&G £000	GAC £000	BRC £000	RemCo £000	SBC £000	TIC £000	SID £000	CAP £000	Other £000	Fees 2021 £000	Fees 2020 £000	Benefits[2] 2021 £000	Benefits[2] 2020 £000	Total 2021 £000	Total 2020 £000
Frank Dangeard[3]										262	262	260	1	1	263	261
Patrick Flynn	80	15	68	34			30				227	227	1	3	228	230
Morten Friis	80	15	34	68							197	168	22	7	219	175
Robert Gillespie	80	15	34	34	64						227	221	2	3	229	224
Yasmin Jetha	80					30	60				170	128	1	–	171	128
Mike Rogers	80				32	60					172	170	–	2	172	172
Mark Seligman	80	15	34		32			30			191	189	1	1	192	190
Lena Wilson	80			34	32	30			19		195	180	5	4	200	184

(1) The benefits column for Howard Davies, Chairman, includes private medical cover, life cover and expenses in connection with attendance at Board meetings. In April 2020, the Chairman announced he would donate 25% of his fees for the rest of 2020 to the NET Coronavirus Appeal.
(2) Non-executive directors are reimbursed expenses incurred in connection with travel and attendance at Board meetings.
(3) Under the 'Other' column, Frank Dangeard received a composite fee as Chairman of the NatWest Markets Plc (NWM Plc) Board.

Key to table:

N&G	Group Nominations and Governance Committee	SBC	Group Sustainable Banking Committee
GAC	Group Audit Committee	TIC	Technology and Innovation Committee
BRC	Group Board Risk Committee	SID	Senior Independent Director
RemCo	Group Performance and Remuneration Committee	CAP	Colleague Advisory Panel

Payments for loss of office and payments to past directors (audited)

There were no payments for loss of office made to directors in 2021. Ross McEwan stepped down from the Board as CEO in October 2019. Mr McEwan qualified for good leaver treatment meaning his outstanding LTI awards continue to vest on their scheduled vesting dates and pro-rating does not apply. All awards remain subject to a performance assessment prior to vesting and the potential application of malus and clawback provisions.

As set out earlier in this report, Mr McEwan received an LTI award of 625,712 shares in 2019 which was reduced to 592,530 shares following the application of the pre-vest assessment and Risk and Control underpin. The remaining shares are due to vest between 2022 and 2026, subject to good leaver criteria continuing to be met. The value of the shares is £1,321,342 based on the average share price over October to December 2021. A further disclosure will be made in next year's report following the pre-vest assessment of the final LTI award granted to Mr McEwan in 2020. In addition, Mr McEwan received assistance with his UK tax return for his final year of employment with NatWest Group and a payment was made in relation to taxes incurred as a result of a business trip to California while in employment, with payments totalling £10,700. There are no other payments to past directors to disclose for 2021.

Implementation of remuneration policy in 2022

Pay arrangements

Both executive directors will receive LTI awards in March 2022 in respect of the 2021 performance year. You can find details of these awards on page 164. Under the existing Policy, a salary increase of 2% has been agreed for executive directors from 1 April 2022, which is below the expected average salary increase for the wider global workforce of 3.6%. Subject to the new Policy being approved by shareholders at the 2022 AGM, the revised annual pay arrangements that will apply from the date of the AGM for the 2022 performance year are set out below.

	Salary (1 Jan 2022)	Salary (1 April 2022)	Standard benefits[1]	Pension	Fixed share allowance[2]	Maximum bonus award for 2022[3]	Maximum RSP award for 2022[4]
Alison Rose	£1,100,000	£1,122,000	£26,250	10% of salary	100% of salary	85% of salary	125% of salary
Katie Murray	£750,000	£765,000	£26,250	10% of salary	100% of salary	85% of salary	125% of salary

(1) Amounts shown relates to standard benefit funding. Executive directors are also entitled to travel assistance and security arrangements in line with the policy. We will disclose the value of benefits received each year.
(2) Fixed share allowance is payable broadly in arrears, currently in four instalments per year. The first payment for January to March 2022 will be made under the existing Policy, with the shares released in equal amounts over a three-year period. The remaining instalments for 2022 will be made under the new Policy, with shares released in equal amounts over a five-year period.
(3) The maximum bonus award under the Policy is set at 100% of base salary, however, in the first year of implementation this will be limited to 85% of base salary as part of a phased increase. The calculation of award maximum is based on salary earned over the year. As the salary increase is effective from 1 April, three months of the year will be based on existing salary with nine months based on the post April salary. The annual bonus award is expected to vest at 50% where target performance is achieved across the scorecard.
(4) The maximum RSP award under the Policy will be set at 150% of base salary, however, in the first year of implementation this will be limited to 125% of base salary as part of a phased increase. As per above, the calculation of maximum is based on salary earned over the year. The RSP award is normally expected to vest in full, subject to underpin criteria that will ensure there is no payment for failure.

Annual bonus and RSP

Subject to being approved by shareholders at the 2022 AGM, the Policy on pages 143 to 147 will apply to the executive directors from 2022. The Committee intends to implement the new Policy as follows.

Annual bonus

The 2022 bonus scorecard will be based on weighted performance measures and appropriately stretching targets across financial and non-financial areas that align with our purpose-led strategy. For 2022, these will be apportioned as follows:

- Financial performance measures will represent 60% of the overall scorecard. Target ranges have been set in line with the budget. A qualitative overlay will be applied to consider actual performance and how the outcome has been achieved. Any M&A activity and performance versus the market will be considered in the final assessment;
- Non-financial measures will be focused across Climate, Customer, Purpose, Culture and People, Enterprise and Capability. For 2022, these areas will represent an aggregate of 35% of the scorecard;
- Personal measures will represent 5% of the overall scorecard and the performance of each executive director will be based on a discretionary assessment at year end; and
- A downward Risk modifier will also apply, enabling risk performance to be assessed and awards reduced, potentially to zero, as required. This will be based on an assessment of:
  - Annual risk performance assessment of Franchises/Functions/Legal Entities;
  - Annual assessment of individual performance against executive director risk and control goals; and
  - Qualitative behavioural observations from the Group Chief Risk Officer.

In the first year of implementation the annual bonus will be granted at a maximum value of 85% of base salary.

Annual bonus performance assessment under the new Policy for 2022

Threshold and maximum targets will be disclosed retrospectively at the end of the performance period in the 2022 Directors' Remuneration Report, alongside the actual level of performance achieved and associated narrative. No award will be made if threshold performance, as determined by the Committee, is not achieved.

The level of the award to be paid will vary between 10% for threshold performance and 100% for maximum performance. Target performance will pay out at 50% of maximum opportunity.

All assessments of performance are subject to the Committee's judgment to determine the appropriate outcome. Discretion will only be used by the Committee when the application of the formulaic performance outcome drives an unrepresentative outcome or when it is necessary to take into account strategic, economic or societal impacts that were not or could not have been accounted for at the point of agreeing the bonus scorecard.

Annual bonus performance measure and targets for 2022

Category	Performance measures		Target	Weighting %
			Financial	
Financial (60%)	Go-forward group[1] ROTE.		Targets set and the extent of their achievement will be disclosed in the 2022 Annual Report as the Committee considers them to be commercially sensitive at this point in time.	30%
	Underlying income growth of the Go-forward group.		Income excluding notable items to exceed £11.0 billion in the Go-forward group.	10%
	Go-forward group operating expenses, excluding litigation and conduct costs.		Around 3% cost reduction.	10%
	Progress to medium-term capital target.		CET1 ratio of around 14% post distributions.	10%
			Non-Financial	
Strategic (35%)	Climate	Progress towards halving emissions for own direct operations by 2025. Funding and financing committed to climate and sustainable finance. Develop climate transition plan for publication.	Maintain 40% reduction in carbon emissions from our direct operational footprint against 2019 baseline. £17.5 billion of funding and financing for climate and sustainable finance in 2022. Development of NWG climate transition plan for publication with the 2022 annual results.	10%
	Customer	Achieving Net Promoter Score (NPS) targets on an aggregated basis for NatWest Group.	NPS improvement of: – One point for NatWest Retail Banking or be 2nd or better – Two points for NatWest Premier Banking – One point for Coutts – One point for NatWest Business Banking and be 3rd or better – Two points for RBSI Maintain NPS for NatWest Commercial & Corporate Banking and maintain 1st position. Achieve a Customer Touchpoint Rating of 70 for NatWest Markets[2].	10%
	Purpose, Culture and People	Progress against purpose targets. Progress against culture targets. Number of females in senior roles. Black, Asian and Minority Ethnic representation.	Maintain current purpose score of 90. Maintain current culture score of 83. Progression towards the achievement of our externally published long-term target (2030) for gender of 50%. Increase percentage of females in top three layers of the organisation to 41%. Progression towards the achievement of our externally published medium-term target (2025) for ethnicity of 15%. Increase percentage of Black, Asian and Minority Ethnic colleagues in top four layers of the organisation to 12%.	10%
	Enterprise & Capability	Support a Springboard to Sustainable Recovery and prioritise support for harder to reach groups. Encourage youth participation in enterprise. Increase number of customers to save at least £100. Number of financial capability interactions which require active engagement, give knowledge or skills or change behaviour.	Support 35,000 businesses through enterprise programmes with 250,000 customer interactions to start, run and grow a business. Support being distributed as follows: – 75% support to UK regions outside London & South East; – 60% support to females; – 20% support to Black, Asian and Minority Ethnic individuals; – 20% to people intending to create purpose-led businesses. 30,000 young adults engaged in enterprise and entrepreneurship activity. Help an additional 530,000 customers to start saving. Reach 4 million people through financial capability interactions.	5%
Personal (5%)	Discretionary assessment at year end for both executive directors.		CEO performance is based on recommendation from Chairman taking into account additional individual performance factors. CFO performance is based on recommendation from CEO taking into account individual performance goals and the performance of the Finance function.	5%
Risk (0-100%)	Risk performance assessment based on Group, NatWest Holdings, Functional (CFO only) and individual risk performance.		Discretionary downwards modifier.	0 -100%

(1) Go-forward group excludes Ulster Bank RoI.
(2) As NPS is not available for the NatWest Markets business, an internal Customer Touchpoint Rating is applied to assess NatWest Markets' customer performance.

RSP performance assessment under the new Policy for 2022

The new tests are simpler than those currently operated under the existing LTI-only construct. The RSP is bolstered by the annual bonus, which ensures that executive directors are also incentivised to deliver on the key strategic priorities of NatWest Group, with robust weighted performance measures as set out on the previous page. After the pre-grant test and underpin, the RSP would be expected to pay out at 100% in the vast majority of cases to deliver the expected value under the construct. In the first year of implementation, the RSP will be granted at a maximum value of 125% of base salary. This will rise to 150% of base salary in the second year of the new Policy.

Pre-grant test

The first RSP award will be granted in early 2023. Executive directors will be granted an RSP award provided the Committee considers performance over 2022 has been satisfactory, based on an assessment against our performance management framework.

Pre-vest underpin

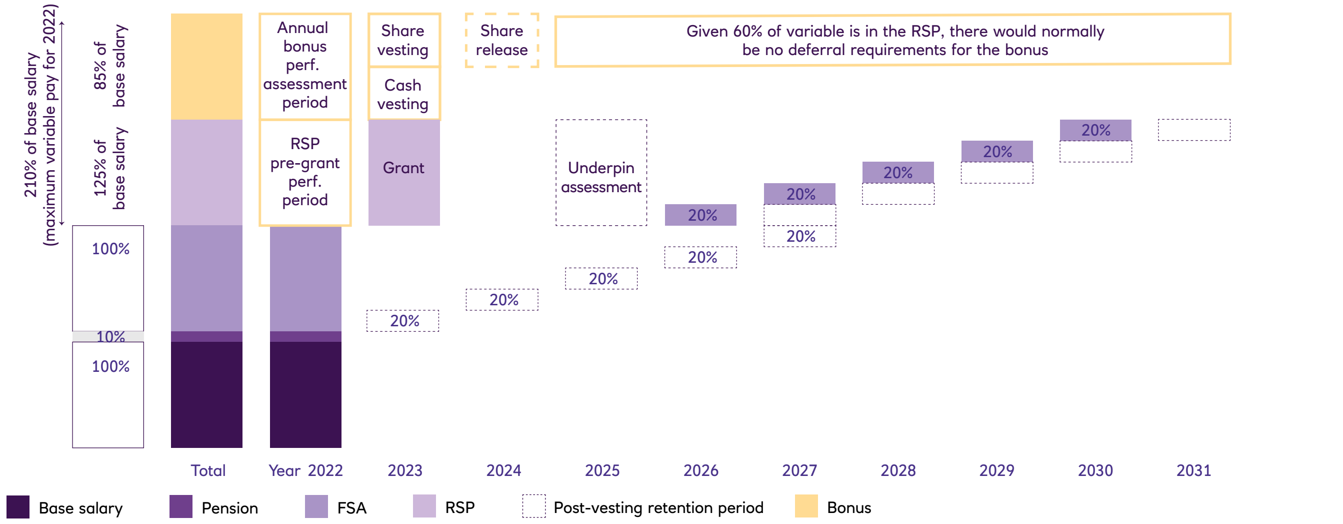
RSP awards will not be subject to further performance conditions. However, before vesting, the Committee will review the outcomes of the business against the following underpin criteria.

A sustainable level of performance over the period will be considered with reference to:

1. the level of capital held relative to the maximum distributable amount;
2. total distributions paid relative to our distribution policy; and
3. any material deterioration in the risk or regulatory compliance profile or control environment of NatWest Group, or a serious conduct or reputational event.

The Committee will make an assessment at the end of the three-year performance period to determine whether sustainable performance has been achieved. The Committee will refer to the above underpin criteria in determining whether this has been the case. Following the Committee's assessment, RSP awards may vest in full, in part or lapse in their entirety. The Committee will also retain the right to consider other factors and apply discretion before making a decision on the final vesting outcome. This will mitigate any potential unintended outcomes that might arise and ensure that there is a fair outcome. The Committee will explain its reasons for applying discretion in either direction, or for not doing so. The Committee reserves the right to change the underpin criteria when granting new RSP awards over the Policy period.

Structure and timing of payments under the new Policy for 2022



Chairman and non-executive directors' annual fees for 2022

Following a review of fees paid during 2021, the only change is to increase the fees for the Senior Independent Director role. The rate will increase from £30,000 per annum to £34,000 per annum. This is closer to the fees paid for the equivalent role at peer banks and also aligns with the rates currently being paid to members of the Group Board Risk Committee, the Group Audit Committee and the Group Performance and Remuneration Committee. The change will apply from 1 January 2022 and is within the limits allowed under the existing remuneration policy.

Fees for NatWest Group plc Board(1)	Rates from 1 January 2022
Chairman (composite fee)	£750,000
Non-executive director basic fee	£80,000
Senior Independent Director	£34,000

Fees for NatWest Group plc Board Committees(1)	Member	Chairman
Group Board Risk Committee	£34,000	£68,000
Group Audit Committee	£34,000	£68,000
Group Performance and Remuneration Committee	£34,000	£68,000
Group Sustainable Banking Committee	£30,000	£60,000
Technology and Innovation Committee	£30,000	£60,000
Group Nominations and Governance Committee	£15,000	–

Other fees for NatWest Group plc Board directors	
Chairman of NatWest Markets Plc (composite fee to cover all boards and committees)	£264,000
Chairman of the Colleague Advisory Panel	£15,000

(1) No additional fees are payable where the director is also a member of the boards and respective board committees of NatWest Holdings Limited, National Westminster Bank Plc and The Royal Bank of Scotland plc. Where appropriate, directors receive additional fees for membership of other subsidiary company boards and committees including NatWest Markets Plc. We will disclose the value of fees received in this report each year.

Other external directorships

The Board must approve any additional appointments undertaken by directors outside NatWest Group. Steps are in place to make sure that directors comply with regulatory limits on the number of directorships held. The Board also considers whether it is appropriate for executive directors to retain any remuneration from any new external roles, depending on the appointment. You can find details of current external appointments in the biographies section of the Corporate Governance report.

Annual change in directors' pay compared to average change in employee pay

Remuneration for employees is based on salary, benefits and annual bonus. The CEO and CFO receive fixed share allowances and are eligible for LTI awards rather than an annual bonus. The Chairman and non-executive directors receive fees rather than salary and do not receive any variable pay. We regularly review membership of Board Committees and changes in membership will impact the level of fees paid to non-executive directors from one year to the next. The benefits figures for non-executive directors can also change significantly year on year depending on the amount of travel undertaken in connection with Board meetings.

	2020 to 2021			2019 to 2020		
Annual percentage change	Salary	Benefits(1)	Annual Bonus	Salary	Benefits(1)	Annual Bonus
UK employees(2)	2.02%	4.68%	35.24%	2.86%	1.70%	-32.4%
Executive directors						
Alison Rose(3)	0%	0%	n/a	–	–	n/a
Katie Murray	0%	0%	n/a	0%	0%	n/a

Chairman and non-executive directors	Fees	Benefits	Annual Bonus	Fees	Benefits	Annual Bonus
Howard Davies	0%	8%	n/a	0%	9%	n/a
Frank Dangeard	1%	0%	n/a	0%	-75%	n/a
Patrick Flynn	0%	-67%	n/a	2%	-70%	n/a
Morten Friis	17%	214%	n/a	14%	-80%	n/a
Robert Gillespie	3%	-33%	n/a	-3%	-84%	n/a
Yasmin Jetha(4)	33%	100%	n/a	–	–	n/a
Mike Rogers	1%	-100%	n/a	0%	-83%	n/a
Mark Seligman	1%	0%	n/a	-4%	-88%	n/a
Lena Wilson	8%	25%	n/a	16%	-64%	n/a

(1) Standard benefit funding for executive directors has remained unchanged. The figures above excludes any other benefits to executive directors such as travel assistance in connection with company business, the value of which is disclosed each year in the total remuneration table.
(2) NatWest Group plc is a holding company and is not an employing entity. Therefore the disclosure above is made on a voluntary basis to compare any change in directors' pay with all employees based in the UK. The data above is based on full-year average salary costs of UK based employees of NatWest Group, excluding the CEO and the CFO. This is considered to be the most representative comparator group, as it covers the majority of employees and the CEO and CFO are based in the UK.
(3) Alison Rose, CEO, was appointed on 1 November 2019 and therefore the annual change comparison to 2020 is not relevant. No change has been made to Ms Rose's salary over the last two years.
(4) Yasmin Jetha re-joined the Board on 1 April 2020, so there is no comparison for the 2019 to 2020 annual change.

CEO to employee pay ratios

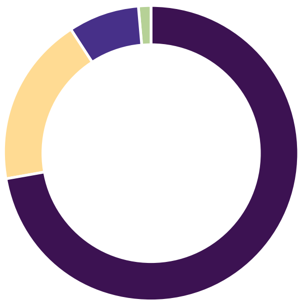
The ratios compare the total pay of the CEO against the pay of three UK employees, whose earnings represent the lower, median and upper quartiles of the UK employee population. A significant proportion of the CEO's pay is delivered in LTI awards. As these are linked to performance and share price movements, this part of the ratio can fluctuate significantly from one year to the next. None of the three employees identified this year received LTI awards. Information based on salary only is included as a further comparison.

The pay ratios reflect the diverse range of roles and pay levels across NatWest Group as a large financial services company. The median employee for 2021 works in Services and the median pay ratio is consistent with the pay, reward and progression policies for UK employees taken as a whole. We are committed to paying each individual a fair rate for the role performed, using consistent reward policies and offering opportunities for progression. We set out further information on our fair pay approach earlier in this report and in the supporting ESG Supplement at natwestgroup.com. The change in the median pay ratio since 2018 is largely driven by the more volatile nature of pay for the CEO. In April 2020, the CEO decided to forgo 25% of her fixed pay for the rest of the year which also contributed to the ratio falling in 2020 before returning to more typical levels in 2021. Based on a comparison of salary only, the trend is more stable.

			Pay ratios				Remuneration values (£000)			
Year	Methodology		P25 (LQ)	P50 (Median)	P75 (UQ)	Calculation	CEO	Y25 (LQ)	Y50 (Median)	Y75 (UQ)
2018	A	Total remuneration	143:1	97:1	56:1	Total remuneration	3,578	25	37	64
		Salary only	44:1	30:1	19:1	Salary only	1,000	23	33	51
2019	A	Total remuneration	175:1	118:1	69:1	Total remuneration	4,517	26	38	66
		Salary only	44:1	30:1	19:1	Salary only	1,017	23	34	52
2020	A	Total remuneration	99:1	66:1	39:1	Total remuneration	2,615	26	40	66
		Salary only	46:1	31:1	20:1	Salary only	1,100	24	36	54
2021	A	Total remuneration	**130:1**	**87:1**	**51:1**	Total remuneration	**3,588**	**28**	**41**	**70**
		Salary only	**44:1**	**29:1**	**20:1**	Salary only	**1,100**	**25**	**37**	**55**

Supplementary information on the pay ratio table:
(1) The data for 2021 is based on remuneration earned by Alison Rose, as set out in the single figure of remuneration table in this report.
(2) The employees at the 25th, 50th and 75th percentiles (lower, median and upper quartiles) were determined as at 31 December of the relevant year, based on full-time equivalent remuneration for all UK employees. This includes fixed pay (salary, pension funding and where relevant benefit funding and other allowances) and also any variable pay (based on the amount to be paid). For employees who work part-time, fixed pay is grossed up to the full-time equivalent.
(3) 'Option A' methodology was selected as this is considered the most statistically accurate method under the reporting regulations. UK employees receive a pension funding allowance set as a percentage of salary. Some employees, but not the CEO, continue to participate in the defined benefit pension scheme. Under this, it would be possible to recognise a higher value, which would in turn reduce the ratios. However, for simplicity and consistency with regulatory disclosures, we have included the pension funding allowance value in the calculation for all employees.
(4) The data for the three employees identified has been considered and fairly reflects pay at the relevant quartiles among the UK employee population. Each of the three individuals was a full-time employee during the year and none received an exceptional award that would otherwise inflate their pay figure

Summary of remuneration levels for employees in 2021

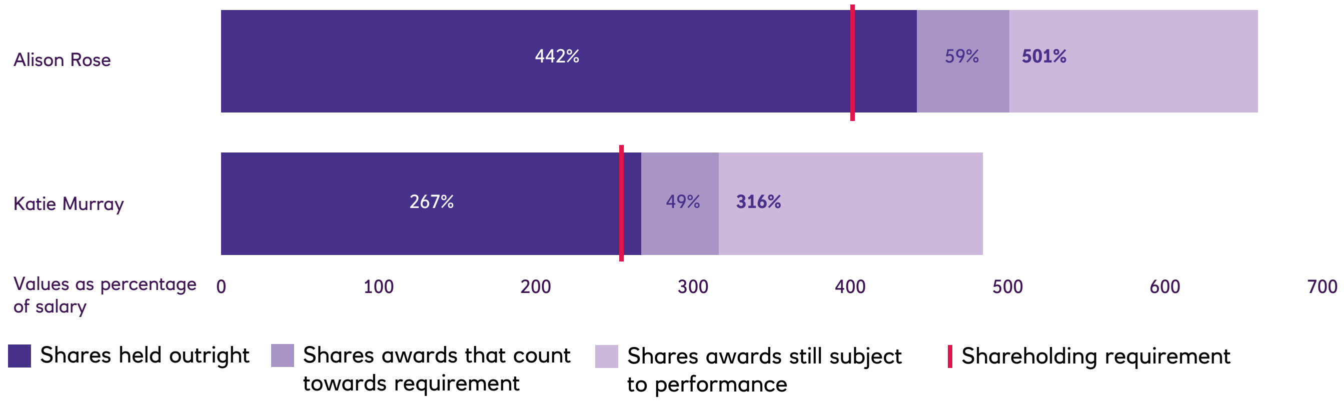


- 49,171 employees earned total remuneration up to £50,000
- 12,678 employees earned total remuneration between £50,000 and £100,000
- 5,256 employees earned total remuneration between £100,000 and £250,000
- 790 employees earned total remuneration over £250,000

(1) For 2021, the disclosure of remuneration levels for employees includes anyone employed by NatWest Group during the year. This is a change of approach from previous years when we only included colleagues employed at year end.

Directors' interests in NatWest Group plc shares (audited)

Under the existing shareholding requirements, the CEO and CFO need to build up and maintain shares to the value of 400% of salary and 250% of salary respectively. The requirements apply both during employment and for two years after leaving, in line with best practice. Procedures are in place to enforce the shareholding requirements, and you can find further details on page 147. Subject to approval of the new Policy by shareholders at the 2022 AGM, the requirements will be increased to 500% of salary for the CEO and 300% of salary for the CFO.



Share interests held by directors

	Alison Rose	Katie Murray	Howard Davies	Frank Dangeard	Patrick Flynn	Morten Friis[2]	Robert Gillespie	Yasmin Jetha	Mike Rogers	Mark Seligman[3]	Lena Wilson
Shares held[1]	2,155,298	886,232	100,000	5,000	20,000	20,000	25,000	30,000	20,000	30,000	20,000
Shareholding requirement	400% of salary	250% of salary	–	–	–	–	–	–	–	–	–
Position against requirement	501% of salary	316% of salary	–	–	–	–	–	–	–	–	–

(1) Shares owned beneficially as at 31 December 2021 or at the date of stepping down from the Board if earlier. Includes shares held by persons closely associated with the directors. As at 17 February 2022, there were no changes to the shares held as shown above. Share awards, as shown below, are also included for the purposes of the shareholding requirement once any performance assessment has been completed. All share awards are included net-of-taxes due to be paid on vesting. The position against the requirement was calculated as at 31 December 2021, at which point both executive directors exceeded the requirement based on the closing price of £2.257.
(2) The share interest held is over 10,000 American Depositary Receipts representing 20,000 ordinary shares.
(3) 10,000 shares are held in the name of M Seligman & Co Limited, of which Mr Seligman and Louise Seligman are shareholders.

Share awards under share plans

	Year	Awards held 1 Jan 2021	Awards granted	Award price £	Awards vested	Awards lapsed	Awards forfeited	Awards held 31 Dec 2021	Expected vesting dates
Alison Rose									
LTI award	2016	100,780		2.26	100,780			**0**	
LTI award	2017	223,677		2.41	55,919			**167,758[1]**	07.03.22 – 07.03.24
LTI award	2018	488,906		2.66	92,140	28,206		**368,560[1]**	07.03.22 – 07.03.25
LTI award	2019	568,829		2.64				**568,829[2]**	07.03.22 – 07.03.26
LTI award	2020	881,679		1.70				**881,679[2]**	07.03.23 – 07.03.27
		2,263,871			248,839	28,206		**1,986,826**	
Total LTI awards subject to service								**536,318[1]**	
Total LTI awards subject to performance and service								**1,450,508[2]**	
Katie Murray									
LTI award	2016	9,142		2.26	9,142			**0**	
Deferred award	2017	34,171		2.41	17,087			**17,084[1]**	07.03.22
LTI award	2017	62,382		2.41	31,191			**31,191[1]**	07.03.22
Deferred award	2018	80,387		2.66	26,796			**53,591[1]**	07.03.22 – 07.03.23
Deferred award	2019	226,388		2.64	17,443			**208,945[1]**	07.03.22 – 07.03.26
LTI award	2020	646,565		1.70				**646,565[2]**	07.03.23 – 07.03.27
Sharesave	2020	3,200		1.12				**3,200[3]**	18.12.23
LTI award	2021		407,262	1.67				**407,262[2]**	07.03.24 – 07.03.28
		1,062,235	407,262		101,659			**1,367,838**	
Total LTI and deferred awards subject to service								**310,811[1]**	
Total LTI awards subject to performance and service								**1,053,827[2]**	
Total Sharesave options								**3,200[3]**	

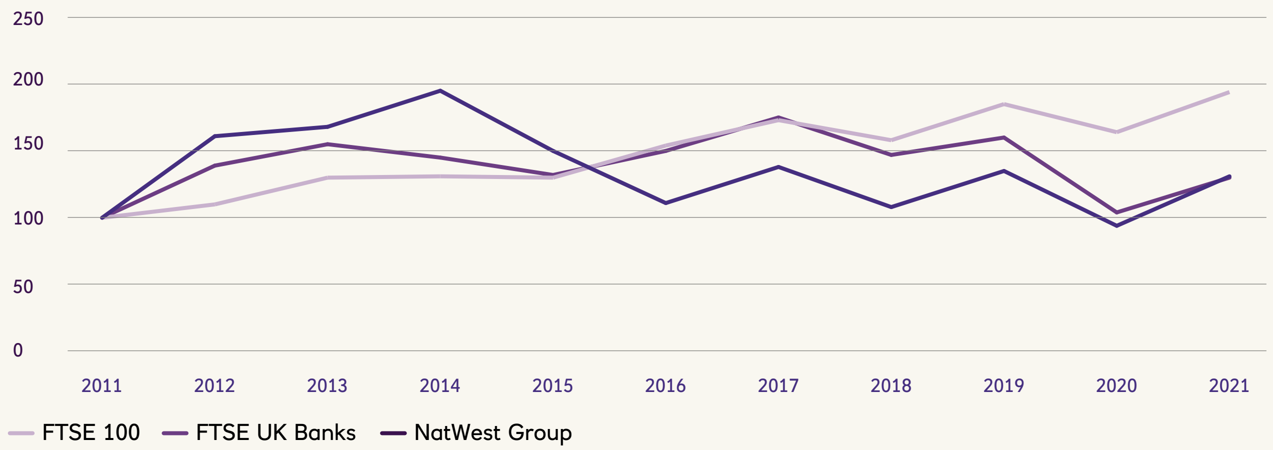
(1) Performance assessment has taken place and awards remain subject to deferral and employment conditions before vesting. These awards count on a net of tax basis towards meeting the shareholding requirement.
(2) Awards are subject to the LTI pre-vest performance assessment along with deferral and employment conditions before vesting. See earlier in this report for the pre-vest assessment of the 2019 LTI award. The first vesting of this award is due to take place in March 2022, which will be reflected in next year's table together with the shares lapsed for performance.
(3) Sharesave options enable colleagues to save from their salary with an option to buy shares at the end of the savings period. The award price is the price at which shares can be bought. Sharesave options are normally exercisable for a period of six months from the maturity date at an option price that is discounted by up to 20% of the market value around the time of the award.

Shareholder dilution and share sourcing

NatWest Group can use new issue, market-purchase or treasury shares to deliver shares that are required for employee share plans. Best practice dilution limits are monitored and govern the number of shares that may be issued to satisfy share plan awards.

Total Shareholder Return (TSR) performance

The graph compares the TSR performance of NatWest Group with companies comprising the FTSE 100 Index over the last 10 years. We have selected this index because it represents a cross-section of leading UK companies. We have added the TSR for FTSE UK banks for the same period as a further comparison. Source: Datastream



CEO pay over the same period

		2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
Total remuneration (£000s)[1]	AR								1,401	2,615	**3,588**
	RM		393	1,878	3,492	3,702	3,487	3,578	4,066		
	SH	1,646	1,235								
Annual bonus against maximum opportunity	SH	0%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
LTI vesting rates against maximum opportunity[2]	AR								60%	82%	**83%**
	RM			73%	62%	56%	89%	41%	78%		
	SH	0%	0%								

(1) CEOs are Alison Rose (AR), Ross McEwan (RM) and Stephen Hester (SH) with figures based on the single figure of remuneration for the relevant year.
(2) Maximum opportunity is set according to the approved policy and, for LTI awards granted in 2015 and onwards, the regulatory cap.

Relative importance of spend on pay

	2021 £m	2020 £m	Change
Remuneration paid to all employees[1,2]	3,156	3,324	-5.05%
Distributions to holders of ordinary shares[3]	693	–	n/a
Distributions to holders of preference shares and paid-in equity	318	381	-16.5%

(1) Remuneration paid to all employees represents total staff expenses as per Note 3 to the consolidated financial statements, exclusive of social security and other staff costs.
(2) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(3) Dividends proposed for payment during 2020 were withdrawn in line with regulatory requirements. The Board has confirmed its intention to pay a dividend of 7.5p per ordinary share in respect of financial year 2021, subject to approval by shareholders at the Annual General Meeting on 28 April 2022.

Statement of shareholder voting

The tables below set out the latest resolutions to approve the Directors' Remuneration Policy and the Annual remuneration report.

Directors' Remuneration Policy – 2020

Vote	Number of shares	Percentage
For	39,142,662,676	90.14%
Against	4,281,775,516	9.86%
Withheld	12,426,752	–

Annual remuneration report – 2021

Vote	Number of shares	Percentage
For	40,070,096,464	99.89%
Against	42,368,132	0.11%
Withheld	1,371,168,504	–

The Group Performance and Remuneration Committee

Membership

All members of the Committee are independent non-executive directors. In order to be considered for the role of Committee Chairman, an individual must first have served on a remuneration committee for at least 12 months. During 2021, Robert Gillespie was the Committee Chairman. Frank Dangeard, Mike Rogers, Mark Seligman and Lena Wilson were members. The Committee held eight scheduled meetings in 2021 and a further three ad hoc meetings. You can find further details on members and attendance in the Corporate Governance report on page 103.

Role of the Committee

The Committee is responsible for:

- approving the remuneration policy for all colleagues and reviewing the effectiveness of its implementation;
- reviewing performance and making recommendations to the Board on arrangements for executive directors;
- approving remuneration for a defined 'in-scope' population comprising members and attendees of the Senior Executive Committees and direct reports of the CEO, control function heads and the Company Secretary. The Committee also approves arrangements where individuals earn total compensation above £1 million; and
- setting the remuneration framework and principles for colleagues identified as Material Risk Takers (MRTs). The terms of reference (ToR) of the Committee are reviewed annually and available on natwestgroup.com

Main activities

One of the main activities of the Committee was to reflect on stakeholder feedback on the new Policy for executive directors, and developing revised proposals as set out in this report.

Wider workforce

- Approving and overseeing the NatWest Group-wide Remuneration Policy.
- Considering how pay has been allocated across the workforce, including analysis by colleague level, geography and diversity.
- Reviewing fixed pay proposals.
- Approving Sharesave offers to colleagues.
- Reviewing performance over the year and approving bonus pools for the business areas.
- Reviewing gender and ethnicity pay gap reporting.

Executive remuneration

- Reviewing performance assessments and remuneration arrangements for the Committee's 'in scope' population.
- Setting performance objectives for Senior Executives for the year ahead.
- Approving vesting and grant levels for LTI awards.
- Approving remuneration for senior hires and arrangements for any leavers.
- Engaging with stakeholders on our remuneration proposals.
- Reviewing and approving the Directors' Remuneration Report.
- Receiving benchmarking data on executive pay and peer practice.

Governance and regulatory

- Approving agenda planners and ensuring the Committee is meeting all its obligations under its ToR.
- Considering matters escalated by other Board Committees and subsidiary Performance and Remuneration Committees.
- Overseeing the MRT identification process.
- Approving submissions through the year to the UK regulators.
- Receiving quarterly updates on accountability reviews and approving accountability decisions for the population within its governance.
- Carrying out the annual evaluation of its performance.

Operation of the policy	The remuneration policy operated broadly as intended during the year, with adjustments made for performance where appropriate. Some shareholders continued to express concerns with some parts of the policy for executive directors, as explained earlier in this report, and the challenges in maintaining a competitive level of pay for executive directors have heightened over the past year. This led the Committee to believe that amendments should be proposed to shareholders at the 2022 AGM.
Managing conflicts	To mitigate potential conflicts of interest, directors are not involved in decisions regarding their own remuneration and the Committee rather than management appoint remuneration advisers. Attendees also play an important role in advising the Committee but are not present when their own remuneration is discussed. The Group Chief People & Transformation Officer may be present when discussions take place on senior executive pay, as there is considerable benefit from her participation. However, she is never present for discussions on her remuneration.
Committee Advisers	PricewaterhouseCoopers LLP (PwC) was first appointed as remuneration adviser by the Committee in 2010 and reappointed in 2021, following an annual review of the quality of advice and the level of fees. PwC is a signatory to the voluntary code of conduct in relation to remuneration consulting in the UK. The Committee also took account of the views of the Chairman, the CEO, the CFO, the Group Chief HR Officer, the Group Chief People & Transformation Officer, the Director of Reward & Employment, the Group Chief Risk Officer and the Group Chief Audit Executive. The Committee also received input from the BRC, the GAC, the SBC and the Performance and Remuneration Committees for the principal legal entities across NatWest Group. The professional services PwC provides in the ordinary course of business include assurance, advisory, tax and legal advice to NatWest Group subsidiaries. The Committee is satisfied that the advice received is independent and objective. We also receive an annual statement setting out the protocols PwC has followed to maintain independence. There are no connections between PwC and individual directors to be disclosed. Fees paid to PwC for advising the Committee are based on a fixed fee structure with any exceptional items charged on a time/cost basis. Fees for 2021 in relation to directors' remuneration rose compared to last year primarily due to additional work in relation to the new Policy, amounting to £211,041 in total excluding VAT (2020 – £136,830 excluding VAT).
Performance evaluation	The 2021 performance evaluation for the Committee was conducted externally by Independent Board Evaluation. The Committee was considered to have managed a number of challenging items well in a difficult year. It was noted there had been a number of unscheduled meetings, but on balance the Committee recognised that additional discussions had been necessary. The Committee requested the governance team to explore whether there was an opportunity to simplify and streamline the remuneration governance framework, with it being noted that remuneration outcomes currently flowed through a number of key legal entity performance and remuneration committees and board risk committees.

Robert Gillespie
Chairman of the NatWest Group Performance and Remuneration Committee

17 February 2022

Other remuneration disclosures

This section contains disclosures which are required in accordance with UK regulatory requirements and the Basel Committee on Banking Supervision Pillar 3 disclosure requirements. They also take into account the European Banking Authority (EBA) guidelines on sound remuneration policies. It should be read in conjunction with the Directors' remuneration report starting on page 136.

Remuneration policy for all colleagues

The remuneration policy supports the business strategy and is designed to promote the long-term success of NatWest Group. It aims to reward the delivery of good performance provided this is achieved in a manner consistent with NatWest Group values and within acceptable risk parameters.

The remuneration policy applies the same principles to everyone, including Material Risk Takers (MRTs), with some minor adjustments where necessary to comply with local regulatory requirements. The main elements of the Policy are set out below.

Base salary

The purpose is to provide a competitive level of fixed cash remuneration.

Operation

We review base salaries annually to ensure they reflect the talents, skills and competencies that the individual brings to the business.

Role-based allowance

Certain MRT roles receive role-based allowances in order to provide fixed pay that reflects the skills and experience required for the role.

Operation

Role-based allowances are fixed allowances which form an element of overall fixed remuneration for regulatory purposes. They are based on the role the individual performs.

They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are subject to a minimum three-year retention period.

Benefits and pension

The purpose is to provide a range of flexible and competitive benefits.

Operation

In most jurisdictions, benefits or a cash equivalent are provided from a flexible benefits account. Pension funding forms part of fixed remuneration and NatWest Group does not provide discretionary pension benefits.

Annual bonus

The purpose is to support a culture where individuals recognise the importance of helping people, families and businesses to thrive and are rewarded for superior performance.

Operation

The annual bonus pool is based on a balanced scorecard of measures including financial and business delivery, customer, people and culture, climate and risk and control measures. Allocation from the pool depends on the performance of the business area and the individual.

We use a structured performance management framework to support individual performance assessment. This is designed to assess performance against longer-term business requirements across a range of financial and non-financial metrics. It also evaluates adherence to internal controls and risk management. We use a balanced scorecard to align with the business strategy. Each individual will have defined measures of success for their role.

We also take risk and conduct performance into account. Control functions are assessed independently of the business units that they oversee. Objectives and remuneration are set according to the priorities of the control area, not the targets of the businesses they support. The Group Chief Risk Officer and the Chief Audit Executive have the authority to escalate matters to Board level if management do not respond appropriately.

Independent control functions exist for the main legal entities outside the ring fence (NWM Plc and RBSI). Dual solid reporting lines are in place into the respective legal entity CEOs and the NatWest Group Control Function Heads.

Awards may be granted up to a maximum of 100% of fixed pay. For awards made in respect of the 2021 performance year, immediate cash awards continue to be limited to a maximum of £2,000. In line with regulatory requirements for MRTs, 40% of awards under £500,000 will be deferred over four, five or seven years. This rises to 60% for awards over £500,000. For MRTs, a minimum of 50% of any variable pay is delivered in shares and a 12-month retention period applies to the shares after vesting.

The deferral period is four years for standard MRTs and Risk Manager MRTs who meet the 'non-higher paid' condition. It rises to five years for 'higher paid' Risk Manager MRTs, FCA Senior Management Functions (SMF) roles and PRA SMFs who meet the 'non-higher paid' condition; and to seven years for 'higher paid' PRA SMFs. All awards are subject to malus and clawback provisions.

Long-term incentive (LTI) awards

The purpose and operation of LTI awards is explained in detail in the Directors' remuneration report. Instead of an annual bonus, NatWest Group provides executive directors and certain members of NatWest Group's senior executive committees with LTI awards. Any awards made are subject to a performance assessment prior to grant and again prior to vesting.

Shareholding requirements

The requirements promote long-term alignment between senior executives and shareholders.

Operation

Executive directors and certain members of NatWest Group's senior executive committees are required to build up and hold a shareholding equivalent to a percentage of salary. There is a restriction on the number of shares that individuals can sell until this requirement is met.

Company share plans

The purpose is to provide an easy way for individuals to hold shares in NatWest Group plc, which helps to encourage long-term thinking and provides a direct involvement in NatWest Group's performance.

Operation

Colleagues in certain jurisdictions are offered the opportunity to contribute from salary and acquire shares in NatWest Group plc through company share plans. This includes Sharesave and the Buy As You Earn plan in the UK. Any shares held are not subject to performance conditions.

Criteria for identifying MRTs

The EBA has issued criteria for identifying MRT roles, which includes those staff whose activities have a material influence over NatWest Group's performance or risk profile. These criteria are both qualitative (based on the nature of the role) and quantitative (based on the amount a colleague is paid).

In 2021, MRTs were identified for 11 legal entities (including at parent holding company and consolidated levels) within NatWest Group. The MRT criteria are applied for each of these entities, and consequently many MRTs are identified in relation to more than one entity.

The qualitative criteria can be summarised as: staff within the management body; senior management; other staff with key functional or managerial responsibilities including for risk management; and staff who individually, or as part of a Committee, have authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.

The quantitative criteria are: individuals earning £658,000 or more in the previous year; individuals earning less than £658,000 in the previous year, but more than a threshold set at the higher of £440,000 or the average total earnings of the management body and senior management for the relevant legal entity and who can impact the risk profile of a material business unit; and individuals in the top 0.3% of earners of the relevant legal entity for the previous year. In addition to the qualitative and quantitative criteria, NatWest Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile.

Personal hedging strategies

The conditions attached to discretionary share-based awards prohibit the use of any personal hedging strategies to lessen the impact of a reduction in the value of such awards. Recipients explicitly acknowledge and accept these conditions when any share-based awards are granted.

Risk in the remuneration process

NatWest Group's approach to remuneration promotes effective risk management through having a clear distinction between fixed remuneration (which reflects the role undertaken by an individual) and variable remuneration (which is directly linked to performance and can be risk-adjusted). Fixed pay is set at an appropriate level to discourage excessive risk-taking and which would allow NatWest Group to pay zero variable pay.

We achieve focus on risk through clear inclusion of risk in performance goals, performance reviews, the determination of variable pay pools, incentive plan design and the application of malus and clawback. The Committee is supported in this by the Group Board Risk Committee (BRC) and the Risk function, as well as independent oversight by the Internal Audit function.

We use a robust process to assess risk performance. We consider a range of measures, specifically: capital, liquidity and funding risk; credit risk; market risk; pension risk; compliance and conduct risk; financial crime; climate risk; operational risk; business risk and reputational risk. We also consider our overall risk culture.

Remuneration arrangements are in line with regulatory requirements and we fully disclose and discuss the steps taken to ensure appropriate and thorough risk adjustment with the PRA and the FCA.

Variable pay determination

For the 2021 performance year, NatWest Group operated a robust control function-led, multi-step process to assess performance and determine the appropriate bonus pool by business area and function. At multiple points throughout the process, we made reference to NatWest Group-wide business performance (from both affordability and appropriateness perspectives) and the need to distinguish between 'go-forward' and 'resolution' activities.

The process uses financial, climate, customer and people measures to consider a balanced scorecard of performance assessments at the level of each business area or function. We then undertake risk and conduct assessments at the same level to ensure performance achieved without appropriate consideration of risk, risk culture and conduct controls, is not inappropriately rewarded.

BRC reviews any material risk and conduct events and, if appropriate, an underpin may be applied to the individual business and function bonus pools or to the overall bonus pool. BRC may recommend a reduction of a bonus pool if it considers that risk and conduct performance is unacceptable or that the impact of poor risk management has yet to be fully reflected in the respective inputs.

Following further review against overall performance and conduct, taking into account input from the CFO on affordability and capital and liquidity adequacy, the CEO will make a final recommendation to the Committee, informed by all the previous steps and her strategic view of the business. The Committee will then make an independent decision on the final bonus pool taking all of these earlier steps into account.

The assessment process for LTI awards to executive directors and other recipients is also founded on a balanced scorecard approach. The scorecard is aligned with the multi-step bonus pool process, reflecting a consistent risk management performance assessment.

Remuneration and culture

NatWest Group continues to assess conduct and its impact on remuneration as part of the annual Group-wide bonus pool process and also via the accountability review framework. Many colleagues receive fixed pay only, which provides them with greater security and allows them to fully focus on the needs of the customer. The Committee will continue to review workforce remuneration and the alignment of incentives and reward with culture.

The governance of culture is clearly laid out. SMF roles have clearly defined accountabilities. The delivery of these accountabilities is taken into account in their performance and pay decisions. The Board and Group Sustainable Banking Committee (SBC) also play essential roles in building cultural priorities. Frameworks are in place to measure progress.

Accountability review process and malus/clawback

We introduced the accountability review process in 2012 to identify any material risk management, control and general policy breach failures, and to ensure accountability for those events.

This allows NatWest Group to respond to instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. Potential outcomes under the accountability review process are:

- malus – to reduce (to zero if appropriate) the amount of any unvested variable pay awards prior to payment;
- clawback – to recover awards that have already vested; and
- in-year bonus reductions – to adjust variable pay that would have otherwise been awarded for the current year.

As part of the acceptance of variable pay awards, colleagues must agree to terms that state that malus and clawback may be applied. Any variable pay awarded to MRTs is subject to clawback for seven years from the date of grant. Since the 2016 performance year onwards, this period can be extended to 10 years for MRTs who perform a SMF role under the Senior Managers Regime where there are outstanding internal or regulatory investigations at the end of the normal seven-year clawback period. Awards to other colleagues (non-MRTs) are subject to clawback for 12 months from each vesting date.

You can read more about the circumstances in which malus, clawback or in-year bonus reduction may be applied on page 157.

During 2021 a number of issues and events were considered under the accountability review framework. The outcomes covered a range of actions including reduction (to zero where appropriate) of unvested awards through malus and the suspension of awards pending further investigation.

Remuneration of MRTs

The quantitative disclosures below are made in accordance with regulatory requirements in relation to 846 individuals who have been identified as MRTs for one or more entities across NatWest Group plc. The number of MRTs identified has decreased since last year due to a reduction in credit 'initiators' and changes in credit authorities.

We have excluded two individuals from the tables below on the basis that, although they have been identified as an MRT in relation to a role within a subsidiary entity, they do not receive any remuneration for this role and are not an MRT in relation to their primary role for NatWest Group.

You can find details of remuneration paid to MRTs in Pillar 3 reporting on a consolidated, sub-consolidated and solo entity level at natwestgroup.com.

Total remuneration awarded to MRTs for the financial year

	NatWest Group plc NEDs	NatWest Group plc EDs	Other senior mngt.	Other MRTs	Other senior management and other MRTs split by business area: NatWest Holdings	NatWest Markets	RBSI	Corporate functions	Control functions	Total
Fixed remuneration(1)										
Total number of MRTs	9	2	18	817						846
Other senior management – split by business area					3	1	1	7	6	
Other MRTs – split by business area					181	128	22	105	381	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total fixed remuneration of MRTs	2.40	3.94	16.48	186.99	42.57	57.16	3.94	34.50	65.30	209.81
Cash-based	2.40	2.09	13.97	185.77	41.76	55.76	3.79	34.02	64.39	204.23
Share-based	–	1.85	2.51	1.22	0.81	1.39	0.15	0.48	0.91	5.58
Other instruments or forms	–	–	–	–	–	–	–	–	–	–
Variable remuneration(2)										
Total number of MRTs	–	2	16	661						679
Other senior management – split by business area					3	1	1	7	4	
Other MRTs – split by business area					142	94	17	79	329	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total variable remuneration of MRTs	–	2.65	9.99	76.28	18.86	27.27	2.17	15.44	22.52	88.92
Cash-based	–	–	1.25	40.52	8.82	13.29	0.88	7.36	11.41	41.77
Of which: deferred cash	–	–	0.55	15.05	3.08	5.87	0.25	2.97	3.43	15.60
Share-based (annual bonus)	–	–	1.24	35.76	7.57	13.23	0.63	7.14	8.43	37.00
Of which: deferred shares	–	–	0.55	15.05	3.08	5.87	0.25	2.97	3.43	15.60
Share-based (LTI awards)	–	2.65	7.50	–	2.46	0.75	0.66	0.94	2.69	10.15
Of which: deferred shares	–	2.65	7.50	–	2.46	0.75	0.66	0.94	2.69	10.15
Other instruments or forms	–	–	–	–	–	–	–	–	–	–
Total remuneration of MRTs	2.40	6.59	26.47	263.27	61.43	84.43	6.11	49.94	87.82	298.73

(1) Fixed remuneration consists of salaries, allowances, pension and benefit funding.
(2) Variable remuneration consists of a combination of annual bonus and long-term incentive awards, deferred over a four to seven year period in accordance with regulatory requirements. Under the NatWest Group bonus deferral structure, immediate cash awards are limited to £2,000 per person, with a further payment of cash and shares within Year 0.
(3) Long-term incentive awards vest subject to the extent to which performance conditions were met and can result in zero payment.
(4) Under CRD V regulations, a notional discount is available which allows variable pay to be awarded at a level that would otherwise exceed the 1:1 ratio, provided that variable pay is delivered 'in instruments' (shares) and deferred over five years or more. The discount rate was not used for remuneration awarded in respect of the 2021 performance year.

Derogations

The regulations allow some flexibility not to apply certain requirements that would normally apply to MRTs where an individual's annual variable remuneration does not exceed £44,000 and does not represent more than one third of the individual's total annual remuneration (derogations permitted under point (b) of Article 94(3) of CRD V). We have used this flexibility to disapply MRT rules relating to deferral and delivery of awards in shares for 274 MRTs in respect of the performance year 2021. Total remuneration for these individuals in 2021 was £35.88 million (of which £31.16 million was fixed pay and £4.72 million was variable pay).

Ratio between fixed and variable remuneration

The variable component of total remuneration for MRTs at NatWest Group shall not exceed 100% of the fixed component (except where local jurisdictions apply a lower maximum ratio for variable pay). The average ratio between fixed and variable remuneration for 2021 was approximately 1 to 0.42. The majority of MRTs were based in the UK.

Outstanding deferred remuneration

The table below includes deferred remuneration awarded or paid out in 2021 relating to prior performance years.

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods £m	Of which: due to vest in the financial year £m	Of which: vesting in subsequent financial years £m	Amount of performance adjustment to deferred remuneration that was due to vest in the financial year £m	Amount of performance adjustment to deferred remuneration due to vest in future financial years £m	Total amount of adjustment during the financial year due to ex post implicit adjustments(1) £m	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year £m	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention £m
NatWest Group plc NEDs – No deferred or retained remuneration held								
NatWest Group plc EDs								
Cash-based	–	–	–	–	–	–	–	–
Shares or equivalent interests	7.23	0.88	6.36	(0.01)	(0.06)	1.93	0.86	0.36
Other instruments or forms	–	–	–	–	–	–	–	–
Other senior management								
Cash-based	–	–	–	–	–	–	–	–
Shares or equivalent interests	18.46	3.08	15.37	–	–	4.96	3.09	2.04
Other instruments or forms	–	–	–	–	–	–	–	–
Other MRTs								
Cash-based	–	–	–	–	–	–	–	–
Shares or equivalent interests	91.65	38.97	52.68	0.17	–	24.75	38.32	34.67
Other instruments or forms	–	–	–	–	–	–	–	–
Total amount	117.34	42.93	74.41	0.16	(0.06)	31.64	42.27	37.07

(1) i.e. Changes of value of deferred remuneration due to the changes of prices of instruments.
(2) Deferred remuneration reduced during the year relates to long-term incentives that lapsed when performance conditions were not met, long-term incentives and deferred awards forfeited on leaving and malus adjustments of prior year deferred awards and long-term incentives.

Guaranteed awards (including 'sign-on' awards) and severance payments

Special payments	NatWest Group plc NEDs	NatWest Group plc EDs	Other senior management	Other MRTs
Guaranteed awards and sign on awards				
Number of MRTs	–	–	1	2
	£m	£m	£m	£m
Total amount	–	–	0.12	0.26
Of which: paid during the financial year that are not taken into account in the bonus cap	–	–	–	–
Severance payments awarded in previous periods, paid out during the financial year				
Number of MRTs	–	–	2	10
	£m	£m	£m	£m
Total amount	–	–	0.42	2.17
Severance payment awarded during the financial year				
Number of MRTs	–	–	2	57
	£m	£m	£m	£m
Total amount	–	–	0.26	12.10
Of which: paid during the financial year	–	–	0.26	11.31
Of which: deferred	–	–	–	0.79
Of which: paid during the financial year that are not taken into account in the bonus cap	–	–	0.26	12.10
Of which: highest payment that has been awarded to a single person	–	–	0.16	0.77

(1) NatWest Group does not offer sign-on awards. Guaranteed awards may only be granted for new hires in exceptional circumstances in compensation for awards forgone on their previous company and are limited to first year of service.
(2) Severance payments and/or arrangements can be made to colleagues who leave NatWest Group in certain situations, including redundancy. Such payments are calculated by a pre-determined formula set out within the relevant social plans, policies, agreements or local laws. Where local laws permit, there is a cap on the maximum amount that can be paid.
(3) No severance payments in excess of contractual payments, local policies, standards or statutory amounts were made to MRTs during the year, other than payments to five individuals totalling £522,373. There were four non-standard payments totalling £443,973 in relation to litigation and one non compete payment of £78,410.

Total remuneration by band for all colleagues earning >€1million

2021	Number of MRTs
€1.0 million to below €1.5 million	42
€1.5 million to below €2.0 million	14
€2.0 million to below €2.5million	6
€2.5 million to below €3.0 million	–
€3.0 million to below €3.5 million	1
€3.5 million to below €4.0 million	–
More than €4.0 million	–
Total	63

(1) Total remuneration in the table above includes fixed pay, pension and benefit funding and variable pay.
(2) Where applicable, the table is based on an average exchange rate of €1.163 to £1 for 2021.

Colleagues who earned total remuneration of over €1 million in 2021 represent 0.09% of the workforce. These individuals include those who manage major businesses and functions with responsibility for significant assets, earnings or areas of strategic activity and can be grouped as follows:

- The CEOs responsible for each area and their direct reports.
- Those who manage large business areas.
- Income generators responsible for high levels of income including those involved in managing trading activity and supporting clients with more complex financial transactions, including financial restructuring.
- Those responsible for managing balance sheet and liquidity and funding positions across the business.

Compliance report

Statement of compliance

NatWest Group plc is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2021, NatWest Group plc has applied the Principles and complied with all of the Provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated July 2018 (the 'Code') except in relation to:

- Provision 17, in respect of the requirement that the Group Nominations and Governance Committee should ensure plans are in place for orderly succession to both the Board and senior management positions and oversee the development of a diverse pipeline for succession; and
- Provision 33 that the Group Performance and Remuneration Committee (Group RemCo) should have delegated responsibility for setting remuneration for the Chairman and executive directors.

In respect of Provision 17, whilst the Board is supported on board succession by the Group Nominations and Governance Committee, the Board considers this is a matter of significant importance which should rightly be reserved for the full Board. Adopting this approach ensures that all directors have an opportunity to contribute to succession planning discussions for Board and senior management, in support of achieving an appropriate balance of skills, experience, knowledge and diversity at senior levels within NatWest Group and on the Board. It also means that all directors have an opportunity to review, consider and become familiar with the next generation of executive leaders.

In respect of Provision 33, the Board also considers that this is a matter which should rightly be reserved for the Board and this is an approach the Board has adopted for a number of years. Remuneration for the executive directors is first considered by the Group RemCo which then makes recommendations to the Board for consideration. This approach allows all non-executive directors, and not just those who are members of the Group RemCo, to participate in decisions on the executive directors' and the Chairman's remuneration and also allows the executive directors to input to the decision on the Chairman's remuneration. The Board believes this approach is very much in line with the spirit of the Code and no director is involved in decisions regarding his or her own remuneration. A copy of the Code can be found at www.frc.org.uk.

The Board does not anticipate any changes to its approach on these aspects of the Code.

Further information on how NatWest Group plc has applied the Principles, and complied with the Provisions, of the Code can be found in the Corporate governance section of this report, which includes cross-references to relevant sections of the Strategic report and other related disclosures.

NatWest Group plc has complied in all material respects with the Financial Reporting Council Guidance on Audit Committees issued in September 2012 and April 2016.

Under the US Sarbanes-Oxley Act of 2002, specific standards of corporate governance and business and financial disclosures and controls apply to companies with securities registered in the US. NatWest Group plc complies with all applicable sections of the US Sarbanes-Oxley Act of 2002, subject to a number of exceptions available to foreign private issuers.

Internal control

The Board of Directors is responsible for the system of internal controls that is designed to maintain effective and efficient operations, compliant with applicable laws and regulations. The system of internal controls is designed to manage, or mitigate, risk to an acceptable residual level rather than eliminate it entirely. Systems of internal control can only provide reasonable and not absolute assurance against material misstatement, fraud or loss.

Ongoing processes for the identification, evaluation and management of the principal risks faced by NatWest Group operated throughout the period from 1 January 2021 to 17 February 2022, the date the directors approved the Annual Report and Accounts. These included the semi-annual Control Environment Certification process, which requires senior members of the executive and management to assess the adequacy and effectiveness of their internal control frameworks and certify that their business or function is compliant with the requirements of Sarbanes-Oxley Section 404 and the UK Corporate Governance Code. The policies that govern these processes – and reports on internal controls arising from them – are reviewed by the Board and meet the requirements of the Financial Reporting Council's Guidance on Risk Management Internal Control and Related Financial and Business Reporting.

NatWest Group operates a three lines of defence model, which provides an effective apportionment of responsibilities and accountabilities across the organisation. As part of its second line of defence role, the Risk oversight function exercises oversight and challenge of the risk management activities undertaken by the first line of defence, which is responsible for designing, implementing and maintaining effective processes, procedures and controls to mitigate risks within risk appetite. The Internal Audit function, which is the third line of defence, undertakes independent and objective assurance activities and provides reports to the Board and executive management on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate risks in achieving NatWest Group's objectives.

The effectiveness of NatWest Group's internal controls is reviewed regularly by the Board, the Group Audit Committee and the Group Board Risk Committee. In addition, the Board receives a risk management report at each scheduled Board meeting. Executive management committees in each of NatWest Group's businesses also receive regular reports on significant risks facing their business and how these are being controlled. Details of the bank's approach to risk management are given in the Risk & Capital Management section of the Annual Report and Accounts.

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 NatWest Bank Plc customer. Regulations require risk-sensitive ongoing monitoring of customers for the purposes of preventing money laundering. NatWest Bank Plc co-operated fully with the regulator's investigation into this case and, in October 2021, pleaded guilty to three breaches of the Money Laundering Regulations 2007. NatWest Group takes its responsibility to prevent and detect financial crime extremely seriously and continues to make significant multi-year investments to strengthen and improve its overall financial crime framework with prevention systems and capabilities. Almost £700 million has been invested in the last five years, including upgrades to transaction monitoring systems, automated customer screening and new customer due diligence solutions.

NatWest Group continued to make enhancements to other aspects of the wider control environment in 2021. This has included the management of delivery of regulated programmes such as the IRB programme, as required by Prudential Regulatory Authority (PRA) and the European Banking Authority (EBA). NWG continued to focus on the embedding of a strong risk culture to support a robust control environment.

The remediation of known control issues continued to be an important focus for both the Group Audit Committee and the Board Risk Committee during 2021. For further information on their oversight of remediation of the most significant issues, please refer to the Report of the Group Audit Committee and the Report of the Group Board Risk Committee. As part of its activities, the Group Audit Committee has received confirmation that management has taken, or is taking, action to remedy significant failings or weaknesses identified through NatWest Group's control framework.

While not being part of the bank's system of internal control, the Group's independent auditors present to the Group Audit Committee reports that include details of any significant internal control deficiencies they have identified. Further, the system of internal controls is also subject to regulatory oversight in the UK and overseas. Additional details of regulatory oversight are given in the Risk & Capital Management section.

While several planned activities designed to enhance the control environment were disrupted by the extensive impact of COVID-19 (thereby delaying the achievement of the NatWest Group's control environment target), the control environment remained largely stable in 2021. There was continuing management focus on the delivery of regulatory programmes – including the internal transformation programme established in response to updated IRB regulation from the Prudential Regulatory Authority (PRA) and the European Banking Authority (EBA) – as well as a review of the controls and processes relating to certain regulatory reporting. There was also significant focus on work to enhance controls relating to financial crime risks – including ongoing work to strengthen customer due diligence standards. The focus of the of NatWest Group in establishing and maintaining a robust risk culture made a valuable contribution to the overall control environment.

The remediation of known control issues remained a focus of the Group Audit Committee and the Group Board Risk Committee during 2021. For further information on their oversight of remediation of the most significant issues, please refer to the Report of the Group Audit Committee and the Report of the Group Board Risk Committee. The Group Audit Committee has received confirmation that management has taken, or is taking, action to remedy significant failings or weaknesses identified through NatWest Group's control framework. The Group Audit Committee and the Group Board Risk Committee will continue to focus on such remediation activity, particularly in view of the transformation agenda.

While not being part of the Group's system of internal control, the Group's independent auditors present to the Group Audit Committee reports that include details of any significant internal control deficiencies they have identified. Further, the system of internal controls is also subject to regulatory oversight in the UK and overseas. Additional details of regulatory oversight are given in the Risk and capital management section.

Internal control over financial reporting

NatWest Group plc is required to comply with Section 404 of the US Sarbanes-Oxley Act of 2002 and assess the effectiveness of internal control over financial reporting as of 31 December 2021.

NatWest Group has 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'.

Based on its assessment, management has concluded that, as of 31 December 2021, NatWest Group's internal control over financial reporting is effective.

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

Management's report on NatWest Group's internal control over financial reporting will be filed with the Securities and Exchange Commission as part of the 2021 Annual Report on Form 20-F.

Disclosure controls and procedures

As required by Exchange Act rules, management (including the Group CEO and Group CFO) have conducted an evaluation of the effectiveness and design of NatWest Group's disclosure controls and procedures (as defined in the Exchange Act rules) as at 31 December 2021. Based on this evaluation, management (including the Group CEO and Group CFO) concluded that NatWest Group plc's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report and Accounts.

Changes in internal control

There was no change in NatWest Group's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, NatWest Group's internal control over financial reporting.

The New York Stock Exchange

As a foreign private issuer with American Depository Shares representing ordinary shares, preference shares and debt securities listed on the New York Stock Exchange (the NYSE), NatWest Group plc is not required to comply with all of the NYSE governance standards applicable to US domestic companies (the NYSE Standards) provided that it follows home country practice in lieu of the NYSE Standards and discloses any significant ways in which its corporate governance practices differ from the NYSE Standards. NatWest Group plc is also required to provide an Annual Written Affirmation to the NYSE of its compliance with the mandatory applicable NYSE Standards. In March 2021 NatWest Group plc submitted its most recent Annual Written Affirmation to the NYSE which confirmed NatWest Group plc's full compliance with the applicable provisions.

The Group Audit Committee fully complies with the mandatory provisions of the NYSE Standards (including by reference to the rules of the Exchange Act) that relate to the composition, responsibilities and operation of audit committees. More detailed information about the Group Audit Committee and its work during 2021 is set out in the Group Audit Committee report on pages 116 to 123.

The Board has reviewed its corporate governance arrangements and is satisfied that these are consistent with the NYSE Standards, subject to the following departures:

i. NYSE Standards require the majority of the Board to be independent. The NYSE Standards contain different tests from the Code for determining whether a director is independent. NatWest Group plc follows the Code's requirements in determining the independence of its directors and currently has eight independent non-executive directors, one of whom is the Senior Independent Director.
ii. The NYSE Standards require non-management directors to hold regular sessions without management present, and that independent directors meet at least once a year. The Code requires the Chairman to hold meetings with non-executive directors without the executives present and non-executive directors are to meet without the Chairman present at least once a year to appraise the Chairman's performance and NatWest Group plc complies with the requirements of the Code.
iii. The NYSE Standards require that the nominating/corporate governance committee of a listed company be composed entirely of independent directors. The Chairman of the Board is also the Chairman of the Group Nominations and Governance Committee, which is permitted under the Code (since the Chairman was considered independent on appointment). The terms of reference of the Group Nominations and Governance Committee differ in certain limited respects from the requirements set out in the NYSE Standards, including because the Group Nominations and Governance Committee does not have responsibility for overseeing the evaluation of management.
iv. The NYSE standards require that the compensation committee of a listed company be composed entirely of independent directors. Although the members of the Group RemCo are deemed independent in compliance with the provisions of the Code, the Board has not assessed the independence of the members of the Group RemCo and Group RemCo has not assessed the independence of any compensation consultant, legal counsel or other adviser, in each case, in accordance with the independence tests prescribed by the NYSE Standards. The NYSE Standards require that the compensation committee must have direct responsibility to review and approve the CEO's remuneration. As stated at the start of this Compliance report, in the case of NatWest Group plc, the Board rather than the Group RemCo reserves the authority to make the final determination of the remuneration of the CEO.
v. The NYSE Standards require listed companies to adopt and disclose corporate governance guidelines. Throughout the year ended 31 December 2021, NatWest Group plc has complied with all of the provisions of the Code (subject to the exception described above) and the Code does not require NatWest Group plc to disclose the full range of corporate governance guidelines with which it complies.
vi. The NYSE Standards require listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. NatWest Group has adopted a code of conduct which is supplemented by a number of key policies and guidance dealing with matters including, among others, anti-bribery and corruption, anti-money laundering, sanctions, confidentiality, inside information, health, safety and environment, conflicts of interest, market conduct and management records. This code of conduct applies to all officers and employees and is fully aligned to the PRA and FCA Conduct Rules which apply to all directors. The Code of Conduct is available to view on NatWest Group's website at natwestgroup.com.

This Compliance report forms part of the Corporate governance report and the Report of the directors.

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:

Group structure

During 2018, in preparation for ring-fencing a number of changes were made to the NatWest Group structure. Following these changes the company owns three main subsidiaries, NatWest Holdings Limited (the parent of the ring-fenced group which includes National Westminster Bank Plc, The Royal Bank of Scotland plc and Ulster Bank Ireland DAC), NatWest Markets Plc (the investment bank and the parent of NatWest Markets N.V.) and The Royal Bank of Scotland International (Holdings) Limited (the parent of The Royal Bank of Scotland International Limited).

Further details of the principal subsidiary undertakings are shown in Note 33 of the consolidated financial statements and a full list of subsidiary undertakings and overseas branches is shown in Note 12 of the parent company accounts.

Following placing and open offers in December 2008 and in April 2009, HM Treasury (HMT) owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, the company issued a further £25.5 billion of new capital to HMT in the form of B shares. HMT sold 630 million of its holding of the company's ordinary shares in August 2015. In October 2015 HMT converted its entire holding of 51 billion B shares into 5.1 billion new ordinary shares of £1 each in the company. HMT sold a further 925 million of its holding of the company's ordinary shares in June 2018.

In March 2021, the company carried out an off-market purchase of 591 million of its ordinary shares from HMT.

In May 2021, HMT sold 580 million ordinary shares through an accelerated book building process to institutional investors.

In July 2021, HMT announced its intention to sell part of its shareholding over a 12 month period from August 2021 via a trading plan, for up to 15% of the aggregate total trading volume.

At 31 December 2021, HMT's holding in the total voting rights of the company was 52.96%. The percentage was correct as at the date of notification on 5 November 2021.

Activities

NatWest Group is engaged principally in providing a wide range of banking and other financial services. Further details of the organisational structure and business overview of NatWest Group, including the products and services provided by each of its operating segments and the markets in which they operate are contained in the Business review. Details of the strategy for delivering the company's objectives can be found in the Strategic report.

Results and dividends

UK company law provides that dividends can only be paid if a company has sufficient distributable profits available to cover the dividend. A company's distributable profits are its accumulated, realised profits not previously distributed or capitalised, less its accumulated, realised losses not previously written off in a reduction or re-organisation of capital. At 31 December 2021, NatWest Group Plc's distributable profits were £31 billion.

The profit attributable to the ordinary shareholders of NatWest Group plc for the year ended 31 December 2021 amounted to £2,950 million compared with a loss of £753 million for the year ended 31 December 2020, as set out in the consolidated income statement on page 300.

In 2021 NatWest Group paid an interim dividend of £347 million, or 3.0p per ordinary share (2020 – nil).

The company has announced that the directors have recommended a final dividend of £844 million, or 7.5p per ordinary share (2020 – £364 million or 3.0p per ordinary share). The final dividend recommended by directors is subject to shareholders' approval at the Annual General Meeting on 28 April 2022.

If approved, payment will be made on 4 May 2022 to shareholders on the register at the close of business on 18 March 2022. The ex-dividend date will be 17 March 2022.

Subject to above mentioned condition, the payment of interim dividends on ordinary shares is at the discretion of the Board.

Colleagues

As at 31 December 2021, NatWest Group employed 57,800 people (excluding temporary staff). Details of all related costs are included in Note 3 to the consolidated accounts.

Employment for disabled persons

For colleagues with disabilities NatWest Group supports them with workplace adjustments so that they can 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.

With external recruitment, 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 any adjustments to help complete their application or assessment.

Going concern

NatWest 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. The risk factors which could materially affect NatWest Group's future results are set out on pages 406 to 426. NatWest 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 249 to 265. This section also describes NatWest Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

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

UK Code for Financial Reporting Disclosure

NatWest Group plc's 2021 financial statements have been prepared in compliance with the principles set out in the Code for Financial Reporting Disclosure published by the British Bankers' Association in 2010. The Code sets out five disclosure principles together with supporting guidance. The principles are that NatWest Group and other major UK banks will provide high quality, meaningful and decision-useful disclosures; review and enhance their financial instrument disclosures for key areas of interest to market participants; assess the applicability and relevance of good practice recommendations to their disclosures, acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Enhanced Disclosure Task Force (EDTF) and Disclosures on Expected Credit Losses (DECL) Taskforce recommendations

The EDTF, established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012, with an update in November 2015 covering IFRS 9 expected credit losses (ECL). The DECL Taskforce, jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulatory Authority, published its phase 2 report recommendations in December 2019.

NatWest Group plc's 2021 Annual Report and Accounts and Pillar 3 Report reflect EDTF and have regard to DECL Taskforce recommendations.

Authority to repurchase shares

At the Annual General Meeting in 2021 shareholders authorised the company to make market purchases of up to 1,216,656,575 ordinary shares. The directors utilised the authority obtained at the 2021 AGM to conduct a share buyback programme (the 'Programme') of up to £750 million, as announced to the market on 30 July 2021. The Programme's purpose is to reduce the ordinary share capital of NatWest Group.

Taking into account the reduction in issued ordinary share capital which occurred as a result of the off-market buyback announced on 19 March 2021, the maximum number of ordinary shares that could be purchased by the company under the Programme was 1,157,583,542. The Programme commenced on 2 August 2021 and, as at 31 December 2021, 310,802,416 ordinary shares (nominal value £310,802,416) had been purchased by the company at an average purchase price of 217.5796p per ordinary share for the total consideration of £676,242,656. A further 29,735,044 ordinary shares (nominal value £29,735,044) were purchased by the company from 1 January to 18 January 2022 at an average purchase price of 245.5264p per ordinary share for the total consideration of £73,007,375. All of the purchased ordinary shares were cancelled, representing 2.93% of the company's issued ordinary share capital. Shareholders will be asked to renew this authorisation at the Annual General Meeting in 2022.

On 6 February 2019 the company held a General Meeting and shareholders approved a special resolution to give the company authority to make off-market purchases of up to 4.99% of its ordinary share capital in issuance from HMT (or its nominee) at such times as the directors may determine is appropriate. Full details of the proposal are set out in the Circular and Notice of General Meeting available at natwestgroup.com. This authority was renewed at the Annual General Meeting in 2021 and shareholders will be asked to renew the authority at the Annual General Meeting in 2022.

The company utilised the authority it obtained at the 2020 AGM to make an off-market purchase of 590,730,325 ordinary shares (nominal value £590,730,325) in the company from HMT on 19 March 2021, at a price of 190.50p per ordinary share for the total consideration of £1,125,341,269, representing 4.86% of the company's issued ordinary share capital. The company cancelled 390,730,325 of the purchased ordinary shares and held the remaining 200,000,000 ordinary shares in treasury. The company has used a total of 19,062,290 treasury shares to satisfy the exercise of options and the vesting of share awards under the employee share plans and the balance of ordinary shares held in treasury as at 31 December 2021 was 180,937,710.

At the 2021 Annual General Meeting, shareholders authorised the company to make an off-market purchase of preference shares in the company. The company announced on 15 December 2021 that it had utilised this authority to purchase 157,546 5.5% cumulative preference shares (nominal value £157,546), representing 39.39% of the share class, at a purchase price of 102%, for the total consideration of £160,697 and 259,314 11.00% cumulative preference shares (nominal value £259,314), representing 51.86% of the share class, at a purchase price of 155%, for the total consideration of £401,937. The company cancelled all of the purchased preference shares.

Additional information

Where not provided elsewhere in the Report of the directors, the following additional information is required to be disclosed by Part 6 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The rights and obligations attached to the company's ordinary shares and preference shares are set out in our Articles of Association, copies of which can be obtained from Companies House in the UK or can be found at natwestgroup.com. Non-cumulative preference share details are set out in Note 22 of the consolidated accounts.

The cumulative preference shares represent less than 0.005% of the total voting rights of the company, the remainder being represented by the ordinary shares.

In a show of hands at a General Meeting of the company, every holder of ordinary shares and cumulative preference shares, present in person or by proxy and entitled to vote, shall have one vote.

On a poll, every holder of ordinary shares or cumulative preference shares present in person or by proxy and entitled to vote, shall have four votes for every share held. The notices of Annual General Meetings and General Meetings specify the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). At the 2021 Annual General Meeting, shareholders gave authority to directors to offer a scrip dividend alternative on any dividend paid up to the conclusion of the Annual General Meeting in 2024. Pursuant to the UK Listing Rules, certain employees of the company require the approval of the company to deal in the company's shares.

The rules governing the powers of directors, including in relation to issuing or buying back shares and their appointment, are set out in our Articles of Association. It will be proposed at the 2022 Annual General Meeting that the directors' authorities to allot shares under the Companies Act 2006 (the Companies Act) be renewed. The Articles of Association may only be amended by a special resolution at a General Meeting of shareholders. The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. There are no persons holding securities carrying special rights with regard to control of the company. A number of the company's employee share plans include restrictions on transfers of shares while shares are subject to the plans. Note 3 sets out a summary of the plans.

Under the rules of certain employee share plans, voting rights are exercised by the Trustees of the plan on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee no vote is registered.

For shares held in the company's other employee share trusts, the voting rights are exercisable by the Trustees. However, in accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation. The Trustees have chosen to waive their entitlement to the dividend on shares held by the Trusts.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. All of the company's employee share plans contain provisions relating to a change of control. In the context of the company as a whole, these agreements are not considered to be significant.

Directors

The names and brief biographical details of the current directors are shown on pages 98 to 101.

Howard Davies, Frank Dangeard, Patrick Flynn, Morten Friis, Robert Gillespie, Yasmin Jetha, Katie Murray, Mike Rogers, Alison Rose, Mark Seligman and Lena Wilson all served throughout the year and to the date of signing of the financial statements.

All directors of the company are required to stand for election or re-election annually by shareholders at the Annual General Meeting and, in accordance with the UK Listing Rules, the election or re-election of independent directors requires approval by all shareholders and also by independent shareholders.

Directors' interests

The interests of the directors in the shares of the company at 31 December 2021 are shown on page 171. None of the directors held an interest in the loan capital of the company or in the shares or loan capital of any of the subsidiary undertakings of the company, during the period from 1 January 2021 to 17 February 2022.

Directors' indemnities

In terms of section 236 of the Companies Act, Qualifying Third Party Indemnity Provisions have been issued by the company to its directors, members of the NatWest Group and NWH Executive Committees, individuals authorised by the PRA/FCA, certain directors and/or officers of NatWest Group subsidiaries and all trustees of NatWest Group pension schemes.

Controlling shareholder

In accordance with the UK Listing Rules, the company has entered into an agreement with HM Treasury (the 'Controlling Shareholder') which is intended to ensure that the Controlling Shareholder complies with the independence provisions set out in the UK Listing Rules. The company has complied with the independence provisions in the relationship agreement and as far as the company is aware the independence and procurement provisions in the relationship agreement have been complied with in the period by the controlling shareholder.

Shareholdings

The table below shows shareholders that have notified NatWest Group that they hold more than 3% of the total voting rights of the company at 31 December 2021.

	Ordinary shares (millions)	% of issued share capital with voting rights held[1]
Solicitor For The Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury	6,038	52.96
Norges Bank	348	3.07

(1) Percentages provided were correct at the date of notification on 5 November 2021.

On 11 February 2022 a notification under Rule 5 of the Disclosure and Transparency Rules ('DTR') was received from HMT notifying that they held 5,735 million ordinary shares, representing 50.94% of the issued share capital with voting rights.

As at 17 February 2022, no further notifications have been received under Rule 5 of the DTR.

Listing rule 9.8.4

The information to be disclosed in the Annual Report and Accounts under LR 9.8.4, is set out in this Directors' report with the exception of details of contracts of significance under LR 9.8.4 (10) and (11) given in Additional information on page 427.

Political donations

At the Annual General Meeting in 2021, shareholders gave authority under Part 14 of the Companies Act 2006, for a period of one year, for the company (and its subsidiaries) to make political donations and incur political expenditure up to a maximum aggregate sum of £100,000. This authorisation was taken as a precaution only, as the company has a longstanding policy of not making political donations or incurring political expenditure within the ordinary meaning of those words.

During 2021, NatWest Group made no political donations, nor incurred any political expenditure in the UK or EU and it is not proposed that NatWest Group's longstanding policy of not making contributions to any political party be changed. Shareholders will be asked to renew this authorisation at the Annual General Meeting in 2022.

Directors' disclosure to auditors

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

(a) so far as the director is aware, there is no relevant audit information of which the company'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 the company'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 the auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.
By order of the Board

Jan Cargill
Chief Governance Officer and Company Secretary

17 February 2022

NatWest Group plc
is registered in Scotland No. SC45551

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 287 to 299.

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, International Financial Reporting Standards as issued by the International Accounting Standards Board and IFRS as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NatWest Group.
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 NatWest 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 NatWest 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, Directors' report, Directors' remuneration report and Corporate governance statement 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, International Financial Reporting Standards as issued by the International Accounting Standards Board and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (incorporating the Financial review) include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the directors are of the opinion that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Group Chief Executive Officer

Katie Murray
Group Chief Financial Officer

17 February 2022

Board of directors

Chairman

Howard Davies

Executive directors

Alison Rose-Slade

Katie Murray

Non-executive directors

Frank Dangeard

Patrick Flynn

Morten Friis

Robert Gillespie

Yasmin Jetha

Mike Rogers

Mark Seligman

Lena Wilson

Risk and capital management

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 188 to 285) is within the scope of the Independent auditor's report.

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. NatWest 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 NatWest Group's portfolios for some time. NatWest Group anticipates increased default levels in 2022 as a result.

While the direct impact on NatWest Group's operational risk profile reduced, NatWest 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 NatWest 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, NatWest Group remains well placed to withstand these aftershocks as well as providing support to customers when they need it most.

Risk management framework

Introduction

NatWest Group operates an 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 NatWest 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 NatWest Group and its subsidiaries. It aligns risk management with NatWest Group's overall strategic objectives.

The framework, which is designed and maintained by NatWest Group's independent Risk function, is owned by the Chief Risk Officer. It is reviewed and approved annually by the 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 NatWest 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 NatWest 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 NatWest 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.

Culture

Risk culture is at the heart of NatWest 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 NatWest 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 (for more information on this process refer to page 155). 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 NatWest Group's risk committee structure in 2021 and the main purposes of each committee.

NatWest Group plc Board
Considers material risks and approves, as appropriate, actions recommended by the Group Board Risk Committee. Monitors performance against risk appetite. Reviews and approves the risk appetite framework and qualitative statements of risk appetite for all key risks.

Group Board Risk Committee
Provides oversight and advice to the Board on current and future risk exposures, risk profile, risk appetite and risk culture. Reviews the design and implementation of the risk management framework and provides input to remuneration decisions.

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

Group Executive Risk Committee(1)
Reviews, challenges and debates all material risk and control matters across the Group. Supports the CEO and other accountable executives in discharging risk management accountabilities. Considers the Group's risk profile relative to current and future strategy and oversees implementation of the risk management framework.

Group Executive Committee(2)
Supports the Group CEO in discharging her individual accountabilities including matters relating to strategy, financials, capital, risk and operational issues. Monitors the implementation of culture change. Supports the Group CEO in forming recommendations to the Board and to relevant Board committees.

Group Asset & Liability Management Committee(3, 4)
Supports the Group CFO in overseeing the effective management of the Group's current and future balance sheet in line with Board-approved strategy and risk appetite.

Group Executive Disclosure Committee(5)
Ensures that NatWest Group and relevant subsidiary disclosures are accurate, complete and fair. Supports the Group CRO in reviewing and evaluating all significant expected credit losses and the Group CFO in reviewing and evaluating related provisions and valuations.

(1) The Group Executive Risk Committee is chaired by the Group Chief Executive Officer and supports her (and other accountable executives) in discharging risk management accountabilities.
(2) The Group Executive Committee is chaired by the Group Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the Board.
(3) The Group Asset & Liability Management Committee is chaired by the Group Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.
(4) In addition, the Group Technical Asset & Liability Management Committee, chaired by the Group Treasurer, provides oversight of capital and balance sheet management in line with approved risk appetite under normal and stress conditions. Reviews and challenges the financial strategy, risk management, balance sheet and remuneration and policy implications of the Group's pension schemes.
(5) The Group Executive Disclosure Committee is chaired by the Group Chief Financial Officer and supports her in discharging her accountabilities relating to the production and integrity of the Group's financial information and disclosures.

Risk and capital management continued

Risk management framework continued
Risk management structure
The diagram shows NatWest Group's risk management structure in 2021 and key risk management responsibilities.

Group Chief Executive Officer

Group Chief Risk Officer
Leads the NatWest Group Risk function. Defines and delivers the risk, conduct, compliance and financial crime strategies. Defines overall risk service provision requirements to enable delivery of NatWest Group strategies, including policies, governance, frameworks, oversight and challenge, risk culture and risk reporting. Contributes to the development of strategy, transformation and culture as a member of the Executive Committee.

NWH Chief Executive Officer – **NWH Chief Risk Officer**
Leads the NWH Risk function. Responsibilities include policy, governance, frameworks, oversight and challenge, risk culture and reporting. Delivers risk services across NatWest Group governed by appropriate service level agreements. Contributes to NWH strategy as a member of the NWH Executive Committee.

NWM Chief Executive Officer – **NWM Chief Risk Officer**
Leads the NWM Risk function. Responsibilities include policy, governance, frameworks, oversight and challenge, risk culture and reporting. Contributes to NWM strategy as a member of the NWM Executive Committee.

RBSI Chief Executive Officer – **RBSI Chief Risk Officer**
Leads the RBSI Risk function. Responsibilities include policy, governance, frameworks, oversight and challenge, risk culture and reporting. Contributes to RBSI strategy as a member of the RBSI Executive Committee.

(1) The Group Chief Executive Officer also performs the NWH Chief Executive Officer role.
(2) The Group Chief Risk Officer also performs the NWH Chief Risk Officer role.
(3) The NWH Risk function provides risk management services across NWH, including to the NWH Chief Risk Officer and – where agreed – to NWM and RBSI Chief Risk Officers. These services are managed, as appropriate, through service level agreements.
(4) The NWH Risk function is independent of the NWH 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 NWH. Risk committees in the customer businesses 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; wealth businesses; Financial & Strategic Risk; Non-Financial Risk & Frameworks and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings and the Chief Operating Officer report to the NWH Chief Risk Officer. The Director of Risk, Ulster Bank Ireland DAC reports to the Ulster Bank Ireland DAC Chief Executive. He also has a reporting line to the NWH Chief Risk Officer and to the Chair of the Ulster Bank Ireland DAC Board Risk Committee.
(5) The Chief Risk Officers for NWM and RBSI have dual reporting lines into the Group Chief Risk Officer and the respective Chief Executive Officers of their entities. There are additional reporting lines to the NWM and RBSI Board Risk Committee chairs and a right of access to the respective Risk Committees.

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. All roles below the CEO sit within one of the three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside the three lines of defence principles.

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 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 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 NatWest 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 NatWest 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 NatWest 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 NatWest 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 NatWest Group is well placed to meet its priorities and long-term targets even in challenging economic environments. This supports NatWest Group in remaining resilient and secure as it pursues its strategic business objectives.

NatWest 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 comprises:

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

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

Risk management framework continued

Specific areas that involve capital management include:

- *Strategic financial and capital planning* – by assessing the impact of sensitivities and scenarios on the capital plan and capital ratios.
- *Risk appetite* – by gaining a better understanding of the drivers of, and the underlying risks associated with, risk appetite.
- *Risk 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.

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

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They 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 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.

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.

Risk management framework continued

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.

Traded market risk

NatWest Group carries out regular market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading portfolios.

NatWest Group conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

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Risk management framework continued

Historical stress tests form part of the market risk limit framework and their results are reported regularly to senior management. Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line.

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.

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.

	Bank of England stress test
Scenario	Designed to assess the resilience of major UK banks to reasonable worst-case stress in the current environment. The severity of the test is related to policymakers' assessments of risk levels across markets and regions. The 2021 stress test assessed the impact of a severe economic path from 2021 to 2025 on top of the economic shocks arising from the pandemic. The scenario implied a cumulative three-year loss of 37% of 2019 UK GDP and 31% of 2019 global GDP with the UK's trading partners experiencing severe and synchronised slowdowns, a decline in equity prices and a rise in bond spreads. The scenario also included a 33% fall in UK residential property prices and a rise in UK unemployment of 5.6 percentage points to peak at 11.9%. The stress was based on an end-of-2020 balance sheet starting position.
Results	Under the 2021 Bank of England solvency stress test, on an IFRS 9 transitional basis, the CET1 ratio reached a low point of 10.4%. This was above the reference rate of 7%. Tier 1 leverage ratio was projected to be 4.4% under stress. This was above the reference rate of 3.6% On an IFRS 9 non-transitional basis, the CET1 ratio reached a low point of 10.3%. This was above the reference rate of 7%. Tier 1 leverage ratio was projected to be 4.4% under stress. This was above the reference rate of 3.6%
What does this mean?	The 2021 Bank of England solvency stress result demonstrated that the balance sheet continues to be robust with a strong capital position.

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 NatWest Group are lending, off-balance sheet products, derivatives and securities financing, and debt securities. NatWest Group is also exposed to settlement risk through foreign exchange, trade finance and payments activities.

Key developments in 2021

- The outlook for credit risk and asset quality improved during 2021 with the economic recovery from the disruption caused by COVID-19 being faster than initially forecast.
- The overall expected credit loss (ECL) decreased materially as a result, with lower than expected defaults and exposures moving from Stage 2 into Stage 1. Stage 3 ECL charges remained low, reflecting the effect of government support schemes mitigating against defaults.
- In Personal, lending criteria and underwriting standards, which had been tightened during 2020 in response to COVID-19, were selectively relaxed as economic conditions improved and portfolio performance stabilised following the conclusion of payment holidays.
- In Wholesale, sector specific risk appetite continued to be closely monitored and appropriately adjusted during the year for those sectors most affected by COVID-19. As in Personal, a selective relaxation of lending criteria and underwriting standards was possible as economic conditions improved and portfolio performance stabilised.
- NatWest Group continued to progress embedding climate change considerations in credit assessment and monitoring, including scenario analysis to assess the materiality of climate change risks. For further information refer to the 2021 Climate-related disclosures report.

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 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 NatWest 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.

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

Credit risk continued

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 – NatWest Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NatWest 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. NatWest Group updates residential property values quarterly using the relevant residential property index namely:

Region	Index used
UK (including Northern Ireland)	Office for National Statistics House Price Index
Republic of Ireland	Central Statistics Office Residential Property Price Index

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

Commercial real estate valuations – NatWest Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NatWest 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. In the Republic of Ireland, assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value residential assets, but demands regular valuations for higher value assets.

Assessment and monitoring

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

Personal

Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, NatWest 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 NatWest Group and other lenders). NatWest 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 risk continued

Credit grades (PD) 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 NatWest Group 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.

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 NatWest 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.

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

Recoveries

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

Credit risk continued

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 NatWest 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. 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 NatWest 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), capitalisation of arrears and, in the Republic of Ireland only, temporary interest-only or partial capital and interest arrangements. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

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

Monitoring of forbearance

Personal

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

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, NatWest 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.

NatWest 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.

Credit risk continued

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 policy 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.

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.

Credit risk continued

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to NatWest Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments 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 NatWest 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.

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking		Wholesale		Ulster Bank RoI		
	Mortgages	Other	Commercial	Other	Mortgages	Other	Total
2021	£m	£m	£m	£m	£m	£m	£m
Deferred model calibrations	**58**	**97**	**62**	**—**	**—**	**2**	**219**
Economic uncertainty	**60**	**99**	**373**	**23**	**6**	**23**	**584**
Other adjustments	**37**	**—**	**2**	**3**	**156**	**—**	**198**
Total	**155**	**196**	**437**	**26**	**162**	**25**	**1,001**
Of which:							
- Stage 1	***9***	***5***	***13***	***2***	***4***	***1***	***34***
- Stage 2	***126***	***164***	***424***	***24***	***7***	***26***	***771***
- Stage 3	***20***	***27***	***—***	***—***	***151***	***(2)***	***196***
2020							
Deferred model calibrations	25	9	13	—	—	2	49
Economic uncertainty	79	79	526	18	113	63	878
Other adjustments	20	—	19	3	26	—	68
Total	124	88	558	21	139	65	995
Of which:							
- Stage 1	*21*	*8*	*37*	*2*	*15*	—	83
- Stage 2	*93*	*78*	*521*	*19*	*47*	*65*	823
- Stage 3	*10*	*2*	—	—	*77*	—	89

(1) 2021 data excludes £49 million of post model adjustments (mortgages – £4 million; other – £45 million) for Ulster Bank RoI disclosed as discontinued operations.

While in aggregate the post model adjustments have only seen a modest increase since 31 December 2020, there was an increase on the proportion of ECL and notable shifts across and within categories. These reflect:

- Changes in profile in Ulster Bank RoI to reflect both the portfolio performance and the strategic shift to exit the market.
- 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 £155 million from £34 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.

Credit risk continued

The post model adjustment for economic uncertainty remained elevated at £159 million. The total included an ECL uplift of £26 million on a subset of customers who had accessed payment holiday support where their risk profile was identified as relatively high risk. In addition, NatWest Group continued to retain a holdback of a modelled ECL release of £69 million, again due to the delayed default emergence reflective of the various customer support schemes (£15 million related to mortgages and £54 million related to unsecured lending). The year end overlay position also included an ECL uplift on buy-to-let mortgages of £12 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 £14 million to capture the impact of potential cladding risk in the portfolio.

Commercial Banking – The post model adjustment for economic uncertainty reduced from £526 million to £373 million during the year. It included an overlay of £328 million (£360 million across NatWest Group's Wholesale portfolio) 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 also included an overlay of £7 million in respect of elevated concerns around borrowers' ability to refinance facilities at the end of the contractual term.

The post model adjustment for deferred model calibrations on the business banking portfolio increased to £62 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 adjustments included an overlay of £2 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR. This reduced from £19 million at 31 December 2020, mainly as a result of a significantly reduced Stage 2 population and lower defaults across the portfolio.

Ulster Bank RoI – Similar to Commercial Banking, the post model adjustment for economic uncertainty included an adjustment of £12 million reflecting concerns that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested. It also included an adjustment of £9 million deferring the benefits of improvements in economic forecasts given ongoing uncertainty as well as an adjustment of £9 million in the SME portfolio, reflective of the elevated risk for this sector. Other judgmental overlays increased to £156 million from £26 million reflected management opinion that continuing actions on the phased withdrawal of Ulster Bank RoI from the Irish market will lead to higher, and/or earlier, crystallisation of losses.

Other – The post model adjustments held in other businesses were for similar reasons as those described above.

Significant increase in credit risk (SICR) (audited)

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). NatWest 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 NatWest 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.

Credit risk continued

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.

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 £70 million (2020 – £110 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 NatWest Group 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.

Credit risk continued

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
RoI retail mortgages	RoI unemployment rate, European Central Bank base rate, RoI house 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 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.

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.

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, NatWest 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.

Credit risk continued

Economic loss drivers (audited)

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.

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)
Republic of Ireland								
GDP - CAGR	4.4	3.7	2.9	1.6	4.2	3.5	3.0	1.6
Unemployment - average	4.2	5.2	6.8	9.3	5.6	7.5	9.3	11.2
House price index - total change	30.3	23.4	16.3	4.6	21.0	13.3	6.8	(7.0)
European Central Bank base rate - average	0.8	0.1	0.2	—	0.1	—	—	—
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.
(2) The Republic of Ireland unemployment rate in the table above and the tables that follow corresponds to the mid-point of the Irish Central Statistics Office lower and upper bound unemployment rate measures.

Probability weightings of scenarios

NatWest 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 NatWest 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.

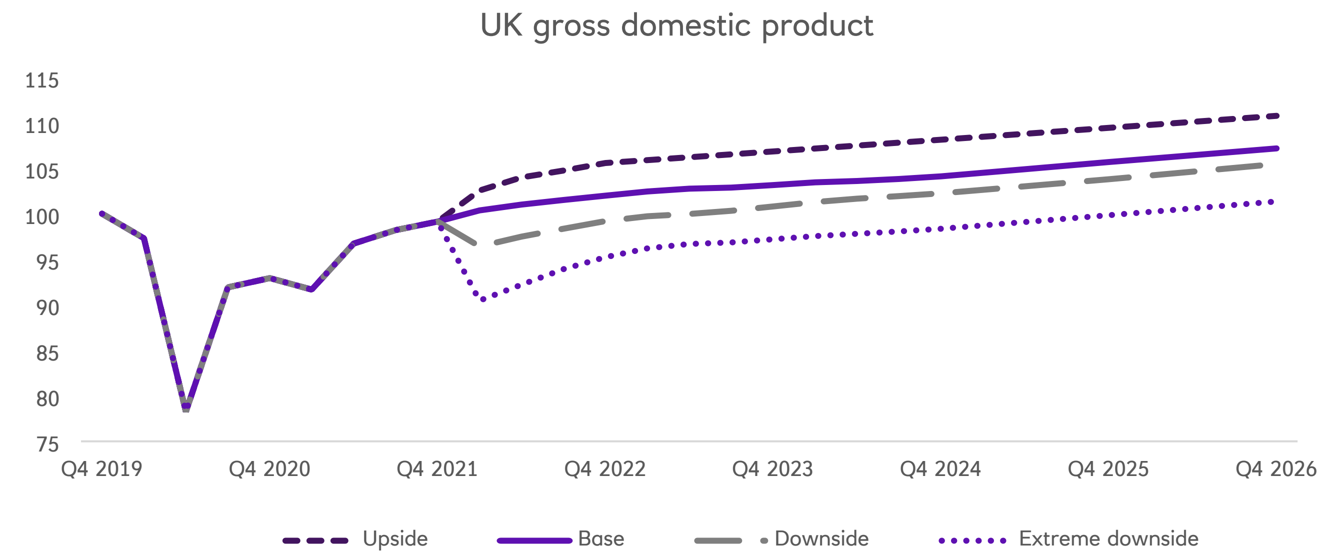
Instead, NatWest Group has subjectively applied probability weights, reflecting expert views within NatWest Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes 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. NatWest 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.

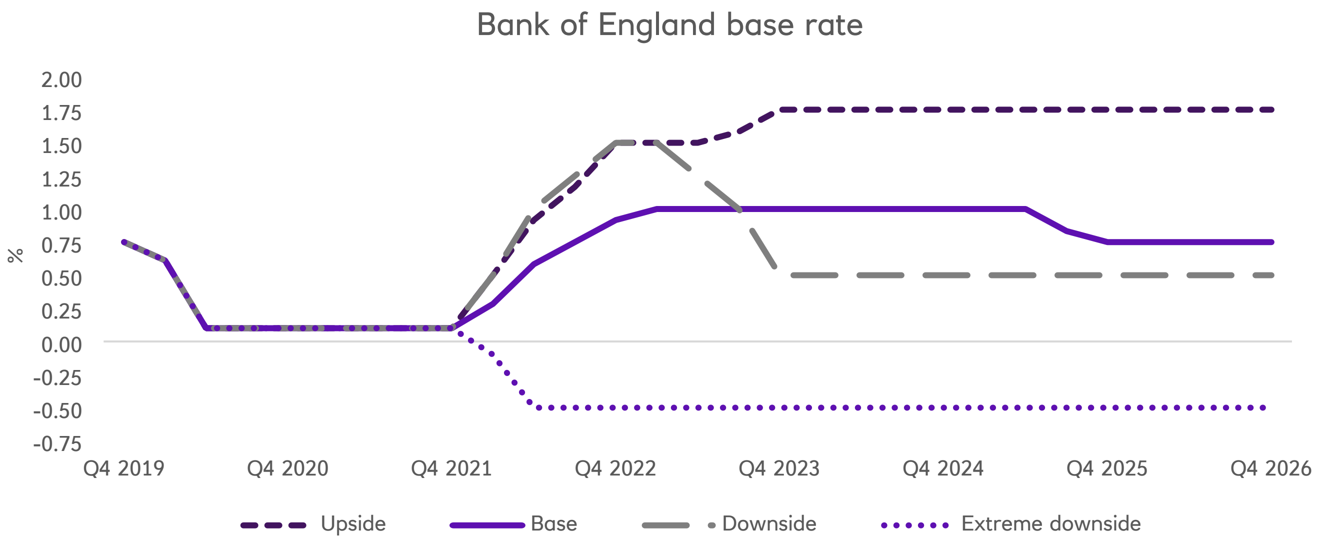
NatWest Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

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

UK	Upside %	Base case %	Downside %	Extreme downside %	Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	7.0	7.0	7.0	7.0	2021	15.1	15.1	15.1	15.1
2022	8.1	5.0	1.5	(3.6)	2022	8.9	6.8	2.9	(4.9)
2023	2.1	1.6	2.4	4.1	2023	5.8	4.1	3.8	5.3
2024	1.2	0.9	1.6	1.2	2024	3.0	3.1	3.3	3.1
2025	1.2	1.3	1.4	1.4	2025	2.9	3.1	3.1	3.2
2026	1.2	1.5	1.6	1.5	2026	2.8	2.7	2.7	3.1

Unemployment rate - annual average

UK	Upside %	Base case %	Downside %	Extreme downside %	Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	4.6	4.6	4.6	4.6	2021	11.2	11.2	11.2	11.2
2022	3.5	4.1	5.1	8.3	2022	4.5	5.5	8.8	13.7
2023	3.3	4.0	5.2	8.8	2023	4.1	5.3	7.2	10.2
2024	3.4	4.1	4.7	6.6	2024	4.0	5.1	6.3	8.4
2025	3.4	4.2	4.5	5.2	2025	4.0	5.0	5.7	7.5
2026	3.6	4.2	4.5	4.9	2026	4.0	5.0	5.5	7.0

House price index - four quarter growth

UK	Upside %	Base case %	Downside %	Extreme downside %	Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	6.9	6.9	6.9	6.9	2021	12.9	12.9	12.9	12.9
2022	7.9	1.6	(2.9)	(20.4)	2022	12.2	5.1	(3.3)	(17.8)
2023	4.2	1.6	(0.2)	(2.6)	2023	3.4	4.0	2.0	(4.7)
2024	3.1	2.9	1.7	13.0	2024	2.6	3.3	4.1	16.1
2025	3.0	2.7	3.0	4.7	2025	3.4	3.4	5.9	6.8
2026	3.0	2.7	3.0	3.6	2026	3.3	3.0	4.4	4.9

Commercial real estate price - four quarter growth / Bank of England base rate - annual average

UK	Upside %	Base case %	Downside %	Extreme downside %	UK	Upside %	Base case %	Downside %	Extreme downside %
2021	8.4	8.4	8.4	8.4	2021	0.10	0.10	0.10	0.10
2022	10.2	4.4	(2.7)	(29.8)	2022	1.02	0.63	1.06	(0.40)
2023	3.4	1.9	4.2	17.2	2023	1.58	1.00	1.06	(0.50)
2024	1.7	0.2	1.7	5.2	2024	1.75	1.00	0.50	(0.50)
2025	0.6	(0.8)	0.3	3.5	2025	1.75	0.90	0.50	(0.50)
2026	(0.8)	(0.8)	(0.2)	3.2	2026	1.75	0.75	0.50	(0.50)

Worst points

	31 December 2021				31 December 2020			
	Downside		Extreme downside		Downside		Extreme downside	
UK	%	Quarter	%	Quarter	%	Quarter	%	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
Republic of Ireland								
GDP	(0.7)	Q1 2022	(8.9)	Q2 2022	(5.5)	Q1 2021	(13.8)	Q1 2021
Unemployment rate (peak)	9.4	Q2 2022	15.1	Q2 2022	16.5	Q2 2020	18.1	Q4 2020
House price index	(0.1)	Q4 2022	(25.1)	Q2 2023	(13.3)	Q3 2021	(27.0)	Q4 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

Economic loss drivers (audited)

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 one to two years into the forecast horizon 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 NatWest 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 a 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, NatWest 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 NatWest 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 NatWest Group. It is therefore not automatically considered significant credit deterioration and a Stage 2 trigger. NatWest 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.

Credit risk continued

Economic loss drivers (audited)

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.

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%. NatWest Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NatWest 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.

Wholesale support schemes*

The table below shows the sector split for the Bounce Back Loan Scheme (BBLS) as well as associated debt split by stage. Associated debt refers to the non-BBLS lending to customers who also have BBLS lending.

	Gross Carrying Amount					
				Of which:		
	BBL	Associated debt	BBL and associated debt	Stage 1	Stage 2	Stage 3
31 December 2021	£m	£m	£m	£m	£m	£m
Wholesale						
Property	1,797	1,452	3,249	2,712	383	154
Financial institutions	39	32	71	41	26	4
Sovereign	8	2	10	9	1	—
Corporate	5,630	3,652	9,282	7,070	1,795	417
Of which:						
Airlines and aerospace	7	2	9	6	2	1
Automotive	373	160	533	429	81	23
Health	266	431	697	519	158	20
Land transport and logistics	231	85	316	237	58	21
Leisure	883	600	1,483	1,072	331	80
Oil and gas	11	4	15	11	3	1
Retail	956	445	1,401	1,110	236	55
Total	7,474	5,138	12,612	9,832	2,205	575

*Not within audit scope.

Credit risk continued

Economic loss drivers (audited)

	Gross Carrying Amount					
				Of which:		
	BBL	Associated debt	BBL and associated debt	Stage 1	Stage 2	Stage 3
31 December 2020	£m	£m	£m	£m	£m	£m
Wholesale						
Property	1,996	1,801	3,797	2,603	1,146	48
Financial institutions	49	35	84	47	37	—
Sovereign	11	2	13	12	1	—
Corporate	6,242	4,105	10,347	7,390	2,861	96
Of which:						
Airlines and aerospace	7	3	10	7	3	—
Automotive	416	177	593	472	119	2
Health	314	510	824	470	343	11
Land transport and logistics	255	112	367	275	83	9
Leisure	989	712	1,701	1,191	477	33
Oil and gas	9	4	13	11	2	—
Retail	1,078	512	1,590	1,207	374	9
Total	8,298	5,943	14,241	10,052	4,045	144

(1) The Recovery Loan Scheme, a successor to the closed BBLS was launched on 6 April 2021. Uptake of the new scheme was minimal with 527 customers having drawn down £54 million as at 31 December 2021

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, NatWest 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.

NatWest 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	157,456	157,803	159,093	153,018	128,673
Retail Banking - unsecured	7,386	7,435	7,675	6,939	5,975
Wholesale - property	28,047	28,137	28,181	27,995	26,074
Wholesale - non-property	103,604	104,080	104,309	103,749	92,645
	296,493	297,455	299,258	291,701	253,367
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	13	12	11	14	22
Retail Banking - unsecured	112	109	107	107	95
Wholesale - property	24	22	26	21	20
Wholesale - non-property	112	113	112	114	98
	261	256	256	256	235
Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	10,728	10,381	9,091	15,166	39,511
Retail Banking - unsecured	2,934	2,885	2,645	3,381	4,345
Wholesale - property	3,220	3,130	3,086	3,272	5,193
Wholesale - non-property	16,908	16,432	16,203	16,763	27,867
	33,790	32,828	31,025	38,582	76,916
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	155	152	135	177	379
Retail Banking - unsecured	435	435	413	475	562
Wholesale - property	109	105	99	110	191
Wholesale - non-property	701	674	666	680	989
	1,400	1,366	1,313	1,442	2,121
Stage 1 and Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	168,184	168,184	168,184	168,184	168,184
Retail Banking - unsecured	10,320	10,320	10,320	10,320	10,320
Wholesale - property	31,267	31,267	31,267	31,267	31,267
Wholesale - non-property	120,512	120,512	120,512	120,512	120,512
	330,283	330,283	330,283	330,283	330,283
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	168	164	146	191	401
Retail Banking - unsecured	547	544	520	582	657
Wholesale - property	133	127	125	131	211
Wholesale - non-property	813	787	778	794	1,087
	1,661	1,622	1,569	1,698	2,356
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.10%	0.10%	0.09%	0.11%	0.24%
Retail Banking - unsecured	5.30%	5.27%	5.04%	5.64%	6.37%
Wholesale - property	0.43%	0.41%	0.40%	0.42%	0.67%
Wholesale - non-property	0.67%	0.65%	0.65%	0.66%	0.90%
	0.50%	0.49%	0.48%	0.51%	0.71%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,661	1,622	1,569	1,698	2,356
ECL on Ulster Bank RoI modelled exposures	74	74	74	74	74
ECL on non-modelled exposures	45	45	45	45	45
Total Stage 1 and Stage 2 ECL	1,780	1,741	1,688	1,817	2,475
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(39)	(92)	37	695

(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) Exposures related to Ulster Bank RoI continuing operations have not been included in the simulations, the current Ulster Bank RoI ECL has been included across all scenarios to enable reconciliation to other disclosures.
(4) 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.
(5) Refer to the Economic loss drivers section for details of economic scenarios.
(6) Refer to the NatWest Group 2020 Annual Report and Accounts for 2020 comparatives.

Credit risk continued
Measurement uncertainty and ECL adequacy (audited)

- 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 26% of total ECL (2020 – 16%). 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 £0.7 billion (approximately 39%). 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 deteriorate beyond their year-end starting point.
- The lower modelled ECL in the downside scenario for Wholesale compared to the actual central scenario reflected the net effect of the MES weightings towards the downside for ECL.

The lower effect on the Wholesale portfolio reflected that unemployment is not a significant loss driver for property exposures nor some of NatWest Group's specialised lending areas.

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, NatWest 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, NatWest 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 as 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 NatWest Group operates, but also, among others:

- The ongoing trajectory of lockdown restrictions within the UK and the Republic of Ireland, 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 effect 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 NatWest Group's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Single factor sensitivity
In addition to scenario sensitivity, NatWest 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, NatWest 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.

Movement in ECL provision*
The table below shows the main ECL provision movements.

	ECL provision £m
At 1 January 2021	6,186
Transfers to disposal groups	(166)
Changes in economic forecasts	(611)
Changes in risk metrics and exposure: Stage 1 and Stage 2	(931)
Changes in risk metrics and exposure: Stage 3	374
Judgmental changes: changes in post model adjustments for Stage 1, Stage 2 and Stage 3	6
Write-offs and other	(1,052)
At 31 December 2021	3,806
At 1 January 2020	3,792
2020 movements	2,394
At 31 December 2020	6,186

*Not within audit scope.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NatWest Group's banking activities. Refer to Accounting policy 11 and Note 15 to the consolidated financial statements for policies and critical judgments relating to impairment loss determination.

Presentation of discontinued operations and assets and liabilities of disposal groups

Two legally binding agreements for the sale of the UBIDAC business were announced in 2021 as part of the phased withdrawal from the Republic of Ireland: The sale of commercial lending to Allied Irish Banks p.l.c. and the performing non-tracker mortgages, performing micro-SME loans, UBIDAC's asset finance business and 25 of its branch locations to Permanent TSB p.l.c.. The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group on 31 December 2021. The Ulster Bank RoI operating segment continues to be reported separately and reflects the results of its continuing operations.

Refer to Note 8 to the consolidated financial statements for further details.

Financial instruments within the scope of the IFRS 9 ECL framework (audited)

Refer to Note 10 to the consolidated 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. The table below excludes loans in disposal group of £9.1 billion.

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	596.1			555.0		
In scope of IFRS 9 ECL framework	590.9			548.8		
% in scope	99%			99%		
Loans to customers - in scope - amortised cost	361.9	3.7	358.2	365.5	6.0	359.5
Loans to customers - in scope - FVOCI	0.3	—	0.3	—	—	—
Loans to banks - in scope - amortised cost	7.6	—	7.6	6.8	—	6.8
Total loans - in scope	369.8	3.7	366.1	372.3	6.0	366.3
Stage 1	330.8	0.3	330.5	287.1	0.5	286.6
Stage 2	34.0	1.4	32.6	78.9	3.0	75.9
Stage 3	5.0	2.0	3.0	6.3	2.5	3.8
Other financial assets - in scope - amortised cost	184.4	—	184.4	132.1	—	132.1
Other financial assets - in scope - FVOCI	36.7	—	36.7	44.4	—	44.4
Total other financial assets - in scope	221.1	—	221.1	176.5	—	176.5
Stage 1	220.8	—	220.8	175.5	—	175.5
Stage 2	0.3	—	0.3	1.0	—	1.0
Out of scope of IFRS 9 ECL framework	5.2	na	5.2	6.2	na	6.2
Loans to customers - out of scope - amortised cost	0.8	na	0.8	1.0	na	1.0
Loans to banks - out of scope - amortised cost	0.1	na	0.1	0.1	na	0.1
Other financial assets - out of scope - amortised cost	4.0	na	4.0	4.6	na	4.6
Other financial assets - out of scope - FVOCI	0.3	na	0.3	0.5	na	0.5

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 £3.7 billion (2020 – £4.1 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.3 billion (2020 – £0.3 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans and debt securities hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £0.8 billion (2020 – £1.4 billion).
- NatWest Group originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2020 – £0.4 billion).

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 27 to the consolidated financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by £0.8 billion (2020 – £0.2 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £127.9 billion (2020 – £133.6 billion) comprised Stage 1 £119.5 billion (2020 – £107.4 billion); Stage 2 £7.8 billion (2020 – £25.2 billion); and Stage 3 £0.6 billion (2020 – £1.0 billion).
The ECL relating to off balance sheet exposures is £0.1 billion (2020 - £0.2 billion). The total ECL in the remainder of the credit risk section of £3.8 billion included ECL for both on and off balance sheet exposures for continuing operations.

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.

	Go-forward group								
2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Loans - amortised cost and FVOCI									
Stage 1	168,013	17,600	82,893	16,185	8,290	32,283	325,264	5,560	330,824
Stage 2	13,594	967	17,853	477	147	90	33,128	853	33,981
Stage 3	1,884	270	1,820	162	99	—	4,235	787	5,022
Of which: individual	*—*	*270*	*631*	*162*	*91*	*—*	*1,154*	*61*	*1,215*
Of which: collective	*1,884*	*—*	*1,189*	*—*	*8*	*—*	*3,081*	*726*	*3,807*
Subtotal excluding disposal group loans	*183,491*	*18,837*	*102,566*	*16,824*	*8,536*	*32,373*	*362,627*	*7,200*	*369,827*
Disposal group loans								*9,084*	*9,084*
Total								16,284	378,911
ECL provisions (1)									
Stage 1	134	12	116	7	6	17	292	10	302
Stage 2	590	29	758	23	3	11	1,414	64	1,478
Stage 3	850	37	651	25	75	—	1,638	388	2,026
Of which: individual	*—*	*37*	*221*	*25*	*67*	*—*	*350*	*13*	*363*
Of which: collective	*850*	*—*	*430*	*—*	*8*	*—*	*1,288*	*375*	*1,663*
Subtotal excluding ECL provisions on disposal group loans	*1,574*	*78*	*1,525*	*55*	*84*	*28*	*3,344*	*462*	*3,806*
ECL on disposal group loans								*109*	*109*
Total								571	3,915
ECL provisions coverage (2)									
Stage 1 (%)	0.08	0.07	0.14	0.04	0.07	0.05	0.09	0.18	0.09
Stage 2 (%)	4.34	3.00	4.25	4.82	2.04	12.22	4.27	7.50	4.35
Stage 3 (%)	45.12	13.70	35.77	15.43	75.76	—	38.68	49.30	40.34
ECL provisions coverage excluding disposal group loans	*0.86*	*0.41*	*1.49*	*0.33*	*0.98*	*0.09*	*0.92*	*6.42*	*1.03*
ECL provisions coverage on disposal group loans								*1.20*	*1.20*
Total								3.51	1.03
Impairment (releases)/losses									
ECL (release)/charge (3)	(36)	(54)	(1,073)	(52)	(35)	—	(1,250)	(28)	(1,278)
Stage 1	(387)	(45)	(818)	(39)	(15)	(3)	(1,307)	(70)	(1,377)
Stage 2	157	(15)	(272)	(16)	(11)	3	(154)	(33)	(187)
Stage 3	194	6	17	3	(9)	—	211	75	286
Of which: individual	*—*	*6*	*19*	*3*	*(6)*	*—*	*22*	*(2)*	*20*
Of which: collective	*194*	*—*	*(2)*	*—*	*(3)*	*—*	*189*	*77*	*266*
Continuing operations	*(36)*	*(54)*	*(1,073)*	*(52)*	*(35)*	*—*	*(1,250)*	*(28)*	*(1,278)*
Discontinued operations								*(57)*	*(57)*
Total								(85)	(1,335)
Amounts written-off	220	6	467	28	67	—	788	88	876
Of which: individual	*—*	*6*	*378*	*28*	*43*	*—*	*455*	*—*	*455*
Of which: collective	*220*	*—*	*89*	*—*	*24*	*—*	*333*	*88*	*421*

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

	Go-forward group								
2020	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Loans - amortised cost and FVOCI									
Stage 1	139,956	15,321	70,685	12,143	7,780	26,859	272,744	14,380	287,124
Stage 2	32,414	1,939	37,344	2,242	1,566	110	75,615	3,302	78,917
Stage 3	1,891	298	2,551	211	171	—	5,122	1,236	6,358
Of which: individual	*—*	*298*	*1,578*	*211*	*162*	*—*	*2,249*	*43*	*2,292*
Of which: collective	*1,891*	*—*	*973*	*—*	*9*	*—*	*2,873*	*1,193*	*4,066*
	174,261	17,558	110,580	14,596	9,517	26,969	353,481	18,918	372,399
ECL provisions (1)									
Stage 1	134	31	270	14	12	13	474	45	519
Stage 2	897	68	1,713	74	49	15	2,816	265	3,081
Stage 3	806	39	1,069	48	132	—	2,094	492	2,586
Of which: individual	*—*	*39*	*607*	*48*	*124*	*—*	*818*	*13*	*831*
Of which: collective	*806*	*—*	*462*	*—*	*8*	*—*	*1,276*	*479*	*1,755*
	1,837	138	3,052	136	193	28	5,384	802	6,186
ECL provisions coverage (2)									
Stage 1 (%)	0.10	0.20	0.38	0.12	0.15	0.05	0.17	0.31	0.18
Stage 2 (%)	2.77	3.51	4.59	3.30	3.13	13.64	3.72	8.03	3.90
Stage 3 (%)	42.62	13.09	41.91	22.75	77.19	—	40.88	39.81	40.67
	1.05	0.79	2.76	0.93	2.03	0.10	1.52	4.24	1.66
Impairment (releases)/losses									
ECL (release)/charge (3,4)	792	100	1,927	107	40	26	2,992	139	3,131
Stage 1	(36)	25	(58)	8	(2)	10	(53)	(36)	(89)
Stage 2	619	60	1,667	71	54	15	2,486	115	2,601
Stage 3	209	15	318	28	(12)	1	559	60	619
Of which: individual	*—*	*15*	*166*	*28*	*(3)*	*—*	*206*	*(12)*	*194*
Of which: collective	*209*	*—*	*152*	*—*	*(9)*	*1*	*353*	*72*	*425*
Continuing operations	792	100	1,927	107	40	26	2,992	139	3,131
Discontinued operations								111	111
Total								250	3,242
Amounts written-off	378	5	321	3	11	—	718	219	937
Of which: individual	*—*	*5*	*172*	*3*	*11*	*—*	*191*	*—*	*191*
Of which: collective	*378*	*—*	*149*	*—*	*—*	*—*	*527*	*219*	*746*

(1) Includes £5 million (2020 – £6 million) related to assets classified as FVOCI.
(2) 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.
(3) Includes a £3 million charge (2020 – £12 million charge) related to other financial assets, of which £2 million release (2020 – £2 million charge) related to assets classified as FVOCI; and £34 million release (2020 – £28 million charge) related to contingent liabilities.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(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 £176.3 billion (2020 – £122.7 billion) and debt securities of £44.9 billion (2020 – £53.8 billion).

- 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.

The table below shows Ulster Bank RoI disposal groups for Personal and Wholesale, by stage, for gross loans, off-balance sheet exposures and ECL. The tables in the rest of the Credit risk section are shown on a continuing basis and therefore exclude these exposures.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Loan commitments £m	Contingent liabilities £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Personal	**5,547**	**210**	**34**	**5,791**	**—**	**—**	**4**	**6**	**7**	**17**
Wholesale	**2,647**	**639**	**7**	**3,293**	**1,665**	**115**	**10**	**78**	**4**	**92**
Total	**8,194**	**849**	**41**	**9,084**	**1,665**	**115**	**14**	**84**	**11**	**109**

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	**168,013**	**12,275**	**863**	**456**	**13,594**	**1,884**	**183,491**	**134**	**516**	**38**	**36**	**590**	**850**	**1,574**
Private Banking	**17,600**	**902**	**27**	**38**	**967**	**270**	**18,837**	**12**	**29**	**—**	**—**	**29**	**37**	**78**
Personal	***14,350***	***137***	***24***	***11***	***172***	***232***	***14,754***	***6***	***2***	***—***	***—***	***2***	***18***	***26***
Wholesale	***3,250***	***765***	***3***	***27***	***795***	***38***	***4,083***	***6***	***27***	***—***	***—***	***27***	***19***	***52***
Commercial Banking	**82,893**	**16,792**	**437**	**624**	**17,853**	**1,820**	**102,566**	**116**	**724**	**23**	**11**	**758**	**651**	**1,525**
RBS International	**16,185**	**431**	**18**	**28**	**477**	**162**	**16,824**	**7**	**23**	**—**	**—**	**23**	**25**	**55**
Personal	***2,647***	***21***	***17***	***11***	***49***	***57***	***2,753***	***2***	***1***	***—***	***—***	***1***	***10***	***13***
Wholesale	***13,538***	***410***	***1***	***17***	***428***	***105***	***14,071***	***5***	***22***	***—***	***—***	***22***	***15***	***42***
NatWest Markets	**8,290**	**129**	**—**	**18**	**147**	**99**	**8,536**	**6**	**3**	**—**	**—**	**3**	**75**	**84**
Ulster Bank RoI	**5,560**	**747**	**58**	**48**	**853**	**787**	**7,200**	**10**	**58**	**3**	**3**	**64**	**388**	**462**
Personal	***5,165***	***510***	***52***	***46***	***608***	***609***	***6,382***	***7***	***15***	***3***	***3***	***21***	***301***	***329***
Wholesale	***395***	***237***	***6***	***2***	***245***	***178***	***818***	***3***	***43***	***—***	***—***	***43***	***87***	***133***
Central items & other	**32,283**	**90**	**—**	**—**	**90**	**—**	**32,373**	**17**	**11**	**—**	**—**	**11**	**—**	**28**
Total loans	**330,824**	**31,366**	**1,403**	**1,212**	**33,981**	**5,022**	**369,827**	**302**	**1,364**	**64**	**50**	**1,478**	**2,026**	**3,806**
Of which:														
Personal	***190,175***	***12,943***	***956***	***524***	***14,423***	***2,782***	***207,380***	***149***	***534***	***41***	***39***	***614***	***1,179***	***1,942***
Wholesale	***140,649***	***18,423***	***447***	***688***	***19,558***	***2,240***	***162,447***	***153***	***830***	***23***	***11***	***864***	***847***	***1,864***
2020														
Retail Banking	139,956	30,714	1,080	620	32,414	1,891	174,261	134	762	70	65	897	806	1,837
Private Banking	15,321	1,908	17	14	1,939	298	17,558	31	67	—	1	68	39	138
Personal	*12,799*	*116*	*17*	*11*	*144*	*263*	*13,206*	*7*	*2*	*—*	*—*	*2*	*19*	*28*
Wholesale	*2,522*	*1,792*	*—*	*3*	*1,795*	*35*	*4,352*	*24*	*65*	*—*	*1*	*66*	*20*	*110*
Commercial Banking	70,685	36,451	589	304	37,344	2,551	110,580	270	1,648	44	21	1,713	1,069	3,052
RBS International	12,143	2,176	46	20	2,242	211	14,596	14	72	1	1	74	48	136
Personal	*2,676*	*18*	*17*	*14*	*49*	*70*	*2,795*	*3*	*1*	*—*	*—*	*1*	*11*	*15*
Wholesale	*9,467*	*2,158*	*29*	*6*	*2,193*	*141*	*11,801*	*11*	*71*	*1*	*1*	*73*	*37*	*121*
NatWest Markets	7,780	1,457	—	109	1,566	171	9,517	12	49	—	—	49	132	193
Ulster Bank RoI	14,380	2,964	144	194	3,302	1,236	18,918	45	227	15	23	265	492	802
Personal	*11,117*	*1,500*	*115*	*130*	*1,745*	*1,064*	*13,926*	*27*	*74*	*9*	*13*	*96*	*392*	*515*
Wholesale	*3,263*	*1,464*	*29*	*64*	*1,557*	*172*	*4,992*	*18*	*153*	*6*	*10*	*169*	*100*	*287*
Central items & other	26,859	110	—	—	110	—	26,969	13	15	—	—	15	—	28
Total loans	287,124	75,780	1,876	1,261	78,917	6,358	372,399	519	2,840	130	111	3,081	2,586	6,186
Of which:														
Personal	*166,548*	*32,348*	*1,229*	*775*	*34,352*	*3,288*	*204,188*	*171*	*839*	*79*	*78*	*996*	*1,228*	*2,395*
Wholesale	*120,576*	*43,432*	*647*	*486*	*44,565*	*3,070*	*168,211*	*348*	*2,001*	*51*	*33*	*2,085*	*1,358*	*3,791*
2019														
Retail Banking	144,513	11,921	1,034	603	13,558	1,902	159,973	114	375	45	47	467	823	1,404
Private Banking	14,956	478	63	46	587	207	15,750	7	6	—	1	7	29	43
Personal	*11,630*	*180*	*60*	*41*	*281*	*192*	*12,103*	*3*	*2*	*—*	*1*	*3*	*23*	*29*
Wholesale	*3,326*	*298*	*3*	*5*	*306*	*15*	*3,647*	*4*	*4*	*—*	*—*	*4*	*6*	*14*
Commercial Banking	88,100	10,837	254	262	11,353	2,162	101,615	152	195	12	7	214	1,021	1,387
RBS International	14,834	520	18	7	545	121	15,500	4	6	—	—	6	21	31
Personal	*2,799*	*27*	*17*	*6*	*50*	*65*	*2,914*	*1*	*1*	*—*	*—*	*1*	*12*	*14*
Wholesale	*12,035*	*493*	*1*	*1*	*495*	*56*	*12,586*	*3*	*5*	*—*	*—*	*5*	*9*	*17*
NatWest Markets	9,273	176	4	—	180	169	9,622	10	5	—	—	5	131	146
Ulster Bank RoI	15,409	1,405	104	133	1,642	2,037	19,088	29	39	6	8	53	693	775
Personal	*10,858*	*944*	*96*	*105*	*1,145*	*1,877*	*13,880*	*12*	*20*	*6*	*6*	*32*	*591*	*635*
Wholesale	*4,551*	*461*	*8*	*28*	*497*	*160*	*5,208*	*17*	*19*	*—*	*2*	*21*	*102*	*140*
Central items & other	15,282	3	—	—	3	—	15,285	6	—	—	—	—	—	6
Total loans	302,367	25,340	1,477	1,051	27,868	6,598	336,833	322	626	63	63	752	2,718	3,792
Of which:														
Personal	*169,800*	*13,072*	*1,207*	*755*	*15,034*	*4,036*	*188,870*	*130*	*398*	*51*	*54*	*503*	*1,449*	*2,082*
Wholesale	*132,567*	*12,268*	*270*	*296*	*12,834*	*2,562*	*147,963*	*192*	*228*	*12*	*9*	*249*	*1,269*	*1,710*

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)							
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Total (release) / charge (3)	Amounts written-off
2021	%	%	%	%	%	%	%	£m	£m
Retail Banking	**0.08**	**4.20**	**4.40**	**7.89**	**4.34**	**45.12**	**0.86**	**(36)**	**220**
Private Banking	**0.07**	**3.22**	**—**	**—**	**3.00**	**13.70**	**0.41**	**(54)**	**6**
Personal	***0.04***	***1.46***	**—**	**—**	***1.16***	***7.76***	***0.18***	***1***	***3***
Wholesale	***0.18***	***3.53***	**—**	**—**	***3.40***	***50.00***	***1.27***	***(55)***	***3***
Commercial Banking	**0.14**	**4.31**	**5.26**	**1.76**	**4.25**	**35.77**	**1.49**	**(1,073)**	**467**
RBS International	**0.04**	**5.34**	**—**	**—**	**4.82**	**15.43**	**0.33**	**(52)**	**28**
Personal	***0.08***	***4.76***	**—**	**—**	***2.04***	***17.54***	***0.47***	**—**	***1***
Wholesale	***0.04***	***5.37***	**—**	**—**	***5.14***	***14.29***	***0.30***	***(52)***	***27***
NatWest Markets	**0.07**	**2.33**	**—**	**—**	**2.04**	**75.76**	**0.98**	**(35)**	**67**
Ulster Bank RoI	**0.18**	**7.76**	**5.17**	**6.25**	**7.50**	**49.30**	**6.42**	**(28)**	**88**
Personal	***0.14***	***2.94***	***5.77***	***6.52***	***3.45***	***49.43***	***5.16***	***(7)***	***76***
Wholesale	***0.76***	***18.14***	**—**	**—**	***17.55***	***48.88***	***16.26***	***(21)***	***12***
Central items & other	**0.05**	**12.22**	**—**	**—**	**12.22**	**—**	**0.09**	**—**	**—**
Total loans	**0.09**	**4.35**	**4.56**	**4.13**	**4.35**	**40.34**	**1.03**	**(1,278)**	**876**
Of which:									
Personal	***0.08***	***4.13***	***4.29***	***7.44***	***4.26***	***42.38***	***0.94***	***(42)***	***300***
Wholesale	***0.11***	***4.51***	***5.15***	***1.60***	***4.42***	***37.81***	***1.15***	***(1,236)***	***576***
2020									
Retail Banking	0.10	2.48	6.48	10.48	2.77	42.62	1.05	792	378
Private Banking	0.20	3.51	—	7.14	3.51	13.09	0.79	100	5
Personal	*0.05*	*1.72*	—	—	*1.39*	*7.22*	*0.21*	*(5)*	*1*
Wholesale	*0.95*	*3.63*	—	*33.33*	*3.68*	*57.14*	*2.53*	*105*	*4*
Commercial Banking	0.38	4.52	7.47	6.91	4.59	41.91	2.76	1,927	321
RBS International	0.12	3.31	2.17	5.00	3.30	22.75	0.93	107	3
Personal	*0.11*	*5.56*	—	—	*2.04*	*15.71*	*0.54*	*4*	*3*
Wholesale	*0.12*	*3.29*	*3.45*	*16.67*	*3.33*	*26.24*	*1.03*	*103*	—
NatWest Markets	0.15	3.36	—	—	3.13	77.19	2.03	40	11
Ulster Bank RoI	0.31	7.66	10.42	11.86	8.03	39.81	4.24	139	219
Personal	*0.24*	*4.93*	*7.83*	*10.00*	*5.50*	*36.84*	*3.70*	*98*	*212*
Wholesale	*0.55*	*10.45*	*20.69*	*15.63*	*10.85*	*58.14*	*5.75*	*41*	*7*
Central items & other	0.05	13.64	—	—	13.64	—	0.10	26	—
Total loans	0.18	3.75	6.93	8.80	3.90	40.67	1.66	3,131	937
Of which:									
Personal	*0.10*	*2.59*	*6.43*	*10.06*	*2.90*	*37.35*	*1.17*	*889*	*594*
Wholesale	*0.29*	*4.61*	*7.88*	*6.79*	*4.68*	*44.23*	*2.25*	*2,242*	*343*
2019									
Retail Banking	0.08	3.15	4.35	7.79	3.44	43.27	0.88	393	235
Private Banking	0.05	1.26	—	2.17	1.19	14.01	0.27	(6)	1
Personal	*0.03*	*1.11*	—	*2.44*	*1.07*	*11.98*	*0.24*	*5*	*1*
Wholesale	*0.12*	*1.34*	—	—	*1.31*	*40.00*	*0.38*	*(11)*	—
Commercial Banking	0.17	1.80	4.72	2.67	1.88	47.22	1.36	391	450
RBS International	0.03	1.15	—	—	1.10	17.36	0.20	2	5
Personal	*0.04*	*3.70*	—	—	*2.00*	*18.46*	*0.48*	—	*5*
Wholesale	*0.02*	*1.01*	—	—	*1.01*	*16.07*	*0.14*	*2*	—
NatWest Markets	0.11	2.84	—	—	2.78	77.51	1.52	(51)	16
Ulster Bank RoI	0.19	2.78	5.77	6.02	3.23	34.02	4.06	(6)	85
Personal	*0.11*	*2.12*	*6.25*	*5.71*	*2.79*	*31.49*	*4.57*	*11*	*69*
Wholesale	*0.37*	*4.12*	—	*7.14*	*4.23*	*63.75*	*2.69*	*(17)*	*16*
Central items & other	0.04	—	—	—	—	—	0.04	1	—
Total loans	0.11	2.47	4.27	5.99	2.70	41.19	1.13	724	792
Of which:									
Personal	*0.08*	*3.04*	*4.23*	*7.15*	*3.35*	*35.90*	*1.10*	*409*	*310*
Wholesale	*0.14*	*1.86*	*4.44*	*3.04*	*1.94*	*49.53*	*1.16*	*315*	*482*

(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.
(3) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

- 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 see 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.

2021	Personal Mortgages (1) £m	Personal Credit cards £m	Personal Other personal £m	Personal Total £m	Wholesale Property £m	Wholesale Corporate £m	Wholesale FI £m	Wholesale Sovereign £m	Wholesale Total £m	Total £m
Loans by geography	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- UK	187,847	3,877	9,253	200,977	31,574	62,952	39,086	4,542	138,154	339,131
- RoI	6,164	70	147	6,381	130	1,222	116	4	1,472	7,853
- Other Europe	—	—	—	—	439	3,831	5,066	840	10,176	10,176
- RoW	—	—	22	22	379	2,846	8,773	647	12,645	12,667
Loans by stage	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- Stage 1	180,418	2,924	6,833	190,175	28,679	53,803	52,263	5,904	140,649	330,824
- Stage 2	11,543	933	1,947	14,423	3,101	15,604	732	121	19,558	33,981
- Stage 3	2,050	90	642	2,782	742	1,444	46	8	2,240	5,022
- Of which: individual	269	—	19	288	329	583	7	8	927	1,215
- Of which: collective	1,781	90	623	2,494	413	861	39	—	1,313	3,807
Loans - past due analysis (3,4)	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- Not past due	190,834	3,834	8,619	203,287	31,391	68,630	52,285	6,030	158,336	361,623
- Past due 1-30 days	1,217	28	124	1,369	521	1,081	732	2	2,336	3,705
- Past due 31-89 days	592	25	73	690	256	448	19	1	724	1,414
- Past due 90-180 days	367	22	61	450	91	215	1	—	307	757
- Past due >180 days	1,001	38	545	1,584	263	477	4	—	744	2,328
Loans - Stage 2	11,543	933	1,947	14,423	3,101	15,604	732	121	19,558	33,981
- Not past due	10,259	899	1,785	12,943	2,725	14,870	708	120	18,423	31,366
- Past due 1-30 days	843	16	97	956	125	318	4	—	447	1,403
- Past due 31-89 days	441	18	65	524	251	416	20	1	688	1,212
Weighted average life*										
- ECL measurement (years)	8	2	5	5	5	6	3	1	6	6
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.16	4.84	2.73	0.36	0.76	1.85	0.14	0.14	1.00	0.65
- Basel (%)	0.76	3.31	3.22	0.91	1.20	1.74	0.14	0.16	1.04	0.97
ECL provisions by geography	768	260	914	1,942	374	1,411	57	22	1,864	3,806
- UK	449	258	904	1,611	331	1,124	47	18	1,520	3,131
- RoI	319	2	10	331	19	107	3	1	130	461
- Other Europe	—	—	—	—	20	77	4	1	102	102
- RoW	—	—	—	—	4	103	3	2	112	112
ECL provisions by stage	768	260	914	1,942	374	1,411	57	22	1,864	3,806
- Stage 1	32	59	58	149	24	96	14	19	153	302
- Stage 2	174	141	299	614	111	713	39	1	864	1,478
- Stage 3	562	60	557	1,179	239	602	4	2	847	2,026
- Of which: individual	19	—	12	31	69	261	—	2	332	363
- Of which: collective	543	60	545	1,148	170	341	4	—	515	1,663
ECL provisions coverage (%)	0.40	6.59	9.70	0.94	1.15	1.99	0.11	0.36	1.15	1.03
- Stage 1 (%)	0.02	2.02	0.85	0.08	0.08	0.18	0.03	0.32	0.11	0.09
- Stage 2 (%)	1.51	15.11	15.36	4.26	3.58	4.57	5.33	0.83	4.42	4.35
- Stage 3 (%)	27.41	66.67	86.76	42.38	32.21	41.69	8.70	25.00	37.81	40.34
ECL (release)/charge	(58)	(14)	30	(42)	(477)	(724)	(38)	3	(1,236)	(1,278)
- UK	(52)	(14)	31	(35)	(457)	(647)	(12)	3	(1,113)	(1,148)
- RoI	(6) -		(1)	(7)	(5)	(24)	2	—	(27)	(34)
- Other Europe	—	—	—	—	(7)	(7)	(21)	—	(35)	(35)
- RoW	—	—	—	—	(8)	(46)	(7)	—	(61)	(61)
Amounts written-off	85	74	141	300	271	271	34 -		576	876

*Not within audit scope.

For the notes to this table refer to page 223.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2021	Personal Mortgages (1) £m	Personal Credit cards £m	Personal Other personal £m	Personal Total £m	Wholesale Property £m	Wholesale Corporate £m	Wholesale FI £m	Wholesale Sovereign £m	Wholesale Total £m	Total £m
Loans by residual maturity	194,011	3,947	9,422	207,380	32,522	70,851	53,041	6,033	162,447	369,827
- <1 year	3,611	2,532	3,197	9,340	7,497	22,593	41,195	2,809	74,094	83,434
- 1-5 year	12,160	1,415	5,393	18,968	16,293	33,301	10,969	1,967	62,530	81,498
- 5 year	178,240	—	832	179,072	8,732	14,957	877	1,257	25,823	204,895
Other financial assets by asset quality (2)	—	—	—	—	55	11	11,516	209,553	221,135	221,135
- AQ1-AQ4	—	—	—	—	—	11	10,974	209,551	220,536	220,536
- AQ5-AQ8	—	—	—	—	55	—	542	2	599	599
Off-balance sheet	16,827	15,354	8,230	40,411	16,342	52,033	17,898	1,212	87,485	127,896
- Loan commitments	16,827	15,354	8,170	40,351	15,882	49,231	16,906	1,212	83,231	123,582
- Financial guarantees	—	—	60	60	460	2,802	992	—	4,254	4,314
Off-balance sheet by asset quality (2)	16,827	15,354	8,230	40,411	16,342	52,033	17,898	1,212	87,485	127,896
- AQ1-AQ4	14,792	248	6,591	21,631	12,550	30,417	16,192	1,064	60,223	81,854
- AQ5-AQ8	2,028	14,804	1,625	18,457	3,757	21,262	1,703	148	26,870	45,327
- AQ9	—	9	3	12	6	48	1	—	55	67
- AQ10	7	293	11	311	29	306	2	—	337	648

For the notes to this table refer to page 223.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2020	Personal: Mortgages (1) £m	Personal: Credit cards £m	Personal: Other personal £m	Personal: Total £m	Wholesale: Property £m	Wholesale: Corporate £m	Wholesale: FI £m	Wholesale: Sovereign £m	Wholesale: Total £m	Total £m
Loans by geography	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- UK	*176,866*	*3,816*	*9,580*	*190,262*	*35,617*	*65,968*	*34,847*	*3,776*	*140,208*	*330,470*
- RoI	*13,650*	*79*	*197*	*13,926*	*1,241*	*4,056*	*348*	*30*	*5,675*	*19,601*
- Other Europe	—	—	—	—	*772*	*4,132*	*4,535*	*538*	*9,977*	*9,977*
- RoW	—	—	—	—	*446*	*3,377*	*7,913*	*615*	*12,351*	*12,351*
Loans by stage	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- Stage 1	*158,387*	*2,411*	*5,750*	*166,548*	*23,733*	*48,090*	*44,002*	*4,751*	*120,576*	*287,124*
- Stage 2	*29,571*	*1,375*	*3,406*	*34,352*	*13,021*	*27,716*	*3,624*	*204*	*44,565*	*78,917*
- Stage 3	*2,558*	*109*	*621*	*3,288*	*1,322*	*1,727*	*17*	*4*	*3,070*	*6,358*
- of which: individual	*308*	—	*26*	*334*	*987*	*958*	*9*	*4*	*1,958*	*2,292*
- of which: collective	*2,250*	*109*	*595*	*2,954*	*335*	*769*	*8*	—	*1,112*	*4,066*
Loans - past due analysis (3,4)	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- Not past due	*186,592*	*3,770*	*8,868*	*199,230*	*36,818*	*75,690*	*47,195*	*4,689*	*164,392*	*363,622*
- Past due 1-30 days	*1,482*	*29*	*192*	*1,703*	*348*	*990*	*328*	*270*	*1,936*	*3,639*
- Past due 31-89 days	*863*	*26*	*135*	*1,024*	*260*	*251*	*113*	—	*624*	*1,648*
- Past due 90-180 days	*456*	*20*	*66*	*542*	*161*	*67*	—	—	*228*	*770*
- Past due >180 days	*1,123*	*50*	*516*	*1,689*	*489*	*535*	*7*	—	*1,031*	*2,720*
Loans - Stage 2	29,571	1,375	3,406	34,352	13,021	27,716	3,624	204	44,565	78,917
- Not past due	*27,893*	*1,340*	*3,115*	*32,348*	*12,708*	*27,036*	*3,484*	*204*	*43,432*	*75,780*
- Past due 1-30 days	*1,038*	*18*	*173*	*1,229*	*160*	*457*	*30*	—	*647*	*1,876*
- Past due 31-89 days	*640*	*17*	*118*	*775*	*153*	*223*	*110*	—	*486*	*1,261*
Weighted average life*										
- ECL measurement (years)	9	2	5	6	4	6	4	—	5	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.72	6.17	4.82	1.03	3.99	3.70	0.51	0.13	2.73	1.81
- Basel (%)	0.85	3.40	3.82	1.03	1.66	2.51	0.32	0.15	1.54	1.25
ECL provisions by geography	1,005	354	1,036	2,395	1,175	2,478	121	17	3,791	6,186
- UK	*506*	*351*	*1,024*	*1,881*	*1,069*	*1,907*	*60*	*12*	*3,048*	*4,929*
- RoI	*499*	*3*	*12*	*514*	*41*	*277*	*3*	*1*	*322*	*836*
- Other Europe	—	—	—	—	*53*	*125*	*46*	*1*	*225*	*225*
- RoW	—	—	—	—	*12*	*169*	*12*	*3*	*196*	*196*
ECL provisions by stage	1,005	354	1,036	2,395	1,175	2,478	121	17	3,791	6,186
- Stage 1	*51*	*53*	*67*	*171*	*123*	*188*	*23*	*14*	*348*	*519*
- Stage 2	*319*	*225*	*452*	*996*	*507*	*1,487*	*90*	*1*	*2,085*	*3,081*
- Stage 3	*635*	*76*	*517*	*1,228*	*545*	*803*	*8*	*2*	*1,358*	*2,586*
- of which: individual	*18*	—	*12*	*30*	*360*	*436*	*3*	*2*	*801*	*831*
- of which: collective	*617*	*76*	*505*	*1,198*	*185*	*367*	*5*	—	*557*	*1,755*
ECL provisions coverage (%)	0.53	9.09	10.60	1.17	3.09	3.20	0.25	0.34	2.25	1.66
- Stage 1 (%)	*0.03*	*2.20*	*1.17*	*0.10*	*0.52*	*0.39*	*0.05*	*0.29*	*0.29*	*0.18*
- Stage 2 (%)	*1.08*	*16.36*	*13.27*	*2.90*	*3.89*	*5.37*	*2.48*	*0.49*	*4.68*	*3.90*
- Stage 3 (%)	*24.82*	*69.72*	*83.25*	*37.35*	*41.23*	*46.50*	*47.06*	*50.00*	*44.23*	*40.67*
ECL (release)/charge (5)	276	191	422	889	733	1,407	95	7	2,242	3,131
- UK	*181*	*190*	*420*	*791*	*703*	*1,276*	*48*	*6*	*2,033*	*2,824*
- RoI	*95*	*1*	*2*	*98*	*(1)*	*54*	—	—	*53*	*151*
- Other Europe	—	—	—	—	*21*	*34*	*38*	—	*93*	*93*
- RoW	—	—	—	—	*10*	*43*	*9*	*1*	*63*	*63*
Amounts written-off	221	95	278	594	54	287	2	—	343	937

*Not within audit scope.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2020	Personal: Mortgages £m	Personal: Credit cards £m	Personal: Other personal £m	Personal: Total £m	Wholesale: Property £m	Wholesale: Corporate £m	Wholesale: FI £m	Wholesale: Sovereign £m	Wholesale: Total £m	Total £m
Loans by residual maturity	190,516	3,895	9,777	204,188	38,076	77,533	47,643	4,959	168,211	372,399
- <1 year	*3,831*	*2,557*	*3,249*	*9,637*	*8,669*	*23,015*	*38,203*	*2,196*	*72,083*	*81,720*
- 1-5 year	*12,193*	*1,338*	*5,509*	*19,040*	*20,029*	*36,640*	*8,340*	*1,590*	*66,599*	*85,639*
- 5 year	*174,492*	—	*1,019*	*175,511*	*9,378*	*17,878*	*1,100*	*1,173*	*29,529*	*205,040*
Other financial assets by asset quality (2)	—	—	—	—	98	116	11,093	165,209	176,516	176,516
- AQ1-AQ4	—	—	—	—	—	*116*	*10,734*	*165,184*	*176,034*	*176,034*
- AQ5-AQ8	—	—	—	—	*98*	—	*359*	*25*	*482*	*482*
Off-balance sheet	14,557	14,262	10,186	39,005	17,397	58,635	17,011	1,587	94,630	133,635
- Loan commitments	*14,554*	*14,262*	*10,144*	*38,960*	*16,829*	*55,496*	*15,935*	*1,585*	*89,845*	*128,805*
- Financial guarantees	*3*	—	*42*	*45*	*568*	*3,139*	*1,076*	*2*	*4,785*	*4,830*
Off-balance sheet by asset quality (2)	14,557	14,262	10,186	39,005	17,397	58,635	17,011	1,587	94,630	133,635
- AQ1-AQ4	*13,610*	*148*	*8,008*	*21,766*	*12,917*	*33,939*	*15,460*	*1,404*	*63,720*	*85,486*
- AQ5-AQ8	*937*	*13,809*	*2,152*	*16,898*	*4,372*	*24,065*	*1,544*	*183*	*30,164*	*47,062*
- AQ9	*1*	*8*	*9*	*18*	*13*	*76*	*1*	—	*90*	*108*
- AQ10	*9*	*297*	*17*	*323*	*95*	*555*	*6*	—	*656*	*979*

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, which includes crown dependencies, 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

£0.3 billion (2020 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited. AQ10 includes £0.2 billion (2020 – £0.4 billion) of RoI mortgages which are not currently considered defaulted for capital calculation purposes for RoI but are included in Stage 3.
(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as 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.
(5) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

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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			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Loan commitments £m	Contingent liabilities £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Personal	**190,175**	**14,423**	**2,782**	**207,380**	**40,351**	**60**	**149**	**614**	**1,179**	**1,942**
Mortgages	**180,418**	**11,543**	**2,050**	**194,011**	**16,827**	**—**	**32**	**174**	**562**	**768**
Credit cards	**2,924**	**933**	**90**	**3,947**	**15,354**	**—**	**59**	**141**	**60**	**260**
Other personal	**6,833**	**1,947**	**642**	**9,422**	**8,170**	**60**	**58**	**299**	**557**	**914**
Wholesale	**140,649**	**19,558**	**2,240**	**162,447**	**83,231**	**4,254**	**153**	**864**	**847**	**1,864**
Property	**28,679**	**3,101**	**742**	**32,522**	**15,882**	**460**	**24**	**111**	**239**	**374**
Financial institutions	**52,263**	**732**	**46**	**53,041**	**16,906**	**992**	**14**	**39**	**4**	**57**
Sovereign	**5,904**	**121**	**8**	**6,033**	**1,212**	**—**	**19**	**1**	**2**	**22**
Corporate	**53,803**	**15,604**	**1,444**	**70,851**	**49,231**	**2,802**	**96**	**713**	**602**	**1,411**
Of which:										
Airlines and aerospace	***779***	***668***	***44***	***1,491***	***1,528***	***221***	***1***	***39***	***15***	***55***
Automotive	***5,133***	***1,304***	***38***	***6,475***	***3,507***	***65***	***9***	***32***	***10***	***51***
Health	***3,818***	***1,235***	***133***	***5,186***	***799***	***9***	***9***	***58***	***48***	***115***
Land transport and logistics	***3,721***	***833***	***39***	***4,593***	***3,069***	***188***	***4***	***53***	***12***	***69***
Leisure	***3,712***	***4,050***	***340***	***8,102***	***1,874***	***107***	***11***	***247***	***133***	***391***
Oil and gas	***1,482***	***141***	***52***	***1,675***	***1,126***	***453***	***1***	***14***	***28***	***43***
Retail	***6,380***	***1,342***	***180***	***7,902***	***4,872***	***410***	***8***	***29***	***66***	***103***
Total	**330,824**	**33,981**	**5,022**	**369,827**	**123,582**	**4,314**	**302**	**1,478**	**2,026**	**3,806**
2020										
Personal	166,548	34,352	3,288	204,188	38,960	45	171	996	1,228	2,395
Mortgages	158,387	29,571	2,558	190,516	14,554	3	51	319	635	1,005
Credit cards	2,411	1,375	109	3,895	14,262	—	53	225	76	354
Other personal	5,750	3,406	621	9,777	10,144	42	67	452	517	1,036
Wholesale	120,576	44,565	3,070	168,211	89,845	4,785	348	2,085	1,358	3,791
Property	23,733	13,021	1,322	38,076	16,829	568	123	507	545	1,175
Financial institutions	44,002	3,624	17	47,643	15,935	1,076	23	90	8	121
Sovereign	4,751	204	4	4,959	1,585	2	14	1	2	17
Corporate	48,090	27,716	1,727	77,533	55,496	3,139	188	1,487	803	2,478
Of which:										
Airlines and aerospace	*753*	*1,213*	*41*	*2,007*	*1,888*	*215*	*2*	*42*	*25*	*69*
Automotive	*4,383*	*1,759*	*161*	*6,303*	*4,205*	*102*	*17*	*63*	*17*	*97*
Health	*2,694*	*2,984*	*131*	*5,809*	*616*	*14*	*13*	*164*	*48*	*225*
Land transport and logistics	*2,868*	*1,823*	*111*	*4,802*	*3,782*	*197*	*8*	*98*	*32*	*138*
Leisure	*3,299*	*6,135*	*385*	*9,819*	*2,199*	*125*	*22*	*439*	*204*	*665*
Oil and gas	*1,178*	*300*	*83*	*1,561*	*2,225*	*346*	*4*	*20*	*59*	*83*
Retail	*6,702*	*2,282*	*187*	*9,171*	*5,888*	*512*	*18*	*112*	*101*	*231*
Total	287,124	78,917	6,358	372,399	128,805	4,830	519	3,081	2,586	6,186

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)	**709**	**27**	**3,894**	**4,630**
Forbearance (stock)	**1,033**	**35**	**5,659**	**6,727**
Heightened Monitoring and Risk of Credit Loss	**1,225**	**83**	**4,492**	**5,800**
2020				
Forbearance (flow)	1,597	68	4,201	5,866
Forbearance (stock)	1,744	92	4,983	6,819
Heightened Monitoring and Risk of Credit Loss	1,600	155	5,771	7,526

Risk and capital management continued

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 and the vast majority of exposures in the Republic of Ireland was also mostly in 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 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 NatWest 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. For further details refer to the Asset quality section.
- 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 and the Republic of Ireland.
- 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	176.3	—	176.3	—	—	—	—	—	—	176.3	—
Loans - amortised cost (3)	369.8	3.7	366.1	3.0	41.1	232.7	23.5	297.3	2.7	68.8	0.3
Personal (4)	*207.4*	*1.9*	*205.5*	*1.6*	*1.3*	*192.6*	*—*	*193.9*	*1.5*	*11.6*	*0.1*
Wholesale (5)	*162.4*	*1.8*	*160.6*	*1.4*	*39.8*	*40.1*	*23.5*	*103.4*	*1.2*	*57.2*	*0.2*
Debt securities	44.9	—	44.9	—	—	—	—	—	—	44.9	—
Total financial assets	591.0	3.7	587.3	3.0	41.1	232.7	23.5	297.3	2.7	290.0	0.3
Contingent liabilities and commitments											
Personal (6,7)	40.4	—	40.4	0.3	0.5	4.9	—	5.4	—	35.0	0.3
Wholesale	87.5	0.1	87.4	0.3	3.2	7.9	3.9	15.0	0.1	72.4	0.2
Total off-balance sheet	127.9	0.1	127.8	0.6	3.7	12.8	3.9	20.4	0.1	107.4	0.5
Total exposure	718.9	3.8	715.1	3.6	44.8	245.5	27.4	317.7	2.8	397.4	0.8
2020											
Financial assets											
Cash and balances at central banks	122.7	—	122.7	—	—	—	—	—	—	122.7	—
Loans - amortised cost (3)	372.4	6.0	366.4	3.8	38.6	232.7	23.7	295.0	3.3	71.4	0.5
Personal (4)	*204.2*	*2.4*	*201.8*	*2.1*	*0.3*	*189.5*	*—*	*189.8*	*1.9*	*12.0*	*0.2*
Wholesale (5)	*168.2*	*3.6*	*164.6*	*1.7*	*38.3*	*43.2*	*23.7*	*105.2*	*1.4*	*59.4*	*0.3*
Debt securities	53.8	—	53.8	—	—	—	—	—	—	53.8	—
Total financial assets	548.9	6.0	542.9	3.8	38.6	232.7	23.7	295.0	3.3	247.9	0.5
Contingent liabilities and commitments											
Personal (6,7)	*39.0*	*—*	*39.0*	*0.3*	*—*	*4.1*	*—*	*4.1*	*—*	*34.9*	*0.3*
Wholesale	*94.6*	*0.2*	*94.4*	*0.6*	*3.3*	*7.6*	*4.6*	*15.5*	*0.1*	*78.9*	*0.5*
Total off-balance sheet	133.6	0.2	133.4	0.9	3.3	11.7	4.6	19.6	0.1	113.8	0.8
Total exposure	682.5	6.2	676.3	4.7	41.9	244.4	28.3	314.6	3.4	361.7	1.3

(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 NatWest Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NatWest 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. NatWest 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) £0.3 billion (2020 – £0.3 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 £11.8 billion (2020 – £10.0 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				
Personal lending	Retail Banking £m	Private Banking £m	RBS International £m	Ulster Bank RoI £m	Total £m	Retail Banking £m	Private Banking £m	RBS International £m	Ulster Bank RoI £m	Total £m
Mortgages	172,707	12,781	2,444	6,164	194,096	163,107	10,910	2,517	13,678	190,212
Of which:										
Owner occupied	158,059	11,219	1,597	5,563	176,438	148,614	9,601	1,676	12,781	172,672
Buy-to-let	14,648	1,562	847	601	17,658	14,493	1,309	841	897	17,540
Interest only - variable	4,348	4,889	346	120	9,703	5,135	4,375	347	159	10,016
Interest only - fixed	14,255	5,957	209	3	20,424	13,776	4,758	233	10	18,777
Mixed (1)	8,616	1	17	34	8,668	7,321	1	20	56	7,398
Impairment provisions (2)	429	7	8	318	762	483	5	9	499	996
Other personal lending (3)	10,829	1,974	305	218	13,326	11,116	1,613	279	276	13,284
Impairment provisions (2)	1,140	19	2	11	1,172	1,348	20	1	15	1,384
Total personal lending	183,536	14,755	2,749	6,382	207,422	174,223	12,523	2,796	13,954	203,496
Mortgage LTV ratios										
- Total portfolio	*54%*	*59%*	*57%*	*50%*	*54%*	*56%*	*58%*	*57%*	*59%*	*57%*
- Stage 1	*54%*	*59%*	*56%*	*48%*	*54%*	*55%*	*58%*	*57%*	*57%*	*55%*
- Stage 2	*52%*	*59%*	*62%*	*57%*	*52%*	*66%*	*61%*	*64%*	*65%*	*66%*
- Stage 3	*49%*	*64%*	*77%*	*56%*	*53%*	*53%*	*64%*	*75%*	*67%*	*60%*
- Buy-to-let	50%	57%	53%	52%	51%	52%	56%	53%	59%	53%
- Stage 1	*50%*	*58%*	*53%*	*51%*	*51%*	*51%*	*56%*	*53%*	*55%*	*52%*
- Stage 2	*52%*	*55%*	*50%*	*56%*	*52%*	*60%*	*59%*	*53%*	*69%*	*61%*
- Stage 3	*51%*	*53%*	*60%*	*66%*	*56%*	*56%*	*54%*	*61%*	*74%*	*62%*
Gross new mortgage lending (4)	35,290	2,874	340	40	38,544	30,551	2,148	249	910	33,858
Of which:										
Owner occupied	33,630	2,583	206	40	36,459	29,608	1,922	167	908	32,605
Weighted average LTV	66%	65%	67%	57%	66%	69%	66%	66%	74%	69%
Buy-to-let	1,660	292	134	—	2,086	943	227	82	2	1,254
Weighted average LTV	62%	65%	63%	53%	63%	62%	62%	63%	54%	62%
Interest only - variable rate	25	832	37	—	894	81	1,082	7	—	1,170
Interest only - fixed rate	2,388	1,563	36	—	3,987	1,501	695	35	—	2,231
Mixed (1)	2,256	—	7	—	2,263	1,630	—	2	—	1,632
Mortgage forbearance										
Forbearance flow	316	19	4	50	389	550	50	10	127	737
Forbearance stock	1,156	3	8	944	2,111	1,293	18	10	1,627	2,948
Current	*727*	*—*	*5*	*616*	*1,348*	*648*	*13*	*9*	*1,070*	*1,740*
1-3 months in arrears	*146*	*2*	*1*	*58*	*207*	*360*	*3*	*—*	*105*	*468*
> 3 months in arrears	*283*	*1*	*2*	*270*	*556*	*285*	*2*	*1*	*452*	*740*

(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, 37% of the stock of lending was in Greater London and the South East (2020 – 37%). The weighted average loan-to-value for these regions was 53% (2020 – 54%) compared to all regions 54%.
- In the Retail Banking mortgage portfolio, 92% of customer balances were on fixed rates (62% of these on five-year deals). In addition, 97% of all new mortgage completions were fixed rate deals (56% of these on five-year deals).
- 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. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Retail Banking				Not within IFRS 9 ECL		Of which; gross new								
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	scope £m	Total £m	lending £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total (1) £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	61,233	4,548	644	63	66,488	5,845	7	60	140	207	—	1.3	21.7	0.3
>50% and ≤70%	68,271	4,674	483	9	73,437	12,397	10	64	84	158	—	1.4	17.4	0.2
>70% and ≤80%	24,004	1,255	93	1	25,353	10,964	3	18	15	36	—	1.4	16.1	0.1
>80% and ≤90%	5,983	250	22	1	6,256	4,985	1	8	5	14	—	3.2	22.7	0.2
>90% and ≤100%	1,125	58	10	—	1,193	1,098	—	5	3	8	—	8.6	30.0	0.7
>100%	14	18	6	—	38	—	—	1	2	3	—	5.6	33.3	7.9
Total with LTVs	160,630	10,803	1,258	74	172,765	35,289	21	156	249	426	—	1.4	19.8	0.2
Other	14	1	1	—	16	1	—	—	—	—	—	—	—	—
Total	160,644	10,804	1,259	74	172,781	35,290	21	156	249	426	—	1.4	19.8	0.2
2020														
≤50%	50,170	5,009	554	124	55,857	4,207	4	43	107	154	0.0	0.8	19.4	0.3
>50% and ≤70%	55,263	7,416	488	35	63,202	9,083	7	66	81	154	0.0	0.9	16.5	0.2
>70% and ≤80%	19,994	9,555	141	8	29,698	11,060	7	56	26	89	0.0	0.6	18.5	0.3
>80% and ≤90%	8,029	5,552	52	6	13,639	5,175	3	52	11	66	0.0	0.9	20.3	0.5
>90% and ≤100%	368	137	13	2	520	865	—	5	3	8	0.1	3.4	26.8	1.6
>100%	48	99	20	2	169	—	—	6	5	11	0.0	6.1	25.0	6.5
Total with LTVs	133,872	27,768	1,268	177	163,085	30,390	21	228	233	482	0.0	0.8	18.5	0.3
Other	17	4	1	—	22	161	—	—	1	1	0.1	3.6	71.9	3.3
Total	133,889	27,772	1,269	177	163,107	30,551	21	228	234	483	0.0	0.8	18.5	0.3
Ulster Bank RoI														
2021														
≤50%	2,660	221	274	—	3,155	13	4	6	138	148	0.2	2.7	50.4	4.7
>50% and ≤70%	1,497	172	128	—	1,797	16	2	5	59	66	0.1	2.9	46.1	3.7
>70% and ≤80%	484	67	60	—	611	9	1	2	28	31	0.2	3.0	46.7	5.1
>80% and ≤90%	231	51	55	—	337	1	1	2	26	29	0.4	3.9	47.3	8.6
>90% and ≤100%	82	26	37	—	145	1	—	1	19	20	—	3.8	51.4	13.8
>100%	33	16	41	—	90	—	—	1	23	24	—	6.3	56.1	26.7
Total with LTVs	4,987	553	595	—	6,135	40	8	17	293	318	0.2	3.1	49.2	5.2
Other	25	—	4	—	29	—	—	—	—	—	—	—	—	—
Total	5,012	553	599	—	6,164	40	8	17	293	318	0.2	3.1	48.9	5.2
2020														
≤50%	4,156	504	354	—	5,014	78	10	24	105	139	0.2	4.8	29.7	2.8
>50% and ≤70%	3,453	453	230	—	4,136	194	8	23	66	97	0.2	5.1	28.7	2.3
>70% and ≤80%	1,569	232	114	—	1,915	346	4	12	40	56	0.3	5.2	35.1	2.9
>80% and ≤90%	1,214	190	105	—	1,509	286	3	11	40	54	0.2	5.8	38.1	3.6
>90% and ≤100%	372	145	88	—	605	1	1	9	40	50	0.3	6.2	45.5	8.3
>100%	183	151	165	—	499	5	1	12	90	103	0.5	7.9	54.5	20.6
Total with LTVs	10,947	1,675	1,056	—	13,678	910	27	91	381	499	0.2	5.4	36.1	3.6

(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 both Retail Banking and Ulster Bank RoI 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)

Retail Banking 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	Total %
South East	13,160	18,298	886	1	32,345	53	3	32,348	19
Greater London	13,308	16,716	1,477	1	31,502	53	3	31,505	18
Scotland	4,493	6,529	559	2	11,583	54	1	11,584	7
North West	6,598	9,212	654	3	16,467	53	2	16,469	10
South West	6,140	8,619	499	1	15,259	53	2	15,261	9
West Midlands	4,323	7,449	553	1	12,326	55	1	12,327	6
East of England	7,467	11,679	820	1	19,967	54	2	19,969	12
Rest of the UK	10,937	20,278	2,001	26	33,242	56	2	33,244	19
Total	66,426	98,780	7,449	36	172,691	54	16	172,707	100
2020									
South East	10,980	17,217	2,365	4	30,566	56	5	30,571	19
Greater London	13,044	14,505	1,638	2	29,189	52	5	29,194	18
Scotland	3,594	6,636	1,148	1	11,379	58	1	11,380	7
North West	4,849	9,745	1,402	3	15,999	58	3	16,002	10
South West	5,086	8,551	882	3	14,522	55	2	14,524	9
West Midlands	3,366	7,080	1,265	4	11,715	59	1	11,716	7
East of England	6,487	10,294	1,588	2	18,371	56	2	18,373	11
Rest of the UK	8,451	18,869	3,873	151	31,344	60	3	31,347	19
Total	55,857	92,897	14,161	170	163,085	56	22	163,107	100

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. The CRE tables in this section include information on exposures which are out of scope of ECL calculations or part of disposal groups.

	2021				2020			
By geography and sub-sector (1)	UK £m	RoI £m	Other £m	Total £m	UK £m	RoI £m	Other £m	Total £m
Investment								
Residential (2)	4,422	341	19	4,782	4,507	360	14	4,881
Office (3)	3,037	190	10	3,237	3,386	226	28	3,640
Retail (4)	4,207	81	—	4,288	5,423	68	118	5,609
Industrial (5)	2,760	13	106	2,879	2,773	18	202	2,993
Mixed/other (6)	1,185	113	50	1,348	2,688	154	74	2,916
	15,611	738	185	16,534	18,777	826	436	20,039
Development								
Residential (2)	1,775	76	2	1,853	2,685	200	3	2,888
Office (3)	79	33	—	112	123	30	—	153
Retail (4)	48	—	—	48	126	—	—	126
Industrial (5)	67	1	—	68	125	2	—	127
Mixed/other (6)	20	2	—	22	24	2	—	26
	1,989	112	2	2,103	3,083	234	3	3,320
Total	17,600	850	187	18,637	21,860	1,060	439	23,359

*Not within audit scope.

(1) Geographical splits are based on country of collateral risk.
(2) Properties including houses, flats and student accommodation.
(3) Properties including offices in central business districts, regional headquarters and business parks.
(4) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(5) Properties including distribution centres, manufacturing and warehouses.
(6) Properties that do not fall within the other categories above. Mixed generally relates to a mixture of retail/office with residential.

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

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)			
	Stage 1	Stage 2	Stage 3	Not within IFRS 9 ECL scope (3)	Total	Stage 1	Stage 2	Stage 3	Total (1)	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	6,767	388	34	268	7,457	5	7	9	21	0.1	1.8	26.5	0.3
>50% and ≤70%	4,367	470	46	469	5,352	3	13	20	36	0.1	2.8	43.5	0.7
>70% and ≤100%	377	192	127	9	705	—	9	32	41	—	4.7	25.2	5.8
>100%	215	7	86	4	312	—	2	28	30	—	28.6	32.6	9.6
Total with LTVs	11,726	1,057	293	750	13,826	8	31	89	128	0.1	2.9	30.4	0.9
Total portfolio average LTV%	48%	58%	88%	52%	50%								
Other (5)	2,271	293	61	83	2,708	4	13	28	45	0.2	4.4	45.9	1.7
Development (6)	1,736	228	62	77	2,103	3	6	34	43	0.2	2.6	54.8	2.0
Total	15,733	1,578	416	910	18,637	15	50	151	216	0.1	3.2	36.3	1.2
2020													
≤50%	4,918	4,538	138	—	9,594	46	145	24	215	0.9	3.2	17.4	2.2
>50% and ≤70%	2,815	3,266	226	—	6,307	32	112	63	207	1.1	3.4	27.9	3.3
>70% and ≤100%	169	283	124	—	576	3	23	51	77	1.8	8.1	41.1	13.4
>100%	50	64	295	—	409	—	6	113	119	—	9.4	38.3	29.1
Total with LTVs	7,952	8,151	783	—	16,886	81	286	251	618	1.0	3.5	32.1	3.7
Total portfolio average LTV%	45%	47%	93%	—	48%								
Other (5)	1,776	511	159	707	3,153	6	40	93	139	0.3	7.8	58.5	5.7
Development (6)	1,362	1,767	161	30	3,320	15	58	70	143	1.1	3.3	43.5	4.3
Total	11,090	10,429	1,103	737	23,359	102	384	414	900	0.9	3.7	37.5	4.0

(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 NatWest 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 – NatWest 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. NatWest 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
NatWest Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	446,666	519	81,667	3,081	6,524	2,586	534,857	6,186
Currency translation and other adjustments	(4,111)	(1)	(246)	(6)	48	(89)	(4,309)	(96)
Transfers from Stage 1 to Stage 2	(35,307)	(160)	35,307	160	—	—	—	—
Transfers from Stage 2 to Stage 1	62,702	1,322	(62,702)	(1,322)	—	—	—	—
Transfers to Stage 3	(390)	(2)	(2,628)	(285)	3,018	287	—	—
Transfers from Stage 3	241	21	1,352	188	(1,593)	(209)	—	—
Net re-measurement of ECL on stage transfer		(1,114)		869		310		65
Changes in risk parameters		(343)		(566)		244		(665)
Other changes in net exposure	84,331	84	(15,657)	(496)	(1,795)	(148)	66,879	(560)
Other (P&L only items)		(3)		5		(120)		(118)
Income statement (releases)/charges		(1,376)		(188)		286		(1,278)
Transfers to disposal groups	(7,954)	(24)	(1,511)	(120)	(113)	(22)	(9,578)	(166)
Amounts written-off	—	—	(25)	(25)	(851)	(851)	(876)	(876)
Unwinding of discount		—		—		(82)		(82)
At 31 December 2021	546,178	302	35,557	1,478	5,238	2,026	586,973	3,806
Net carrying amount	545,876		34,079		3,212		583,167	
At 1 January 2020	428,604	322	28,630	752	7,135	2,718	464,369	3,792
2020 movements	18,062	197	53,037	2,329	(611)	(132)	70,488	2,394
At 31 December 2020	446,666	519	81,667	3,081	6,524	2,586	534,857	6,186
Net carrying amount	446,147		78,586		3,938		528,671	

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
Retail Banking - mortgages	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2021	132,390	23	28,079	227	1,291	236	161,760	486
Currency translation and other adjustments	—	—	—	—	10	10	10	10
Transfers from Stage 1 to Stage 2	(10,957)	(3)	10,957	3	—	—	—	—
Transfers from Stage 2 to Stage 1	25,468	162	(25,468)	(162)	—	—	—	—
Transfers to Stage 3	(17)	—	(574)	(19)	591	19	—	—
Transfers from Stage 3	11	—	343	25	(354)	(25)	—	—
Net re-measurement of ECL on stage transfer		(156)		117		9		(30)
Changes in risk parameters		(1)		(9)		58		48
Other changes in net exposure	13,071	(1)	(2,589)	(27)	(263)	(19)	10,219	(47)
Other (P&L only items)		(1)		1		(26)		(26)
Income statement (releases)/charges		(159)		82		22		(55)
Amounts written-off	—	—	—	—	(8)	(8)	(8)	(8)
Unwinding of discount		—		—		(30)		(30)
At 31 December 2021	159,966	24	10,748	155	1,267	250	171,981	429
Net carrying amount	159,942		10,593		1,017		171,552	
At 1 January 2020	135,625	12	10,283	86	1,289	215	147,197	313
2020 movements	(3,235)	11	17,796	141	2	21	14,563	173
At 31 December 2020	132,390	23	28,079	227	1,291	236	161,760	486
Net carrying amount	132,367		27,852		1,055		161,274	

- 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	
Retail Banking - credit cards	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2021	2,250	52	1,384	220	114	75	3,748	347
Currency translation and other adjustments	—	—	—	—	(1)	(1)	(1)	(1)
Transfers from Stage 1 to Stage 2	(951)	(48)	951	48	—	—	—	—
Transfers from Stage 2 to Stage 1	1,119	143	(1,119)	(143)	—	—	—	—
Transfers to Stage 3	(17)	—	(84)	(35)	101	35	—	—
Transfers from Stage 3	—	—	9	5	(9)	(5)	—	—
Net re-measurement of ECL on stage transfer		(88)		184		28		124
Changes in risk parameters		(19)		(65)		8		(76)
Other changes in net exposure	339	18	(194)	(73)	(41)	(2)	104	(57)
Other (P&L only items)		—		—		(4)		(4)
Income statement (releases)/charges		(89)		46		30		(13)
Amounts written-off	—	—	—	—	(73)	(73)	(73)	(73)
Unwinding of discount		—		—		(5)		(5)
At 31 December 2021	2,740	58	947	141	91	60	3,778	259
Net carrying amount	2,682		806		31		3,519	
At 1 January 2020	2,804	38	1,246	131	127	88	4,177	257
2020 movements	(554)	14	138	89	(13)	(13)	(429)	90
At 31 December 2020	2,250	52	1,384	220	114	75	3,748	347
Net carrying amount	2,198		1,164		39		3,401	

- 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 flat compared 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)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	3,385	59	3,487	450	596	495	7,468	1,004
Currency translation and other adjustments	—	—	—	—	2	2	2	2
Transfers from Stage 1 to Stage 2	(1,715)	(39)	1,715	39	—	—	—	—
Transfers from Stage 2 to Stage 1	2,034	164	(2,034)	(164)	—	—	—	—
Transfers to Stage 3	(10)	—	(339)	(120)	349	120	—	—
Transfers from Stage 3	5	7	96	60	(101)	(67)	—	—
Net re-measurement of ECL on stage transfer		(133)		161		111		139
Changes in risk parameters		(18)		(47)		60		(5)
Other changes in net exposure	849	12	(958)	(85)	(79)	(26)	(188)	(99)
Other (P&L only items)		—		—		(3)		(3)
Income statement (releases)/charges		(139)		29		142		32
Amounts written-off	—	—	—	—	(138)	(138)	(138)	(138)
Unwinding of discount		—		—		(17)		(17)
At 31 December 2021	4,548	52	1,967	294	629	540	7,144	886
Net carrying amount	4,496		1,673		89		6,258	
At 1 January 2020	5,417	63	2,250	252	608	518	8,275	833
2020 movements	(2,032)	(4)	1,237	198	(12)	(23)	(807)	171
At 31 December 2020	3,385	59	3,487	450	596	495	7,468	1,004
Net carrying amount	3,326		3,037		101		6,464	

- 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.

Risk and capital management continued

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 - commercial real estate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	17,269	90	10,380	364	1,118	428	28,767	882
Currency translation and other adjustments	(10)	1	(2)	(1)	(1)	(26)	(13)	(26)
Inter-group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(2,687)	(17)	2,687	17	—	—	—	—
Transfers from Stage 2 to Stage 1	7,872	219	(7,872)	(219)	—	—	—	—
Transfers to Stage 3	(55)	—	(327)	(16)	382	16	—	—
Transfers from Stage 3	71	2	82	7	(153)	(9)	—	—
Net re-measurement of ECL on stage transfer		(176)		41		21		(114)
Changes in risk parameters		(119)		(68)		8		(179)
Other changes in net exposure	(107)	16	(2,746)	(74)	(666)	(54)	(3,519)	(112)
Other (P&L only items)		—		—		—		—
Income statement (releases)/charges		(279)		(101)		(25)		(405)
Amounts written-off	—	—	—	—	(235)	(235)	(235)	(235)
Unwinding of discount		—		—		(4)		(4)
At 31 December 2021	22,353	16	2,202	51	445	145	25,000	212
Net carrying amount	22,337		2,151		300		24,788	
At 1 January 2020	25,556	31	2,218	28	895	306	28,669	365
2020 movements	(8,287)	59	8,162	336	223	122	98	517
At 31 December 2020	17,269	90	10,380	364	1,118	428	28,767	882
Net carrying amount	17,179		10,016		690		27,885	

- 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 limited 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	12,122	41	2,184	145	250	173	14,556	359
Currency translation and other adjustments	—	—	—	—	(7)	(5)	(7)	(5)
Transfers from Stage 1 to Stage 2	(3,641)	(13)	3,641	13	—	—	—	—
Transfers from Stage 2 to Stage 1	2,622	144	(2,622)	(144)	—	—	—	—
Transfers to Stage 3	(75)	—	(470)	(27)	545	27	—	—
Transfers from Stage 3	12	3	38	9	(50)	(12)	—	—
Net re-measurement of ECL on stage transfer		(135)		171		38		74
Changes in risk parameters		(11)		(23)		9		(25)
Other changes in net exposure	252	(2)	(498)	(28)	(33)	(5)	(279)	(35)
Other (P&L only items)		—		—		(36)		(36)
Income statement (releases)/charges		(148)		120		6		(22)
Amounts written-off	—	—	—	—	(37)	(37)	(37)	(37)
Unwinding of discount		—		—		(10)		(10)
At 31 December 2021	11,292	27	2,273	116	668	178	14,233	321
Net carrying amount	11,265		2,157		490		13,912	
At 1 January 2020	6,338	28	767	45	257	200	7,362	273
2020 movements	5,784	13	1,417	100	(7)	(27)	7,194	86
At 31 December 2020	12,122	41	2,184	145	250	173	14,556	359
Net carrying amount	12,081		2,039		77		14,197	

- At a total level, exposure remained relatively stable 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 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	39,279	139	25,981	1,204	1,249	468	66,509	1,811
Currency translation and other adjustments	(262)	—	(70)	—	77	21	(255)	21
Inter-group transfers	105	—	—	—	—	—	105	—
Transfers from Stage 1 to Stage 2	(7,206)	(29)	7,206	29	—	—	—	—
Transfers from Stage 2 to Stage 1	13,581	350	(13,581)	(350)	—	—	—	—
Transfers to Stage 3	(80)	—	(558)	(42)	638	42	—	—
Transfers from Stage 3	30	6	528	41	(558)	(47)	—	—
Net re-measurement of ECL on stage transfer		(306)		160		87		(59)
Changes in risk parameters		(119)		(286)		(7)		(412)
Other changes in net exposure	1,271	32	(5,003)	(165)	(386)	(35)	(4,118)	(168)
Other (P&L only items)		—		1		(8)		(7)
Income statement (releases)/charges		(393)		(290)		37		(646)
Amounts written-off	—	—	—	—	(195)	(195)	(195)	(195)
Unwinding of discount		—		—		(6)		(6)
At 31 December 2021	46,718	73	14,503	591	825	328	62,046	992
Net carrying amount	46,645		13,912		497		61,054	
At 1 January 2020	53,722	94	8,788	143	1,386	516	63,896	753
2020 movements	(14,443)	45	17,193	1,061	(137)	(48)	2,613	1,058
At 31 December 2020	39,279	139	25,981	1,204	1,249	468	66,509	1,811
Net carrying amount	39,140		24,777		781		64,698	

- 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

Flow statements (audited)

NatWest Markets (1)	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	33,327	12	1,671	49	168	132	35,166	193
Currency translation and other adjustments	(799)	—	(38)	(1)	(4)	(9)	(841)	(10)
Inter-group transfers	(105)	—	—	—	—	—	(105)	—
Transfers from Stage 1 to Stage 2	(881)	(1)	881	1	—	—	—	—
Transfers from Stage 2 to Stage 1	1,762	9	(1,762)	(9)	—	—	—	—
Transfers to Stage 3	—	—	(1)	—	1	—	—	—
Net re-measurement of ECL on stage transfer		(7)		4		—		(3)
Changes in risk parameters		(7)		(9)		(2)		(18)
Other changes in net exposure	79	—	(530)	(8)	(27)	(3)	(478)	(11)
Other (P&L only items)		—		1		(4)		(3)
Income statement (releases)/charges		(14)		(12)		(9)		(35)
Amounts written-off	—	—	(24)	(24)	(43)	(43)	(67)	(67)
At 31 December 2021	33,383	6	197	3	95	75	33,675	84
Net carrying amount	33,377		194		20		33,591	
At 1 January 2020	32,892	10	188	5	183	131	33,263	146
2020 movements	435	2	1,483	44	(15)	1	1,903	47
At 31 December 2020	33,327	12	1,671	49	168	132	35,166	193
Net carrying amount	33,315		1,622		36		34,973	

(1) Reflects the NatWest Markets segment and includes NWM N.V..

- Consistent with other Wholesale portfolios, Stage 1 and Stage 2 ECL reduced due to the improved economic outlook which led to a reduction in underlying PDs and LGDs.
- The Stage 2 population reduced materially with the improved economic outlook improving credit metrics and resulting in migration of assets into Stage 1.

Ulster Bank RoI - mortgages	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	10,919	27	1,682	91	1,061	381	13,662	499
Currency translation and other adjustments	(342)	(1)	(72)	(4)	(57)	(55)	(471)	(60)
Transfers from Stage 1 to Stage 2	(488)	(2)	488	2	—	—	—	—
Transfers from Stage 2 to Stage 1	1,164	54	(1,164)	(54)	—	—	—	—
Transfers to Stage 3	(8)	—	(65)	(7)	73	7	—	—
Transfers from Stage 3	19	2	172	33	(191)	(35)	—	—
Net re-measurement of ECL on stage transfer		(51)		(3)		10		(44)
Changes in risk parameters		(8)		(18)		82		56
Other changes in net exposure	(618)	(1)	(109)	(2)	(115)	(3)	(842)	(6)
Other (P&L only items)		(1)		—		(12)		(13)
Income statement (releases)/charges		(61)		(23)		77		(7)
Transfers to disposal groups (1)	(5,610)	(13)	(373)	(20)	(95)	(14)	(6,078)	(47)
Amounts written-off	—	—	(1)	(1)	(72)	(72)	(73)	(73)
Unwinding of discount		—		—		(7)		(7)
At 31 December 2021	5,036	7	558	17	604	294	6,198	318
Net carrying amount	5,029		541		310		5,880	
At 1 January 2020	10,603	11	1,084	30	1,875	581	13,562	622
2020 movements	316	16	598	61	(814)	(200)	100	(123)
At 31 December 2020	10,919	27	1,682	91	1,061	381	13,662	499
Net carrying amount	10,892		1,591		680		13,163	

(1) Reflects balance of disposal groups at 1 January 2021.

- The reduction in balances across all stages was primarily a result of the agreed sale of mortgages to Permanent TSB p.l.c..
- A further reduction in Stage 2 balances was mainly due to the cessation of the collective migration of high-risk mortgage accounts which were in receipt of COVID-19 payment support during 2020 due to post-payment support performance. Economic uncertainty post model adjustments also decreased significantly during the year.
- Like previous years, portfolio improvements and debt sale activity resulted in deceases in the Stage 3 portfolio.
- Write-offs were mainly a result of the execution of the final tranche of the 2019 debt sale.

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.

2021	UK mortgages Loans £m	UK mortgages ECL £m	RoI mortgages Loans £m	RoI mortgages ECL £m	Credit cards Loans £m	Credit cards ECL £m	Other Loans £m	Other ECL £m	Total Loans £m	Total ECL £m
Personal										
Currently >30 DPD	397	9	38	3	11	6	50	13	496	31
Currently <=30 DPD	10,593	148	515	14	922	135	1,897	286	13,927	583
- PD deterioration	*2,400*	*56*	*58*	*4*	*549*	*96*	*970*	*174*	*3,977*	*330*
- PD persistence	*3,088*	*38*	*21*	*1*	*270*	*23*	*770*	*91*	*4,149*	*153*
- Other driver (adverse credit, forbearance etc)	*5,105*	*54*	*436*	*9*	*103*	*16*	*157*	*21*	*5,801*	*100*
Total Stage 2	10,990	157	553	17	933	141	1,947	299	14,423	614
2020										
Personal										
Currently >30 DPD	426	19	109	11	10	6	75	25	620	61
Currently <=30 DPD	27,477	209	1,559	80	1,365	219	3,331	427	33,732	935
- PD deterioration	*13,136*	*163*	*664*	*42*	*901*	*167*	*2,242*	*354*	*16,943*	*726*
- PD persistence	*9,977*	*22*	*46*	*2*	*350*	*32*	*966*	*57*	*11,339*	*113*
- Other driver (adverse credit, forbearance etc)	*4,364*	*24*	*849*	*36*	*114*	*20*	*123*	*16*	*5,450*	*96*
Total Stage 2	27,903	228	1,668	91	1,375	225	3,406	452	34,352	996

- 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 £0.8 billion of exposures were collectively migrated from Stage 1 into Stage 2. The impact of collective migrations on unsecured lending was much more limited.
- As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

2021	Property Loans £m	Property ECL £m	Corporate Loans £m	Corporate ECL £m	Financial institutions Loans £m	Financial institutions ECL £m	Sovereign Loans £m	Sovereign ECL £m	Total Loans £m	Total ECL £m
Wholesale										
Currently >30 DPD	239	3	390	8	19	—	—	—	648	11
Currently <=30 DPD	2,862	108	15,214	705	713	39	121	1	18,910	853
- PD deterioration	*896*	*57*	*10,391*	*549*	*595*	*36*	*84*	*1*	*11,966*	*643*
- PD persistence	*139*	*8*	*552*	*32*	*6*	—	*1*	—	*698*	*40*
- Other driver (forbearance, RoCL etc)	*1,827*	*43*	*4,271*	*124*	*112*	*3*	*36*	—	*6,246*	*170*
Total Stage 2	3,101	111	15,604	713	732	39	121	1	19,558	864
2020										
Wholesale										
Currently >30 DPD	136	6	215	28	110	—	—	—	461	34
Currently <=30 DPD	12,885	501	27,501	1,459	3,514	90	204	1	44,104	2,051
- PD deterioration	*11,765*	*450*	*23,268*	*1,229*	*3,182*	*85*	*97*	—	*38,312*	*1,764*
- PD persistence	*162*	*5*	*623*	*20*	*7*	—	—	—	*792*	*25*
- Other driver (forbearance, RoCL etc)	*958*	*46*	*3,610*	*210*	*325*	*5*	*107*	*1*	*5,000*	*262*
Total Stage 2	13,021	507	27,716	1,487	3,624	90	204	1	44,565	2,085

- 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 greater than 30 days was partially a result of the commencement of payments on government scheme debt with some customers unable to make scheduled repayments.
- There was a decrease in flows on to the Risk of Credit Loss framework. At a total level, exposure on the Risk of Credit Loss framework remained above pre-COVID-19 levels.

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

2021	UK mortgages £m	UK mortgages %	RoI mortgages £m	RoI mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)										
PD movement	2,707	24.6	83	14.9	560	60.1	1,008	51.8	4,358	30.2
PD persistence	3,103	28.2	21	3.8	270	28.9	771	39.6	4,165	28.9
Adverse credit bureau recorded with credit reference agency	3,657	33.3	—	—	60	6.4	73	3.7	3,790	26.3
Forbearance support provided	178	1.6	6	1.1	2	0.2	28	1.4	214	1.5
Customers in collections	82	0.8	33	6.0	3	0.3	15	0.8	133	0.9
Collective SICR and other reasons (2)	1,197	10.9	409	74.0	38	4.1	46	2.4	1,690	11.7
Days past due >30	66	0.6	1	0.2	—	—	6	0.3	73	0.5
	10,990	100	553	100	933	100	1,947	100	14,423	100

2020	UK mortgages £m	UK mortgages %	RoI mortgages £m	RoI mortgages %	Credit cards £m	Credit cards %	Other £m	Other %	Total £m	Total %
Personal trigger (1)										
PD movement	13,520	48.4	751	45.0	911	66.2	2,310	67.8	17,492	51.0
PD persistence	9,977	35.8	46	2.8	350	25.5	968	28.4	11,341	33.0
Adverse credit bureau recorded with credit reference agency	2,936	10.5	—	—	51	3.7	46	1.4	3,033	8.8
Forbearance support provided	138	0.5	7	0.4	1	0.1	9	0.3	155	0.5
Customers in collections	131	0.5	30	1.8	2	0.1	14	0.4	177	0.5
Collective SICR and other reasons (2)	1,165	4.2	832	49.9	60	4.4	55	1.6	2,112	6.1
Days past due >30	36	0.1	2	0.1	—	—	4	0.1	42	0.1
	27,903	100	1,668	100	1,375	100	3,406	100	34,352	100

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

- 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 £0.8 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.

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

2021	Property £m	Property %	Corporate £m	Corporate %	Financial institutions £m	Financial institutions %	Sovereign £m	Sovereign %	Total £m	Total %
Wholesale trigger (1)										
PD movement	942	30.3	10,553	67.7	595	81.3	84	69.4	12,174	62.2
PD persistence	139	4.5	553	3.5	6	0.8	1	0.8	699	3.6
Risk of Credit Loss	962	31.0	2,626	16.8	71	9.7	34	28.1	3,693	18.9
Forbearance support provided	101	3.3	489	3.1	6	0.8	—	—	596	3.0
Customers in collections	27	0.9	88	0.6	1	0.1	—	—	116	0.6
Collective SICR and other reasons (2)	762	24.6	1,189	7.6	35	4.8	2	1.7	1,988	10.2
Days past due >30	168	5.4	106	0.7	18	2.5	—	—	292	1.5
	3,101	100	15,604	100	732	100	121	100	19,558	100

2020	Property £m	Property %	Corporate £m	Corporate %	Financial institutions £m	Financial institutions %	Sovereign £m	Sovereign %	Total £m	Total %
Wholesale trigger (1)										
PD movement	11,849	91.1	23,403	84.3	3,183	87.9	97	47.6	38,532	86.6
PD persistence	162	1.2	624	2.3	7	0.2	—	—	793	1.8
Risk of Credit Loss	394	3.0	2,106	7.6	66	1.8	39	19.1	2,605	5.8
Forbearance support provided	73	0.6	133	0.5	27	0.7	—	—	233	0.5
Customers in collections	30	0.2	115	0.4	1	—	—	—	146	0.3
Collective SICR and other reasons (2)	462	3.5	1,262	4.6	231	6.4	68	33.3	2,023	4.5
Days past due >30	51	0.4	73	0.3	109	3.0	—	—	233	0.5
	13,021	100	27,716	100	3,624	100	204	100	44,565	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. The exposures classified under the Stage 2 Risk of Credit Loss framework trigger increased over the period as less exposures were captured under the PD deterioration Stage 2 trigger.
- PD persistence related to the business banking portfolio only.

Stage 3 vintage analysis

The table below shows estimated vintage analysis of the material Stage 3 portfolios.

	2021 Retail Banking mortgages	2021 Ulster Bank RoI mortgages	2021 Wholesale	2020 Retail Banking mortgages	2020 Ulster Bank RoI mortgages	2020 Wholesale
Stage 3 loans (£bn)	1.2	0.6	2.1	1.3	1.1	2.9
Vintage (time in default):						
<1 year	26%	11%	19%	25%	6%	46%
1-3 years	30%	15%	20%	32%	18%	16%
3-5 years	13%	8%	7%	11%	23%	7%
5-10 years	17%	40%	54%	22%	36%	31%
>10 years	14%	26%		10%	17%	—
	100%	100%	100%	100%	100%	100%

- Retail Banking and Ulster Bank RoI mortgages – The proportion of the Stage 3 defaulted population which have been in default for over five years reflected NatWest Group's support for customers in financial difficulty. When customers continue to engage constructively with NatWest Group, making regular payments, NatWest Group continues to support them.
- Wholesale – The reduction in the proportion of loans in Stage 3 for less than one year was mainly due to lower flows into default during 2021 with customers supported by government support schemes and a positive economic recovery trajectory. Exposures which were in Stage 3 for in excess of five years, were mainly related to customers being in a protracted formal insolvency process or subject to litigation or a complaints process.

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Personal portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
UK mortgages												
AQ1-AQ4	93,956	3,157	—	97,113	8	40	—	48	0.01	1.27	—	0.05
AQ5-AQ8	81,160	7,325	—	88,485	17	103	—	120	0.02	1.41	—	0.14
AQ9	290	508	—	798	—	14	—	14	—	2.76	—	1.75
AQ10	—	—	1,451	1,451	—	—	269	269	—	—	18.54	18.54
	175,406	10,990	1,451	187,847	25	157	269	451	0.01	1.43	18.54	0.24
RoI mortgages												
AQ1-AQ4	3,669	226	—	3,895	5	5	—	10	0.14	2.21	—	0.26
AQ5-AQ8	1,335	176	—	1,511	2	6	—	8	0.15	3.41	—	0.53
AQ9	8	151	—	159	—	6	—	6	—	3.97	—	3.77
AQ10	—	—	599	599	—	—	293	293	—	—	48.91	48.91
	5,012	553	599	6,164	7	17	293	317	0.14	3.07	48.91	5.14
Credit cards												
AQ1-AQ4	44	1	—	45	1	—	—	1	2.27	—	—	2.22
AQ5-AQ8	2,874	894	—	3,768	58	130	—	188	2.02	14.54	—	4.99
AQ9	6	38	—	44	—	11	—	11	—	28.95	—	25.00
AQ10	—	—	90	90	—	—	60	60	—	—	66.67	66.67
	2,924	933	90	3,947	59	141	60	260	2.02	15.11	66.67	6.59
Other personal												
AQ1-AQ4	831	88	—	919	6	19	—	25	0.72	21.59	—	2.72
AQ5-AQ8	5,950	1,723	—	7,673	51	243	—	294	0.86	14.10	—	3.83
AQ9	52	136	—	188	1	37	—	38	1.92	27.21	—	20.21
AQ10	—	—	642	642	—	—	557	557	—	—	86.76	86.76
	6,833	1,947	642	9,422	58	299	557	914	0.85	15.36	86.76	9.70
Total personal												
AQ1-AQ4	98,500	3,472	—	101,972	20	64	—	84	0.02	1.84	—	0.08
AQ5-AQ8	91,319	10,118	—	101,437	128	482	—	610	0.14	4.76	—	0.60
AQ9	356	833	—	1,189	1	68	—	69	0.28	8.16	—	5.80
AQ10	—	—	2,782	2,782	—	—	1,179	1,179	—	—	42.38	42.38
	190,175	14,423	2,782	207,380	149	614	1,179	1,942	0.08	4.26	42.38	0.94

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2020	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
UK mortgages												
AQ1-AQ4	108,869	6,634	—	115,503	10	33	—	43	0.01	0.50	—	0.04
AQ5-AQ8	38,347	20,254	—	58,601	14	146	—	160	0.04	0.72	—	0.27
AQ9	240	1,015	—	1,255	—	49	—	49	—	4.83	—	3.90
AQ10	—	—	1,507	1,507	—	—	254	254	—	—	16.85	16.85
	147,456	27,903	1,507	176,866	24	228	254	506	0.02	0.82	16.85	0.29
RoI mortgages												
AQ1-AQ4	8,247	777	—	9,024	20	38	—	58	0.24	4.89	—	0.64
AQ5-AQ8	2,677	560	—	3,237	7	34	—	41	0.26	6.07	—	1.27
AQ9	7	331	—	338	—	19	—	19	—	5.74	—	5.62
AQ10	—	—	1,051	1,051	—	—	381	381	—	—	36.25	36.25
	10,931	1,668	1,051	13,650	27	91	381	499	0.25	5.46	36.25	3.66
Credit cards												
AQ1-AQ4	23	4	—	27	1	2	—	3	4.35	50.00	—	11.11
AQ5-AQ8	2,384	1,329	—	3,713	52	208	—	260	2.18	15.65	—	7.00
AQ9	4	42	—	46	—	15	—	15	—	35.71	—	32.61
AQ10	—	—	109	109	—	—	76	76	—	—	69.72	69.72
	2,411	1,375	109	3,895	53	225	76	354	2.20	16.36	69.72	9.09
Other personal												
AQ1-AQ4	1,234	59	—	1,293	8	9	—	17	0.65	15.25	—	1.31
AQ5-AQ8	4,461	3,020	—	7,481	58	336	—	394	1.30	11.13	—	5.27
AQ9	55	327	—	382	1	107	—	108	1.82	32.72	—	28.27
AQ10	—	—	621	621	—	—	517	517	—	—	83.25	83.25
	5,750	3,406	621	9,777	67	452	517	1,036	1.17	13.27	83.25	10.60
Total personal												
AQ1-AQ4	118,373	7,474	—	125,847	39	82	—	121	0.03	1.10	—	0.10
AQ5-AQ8	47,869	25,163	—	73,032	131	724	—	855	0.27	2.88	—	1.17
AQ9	306	1,715	—	2,021	1	190	—	191	0.33	11.08	—	9.45
AQ10	—	—	3,288	3,288	—	—	1,228	1,228	—	—	37.35	37.35
	166,548	34,352	3,288	204,188	171	996	1,228	2,395	0.10	2.90	37.35	1.17

- In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within the mortgage portfolios. 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.
- As noted previously, significant migration from Stage 2 into Stage 1 across all AQ bands was observed, as IFRS PDs reduced.
- 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.

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Wholesale portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Property												
AQ1-AQ4	13,529	223	—	13,752	3	7	—	10	0.02	3.14	—	0.07
AQ5-AQ8	15,126	2,742	—	17,868	21	94	—	115	0.14	3.43	—	0.64
AQ9	24	136	—	160	—	10	—	10	—	7.35	—	6.25
AQ10	—	—	742	742	—	—	239	239	—	—	32.21	32.21
	28,679	3,101	742	32,522	24	111	239	374	0.08	3.58	32.21	1.15
Corporate												
AQ1-AQ4	18,378	1,027	—	19,405	8	48	—	56	0.04	4.67	—	0.29
AQ5-AQ8	35,351	13,922	—	49,273	88	621	—	709	0.25	4.46	—	1.44
AQ9	74	655	—	729	—	44	—	44	—	6.72	—	6.04
AQ10	—	—	1,444	1,444	—	—	602	602	—	—	41.69	41.69
	53,803	15,604	1,444	70,851	96	713	602	1,411	0.18	4.57	41.69	1.99
Financial institutions												
AQ1-AQ4	50,121	63	—	50,184	7	1	—	8	0.01	1.59	—	0.02
AQ5-AQ8	2,138	667	—	2,805	7	38	—	45	0.33	5.70	—	1.60
AQ9	4	2	—	6	—	—	—	—	—	—	—	—
AQ10	—	—	46	46	—	—	4	4	—	—	8.70	8.70
	52,263	732	46	53,041	14	39	4	57	0.03	5.33	8.70	0.11
Sovereign												
AQ1-AQ4	5,787	35	—	5,822	19	1	—	20	0.33	2.86	—	0.34
AQ5-AQ8	117	86	—	203	—	—	—	—	—	—	—	—
AQ9	—	—	—	—	—	—	—	—	—	—	—	—
AQ10	—	—	8	8	—	—	2	2	—	—	25.00	25.00
	5,904	121	8	6,033	19	1	2	22	0.32	0.83	25.00	0.36
Total												
AQ1-AQ4	87,815	1,348	—	89,163	37	57	—	94	0.04	4.23	—	0.11
AQ5-AQ8	52,732	17,417	—	70,149	116	753	—	869	0.22	4.32	—	1.24
AQ9	102	793	—	895	—	54	—	54	—	6.81	—	6.03
AQ10	—	—	2,240	2,240	—	—	847	847	—	—	37.81	37.81
	140,649	19,558	2,240	162,447	153	864	847	1,864	0.11	4.42	37.81	1.15
2020												
Property												
AQ1-AQ4	12,694	2,079	—	14,773	20	40	—	60	0.16	1.92	—	0.41
AQ5-AQ8	10,785	10,780	—	21,565	103	450	—	553	0.96	4.17	—	2.56
AQ9	254	162	—	416	—	17	—	17	—	10.49	—	4.09
AQ10	—	—	1,322	1,322	—	—	545	545	—	—	41.23	41.23
	23,733	13,021	1,322	38,076	123	507	545	1,175	0.52	3.89	41.23	3.09
Corporate												
AQ1-AQ4	17,757	2,726	—	20,483	20	51	—	71	0.11	1.87	—	0.35
AQ5-AQ8	29,405	24,430	—	53,835	167	1,374	—	1,541	0.57	5.62	—	2.86
AQ9	928	560	—	1,488	1	62	—	63	0.11	11.07	—	4.23
AQ10	—	—	1,727	1,727	—	—	803	803	—	—	46.50	46.50
	48,090	27,716	1,727	77,533	188	1,487	803	2,478	0.39	5.37	46.50	3.20
Financial institutions												
AQ1-AQ4	42,222	1,985	—	44,207	13	13	—	26	0.03	0.65	—	0.06
AQ5-AQ8	1,776	1,453	—	3,229	10	39	—	49	0.56	2.68	—	1.52
AQ9	4	186	—	190	—	38	—	38	—	20.43	—	20.00
AQ10	—	—	17	17	—	—	8	8	—	—	47.06	47.06
	44,002	3,624	17	47,643	23	90	8	121	0.05	2.48	47.06	0.25
Sovereign												
AQ1-AQ4	4,731	106	—	4,837	14	1	—	15	0.30	0.94	—	0.31
AQ5-AQ8	17	98	—	115	—	—	—	—	—	—	—	—
AQ9	3	—	—	3	—	—	—	—	—	—	—	—
AQ10	—	—	4	4	—	—	2	2	—	—	50.00	50.00
	4,751	204	4	4,959	14	1	2	17	0.29	0.49	50.00	0.34
Total												
AQ1-AQ4	77,404	6,896	—	84,300	67	105	—	172	0.09	1.52	—	0.20
AQ5-AQ8	41,983	36,761	—	78,744	280	1,863	—	2,143	0.67	5.07	—	2.72
AQ9	1,189	908	—	2,097	1	117	—	118	0.08	12.89	—	5.63
AQ10	—	—	3,070	3,070	—	—	1,358	1,358	—	—	44.23	44.23
	120,576	44,565	3,070	168,211	348	2,085	1,358	3,791	0.29	4.68	44.23	2.25

Credit risk – Banking activities continued

Asset quality (audited)

- Across the Wholesale portfolio, the asset quality band distribution differed, reflective of the underlying quality of counterparties within each segment.
- Asset quality improvement was observed across most segments 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.
- Within the Wholesale portfolio, customer credit grades were reassessed as and when a request for financing was made, a scheduled customer credit review was undertaken or a material event specific to that customer occurred.
- ECL provisions coverage showed the expected trend with increased coverage in the poorer asset quality bands, and also by stage.
- The low provision coverage for Stage 3 loans in financial institutions for 2021 reflected the secured nature of one exposure classified AQ10.

Credit risk – Trading activities

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

Securities financing transactions and collateral (audited)

The table below shows securities funding transactions in NatWest Markets and Treasury. Balance sheet captions include balances held at all classifications under IFRS 9.

	Reverse Repos			Repos		
	Total	Of which can be offset	Outside netting arrangements	Total	Of which can be offset	Outside netting arrangements
2021	£m	£m	£m	£m	£m	£m
Gross	78,909	78,259	650	73,858	72,712	1,146
IFRS offset	(32,016)	(32,016)	—	(32,016)	(32,016)	—
Carrying value	46,893	46,243	650	41,842	40,696	1,146
Master netting arrangements	(900)	(900)	—	(900)	(900)	—
Securities collateral	(45,271)	(45,271)	—	(39,794)	(39,794)	—
Potential for offset not recognised under IFRS	(46,171)	(46,171)	—	(40,694)	(40,694)	—
Net	722	72	650	1,148	2	1,146
2020						
Gross	80,388	80,025	363	66,493	64,793	1,700
IFRS offset	(35,820)	(35,820)	—	(35,820)	(35,820)	—
Carrying value	44,568	44,205	363	30,673	28,973	1,700
Master netting arrangements	(929)	(929)	—	(929)	(929)	—
Securities collateral	(43,204)	(43,204)	—	(28,044)	(28,044)	—
Potential for offset not recognised under IFRS	(44,133)	(44,133)	—	(28,973)	(28,973)	—
Net	435	72	363	1,700	—	1,700

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Credit risk – Trading activities continued

Derivatives (audited)

The table below shows derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS. A significant proportion (more than 90%) of the derivatives relate to trading activities in NatWest Markets. The table also includes hedging derivatives in Treasury.

	2021							2020		
	Notional									
	GBP £bn	USD £bn	Euro £bn	Other £bn	Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Gross exposure						114,100	109,403		177,330	172,245
IFRS offset						(7,961)	(8,568)		(10,807)	(11,540)
Carrying value	3,512	3,270	4,092	1,226	12,100	106,139	100,835	14,047	166,523	160,705
Of which:										
Interest rate (1)	3,191	1,878	3,536	314	8,919	67,458	61,206	10,703	114,115	105,214
Exchange rate	319	1,388	548	912	3,167	38,517	39,286	3,328	52,239	55,107
Credit	2	4	8	—	14	154	343	15	161	376
Equity and commodity	—	—	—	—	—	10	—	1	8	8
Carrying value					12,100	106,139	100,835	14,047	166,523	160,705
Counterparty mark-to-market netting						(85,006)	(85,006)		(137,086)	(137,086)
Cash collateral						(15,035)	(9,909)		(19,608)	(15,034)
Securities collateral						(2,428)	(2,913)		(5,053)	(4,921)
Net exposure						3,670	3,007		4,776	3,664
Banks (2)						393	413		206	557
Other financial institutions (3)						1,490	1,584		1,436	1,931
Corporate (4)						1,716	938		2,985	1,082
Government (5)						71	72		149	94
Net exposure						3,670	3,007		4,776	3,664
UK						1,990	1,122		2,914	1,627
Europe						714	1,028		1,091	1,118
US						645	653		470	644
RoW						321	204		301	275
Net exposure						3,670	3,007		4,776	3,664
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,939			3,464	
AQ5-AQ8						674			1,283	
AQ9-AQ10						57			29	
Net exposure						3,670			4,776	

(1) The notional amount of interest rate derivatives includes £6,173 billion (2020 – £7,390 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NatWest Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions for example China where the collateral agreements are not deemed to be legally enforceable.
(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NatWest Group's external rating.
(4) Mainly large corporates with whom NatWest Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties (audited)

The table below shows the third party derivative notional and fair value by trading and settlement method.

	Notional				Asset		Liability	
		Traded over the counter						
	Traded on recognised exchanges £bn	Settled by central counterparties £bn	Not settled by central counterparties £bn	Total £bn	Traded on recognised exchanges £m	Traded over the counter £m	Traded on recognised exchanges £m	Traded over the counter £m
2021								
Interest rate	723	6,173	2,023	8,919	—	67,458	—	61,206
Exchange rate	2	—	3,165	3,167	—	38,517	—	39,286
Credit	—	—	14	14	—	154	—	343
Equity and commodity	—	—	—	—	—	10	—	—
Total	725	6,173	5,202	12,100	—	106,139	—	100,835
2020								
Interest rate	1,032	7,390	2,281	10,703	—	114,115	—	105,214
Exchange rate	2	—	3,326	3,328	—	52,239	—	55,107
Credit	—	—	15	15	—	161	—	376
Equity and commodity	—	—	1	1	—	8	—	8
Total	1,034	7,390	5,623	14,047	—	166,523	—	160,705

Debt securities (audited)

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch. A significant proportion (more than 95%) of these positions are trading securities in NatWest Markets.

	Central and local government			Financial institutions	Corporate	Total
	UK £m	US £m	Other £m	£m	£m	£m
2021						
AAA	—	—	2,011	838	—	2,849
AA to AA+	—	3,329	3,145	1,401	62	7,937
A to AA-	6,919	—	1,950	308	57	9,234
BBB- to A-	—	—	3,792	346	517	4,655
Non-investment grade	—	—	31	163	82	276
Unrated	—	—	—	3	3	6
Total	6,919	3,329	10,929	3,059	721	24,957
Short positions	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)
2020						
AAA	—	—	3,114	1,113	—	4,227
AA to AA+	—	5,149	3,651	576	49	9,425
A to AA-	4,184	—	1,358	272	81	5,895
BBB- to A-	—	—	8,277	444	656	9,377
Non-investment grade	—	—	36	127	53	216
Unrated	—	—	—	150	5	155
Total	4,184	5,149	16,436	2,682	844	29,295
Short positions	(5,704)	(1,123)	(18,135)	(1,761)	(56)	(26,779)

Credit risk – Cross border exposure

Cross border exposures comprise both banking and trading activities, including reverse repurchase agreements. Exposures comprise loans and advances, including finance leases and instalment credit receivables, and other monetary assets, such as debt securities. The geographical breakdown is based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures include non-local currency claims of overseas offices on local residents but exclude exposures to local residents in local currencies. The table shows cross border exposures greater than 0.5% of NatWest Group's total assets.

2021	Government £m	Banks £m	Other £m	Total £m	Short positions £m	Net of short positions £m
Western Europe	**17,206**	**6,968**	**17,177**	**41,351**	**13,603**	**27,748**
Of which: France	***5,391***	***1,258***	***3,825***	***10,474***	***2,919***	***7,555***
Germany	***3,164***	***3,640***	***1,835***	***8,639***	***3,111***	***5,528***
Italy	***3,040***	***210***	***797***	***4,047***	***3,449***	***598***
United States	**10,345**	**3,548**	**8,539**	**22,432**	**1,862**	**20,570**
2020						
Western Europe	23,651	9,232	21,091	53,974	18,756	35,218
Of which: France	*5,098*	*1,574*	*6,270*	*12,942*	*2,465*	*10,477*
Germany	*4,913*	*4,020*	*2,343*	*11,276*	*3,833*	*7,443*
Italy	*4,985*	*319*	*791*	*6,095*	*3,583*	*2,512*
Spain	*2,980*	*731*	*1,120*	*4,831*	*3,773*	*1,058*
United States	12,430	4,316	7,186	23,932	1,239	22,693

Capital, liquidity and funding risk

NatWest 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 NatWest 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 under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses, degree of permanency and the ranking of absorbing losses on either a going or gone concern basis. 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 supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years 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 NatWest Group, 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 NatWest Group has failed or is likely to fail.

Liquidity

NatWest Group maintains a prudent approach to the definition of liquidity resources. NatWest Group manages its liquidity to ensure it is always available when and where required, taking into account regulatory, legal and other constraints. Following ring-fencing legislation, liquidity is no longer considered fungible across NatWest Group. Principal liquidity portfolios are maintained in the UK Domestic Liquidity Sub-Group (UK DoLSub) (primarily in NatWest Bank Plc), UBIDAC, NatWest Markets Plc, RBS International Limited and NWM N.V.. Some disclosures in this section where relevant are presented, on a consolidated basis, for NatWest Group, the UK DoLSub and on a solo basis for NatWest Markets Plc.

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 supranational securities.
- 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

NatWest Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NatWest Group 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 Capital, liquidity and funding section.

Capital, liquidity and funding risk continued

Capital management

Capital management ensures that there is sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining its credit rating and supporting its strategic goals.

Capital management is critical in supporting the businesses and is enacted through an end-to-end framework across businesses and legal entities. Capital is managed within the organisation at the following levels; NatWest Group consolidated, NWH Group sub consolidated, NatWest Markets Plc, NatWest Markets N.V. and RBS International Limited. The banking subsidiaries within NWH Group are governed by the same principles, processes and management as NatWest Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NatWest Group's wider annual budgeting process and is assessed and updated at least monthly. Regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 192 and 193.

Produce capital plans	Capital plans are produced for NatWest 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 NatWest 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 NatWest 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 external capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

NatWest 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 principal levels at which liquidity risk is managed are:

– NatWest Group
– NatWest Holdings Group
– UK DoLSub
– UBIDAC
– NatWest Markets Plc
– NatWest Markets Securities Inc.
– RBS International Limited
– NWM N.V.

The UK DoLSub is PRA regulated and comprises NatWest Group's four licensed deposit-taking UK banks: National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS 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.

NatWest Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The size of the liquidity portfolios are determined by referencing NatWest Group's liquidity risk appetite. NatWest Group retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

RBS International Limited, NWM N.V. and UBIDAC hold locally managed portfolios that comply with local regulations that may differ from PRA rules.

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

Funding risk management

NatWest Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet including quantitative and qualitative analysis of the behavioural aspects of its assets and liabilities as well as the funding concentration.

Capital, liquidity and funding risk continued

Key points

CET1 ratio (CRR end-point)

2021	18.2%	The CET1 ratio decreased 30 basis points over the period, due to a £2.9 billion decrease in CET1 and a £13.3 billion decrease in RWAs. The CET1 decrease of c.£2.9 billion is mainly driven by: – the directed buy back and associated pension contribution of £1.2 billion; – the on-market share buy back programmes of £1.5 billion (two £750 million programmes); – foreseeable dividends and associated pension contributions of £1.2 billion; – a £1.1 billion decrease in the IFRS 9 transitional adjustment; and – other reserve movements. – These reductions were offset by the £3.0 billion attributable profit in the period.
2020	18.5%	

Loss-absorbing capital

2021	£62.4bn	Loss absorbing capital decreased by £1.5 billion to £62.4 billion primarily due to a £2.9 billion decrease in CET1 (explained above), new issuance of £3.2 billion Senior debt, AT1 issuances of £0.9 billion, and Tier 2 issuances of £1.6 billion. These were offset by the redemption of a $2.65 billion AT1 instrument and c.£2.0 billion redemption of Tier 2 instruments, foreign exchange movements and Tier 2 regulatory amortisation.
2020	£63.9bn	

RWA

2021	£157.0bn	Total RWAs decreased by £13.3 billion or 7.8% to £157.0 billion mainly reflecting: – a reduction in credit risk RWAs of £9.8 billion due to repayments and expired facilities in Commercial Banking and additional decreases within Ulster Bank RoI due to repayments and facility maturities. – Market risk RWAs decreased by £1.4 billion driven by the transition from LIBOR to alternative risk-free rates. – Counterparty credit risk RWAs decreased by £1.2 billion as a result of lower exposures in NatWest Markets and the strengthening of Sterling against the euro over the period. – Operational risk RWAs reduced by £0.9 billion following the annual recalculation in Q1 2021.
2020	£170.3bn	

UK leverage

2021	5.8%	The UK leverage ratio decreased by c.60 basis points driven by a £4.0 billion decrease in Tier 1 capital.
2020	6.4%	

Liquidity portfolio

2021	£286.4bn	The liquidity portfolio increased by £24.1 billion to £286.4 billion, with primary liquidity increasing by £38.2 billion to £208.6 billion. The increase in primary liquidity is driven by customer surplus and drawdown from the Term Funding Scheme with additional incentives for SMEs (TFSME). The reduction in secondary liquidity is due to a reduction in the pre-positioned collateral at the Bank of England.
2020	£262.3bn	

Liquidity coverage ratio

2021	172%	The Liquidity Coverage Ratio (LCR) increased to 172% during the year 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 in NatWest Holdings which outstripped growth in customer lending during the year.
2020	165%	

NSFR

2021	157%	The net stable funding ratio (NSFR) was 157% compared to 151% in prior year. The increase is mainly due to deposits growth.
2020	151%	

Capital, liquidity and funding risk continued
Minimum requirements
Maximum Distributable Amount (MDA) and Minimum Capital Requirements
NatWest Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum capital requirements (the sum of Pillar 1 and Pillar 2A), and the additional capital buffers which are held in excess of the regulatory minimum requirements and are usable in stress.

Where the CET1 ratio falls below the sum of the minimum capital and the combined buffer requirement, there is a subsequent automatic restriction on the amount available to service discretionary payments (including AT1 coupons), known as the MDA. Note that different capital requirements apply to individual legal entities or sub-groups and the table shown does not reflect any incremental PRA buffer requirements, which are not disclosable.

The current capital position provides significant headroom above both our minimum requirements and our MDA threshold requirements.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirements	4.5%	6.0%	8.0%
Pillar 2A requirements	2.0%	2.7%	3.6%
Minimum Capital Requirements	6.5%	8.7%	11.6%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	—	—	—
MDA threshold (2)	9.0%	n/a	n/a
Subtotal	9.0%	11.2%	14.1%
Capital ratios at 31 December 2021	18.2%	20.7%	24.1%
Headroom (3)	9.2%	9.5%	10.0%

(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) Pillar 2A requirements for NatWest Group are currently set on a nominal capital basis. From 2022, all firms will be set Pillar 2A as a variable amount with the exception of some fixed add-ons.
(3) The headroom does not reflect excess distributable capital and may vary over time.

Leverage ratios
The table below summarises the minimum ratios of capital to leverage exposure under the binding PRA UK leverage framework applicable for NatWest Group.

Type	CET1	Total Tier 1
Minimum ratio	2.4375%	3.2500%
Countercyclical leverage ratio buffer (1)	—	—
Total	2.4375%	3.2500%

(1) The countercyclical leverage ratio buffer is set at 35% of NatWest Group's CCyB. As noted above the UK CCyB will increase from 0% to 1% effective from December 2022. Foreign exposures may be subject to different CCyB rates depending on the rate set in those jurisdictions.
(2) Following the publication of the new UK leverage framework on 8 October 2021, certain NatWest Group legal entities that are not currently in scope of the minimum leverage ratio capital requirements 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.

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 PS 22/21 on 14 October 2021, a binding NSFR minimum requirement of 100% will be effective from January 2022.

Capital, liquidity and funding risk continued
Measurement
Capital, risk-weighted assets and leverage: Key metrics
The table below sets out the key capital and leverage ratios. Refer to Note 26 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

	2021		2020	
	End-point CRR basis (1) £m	PRA transitional basis £m	End-point CRR basis (1) £m	PRA transitional basis £m
CET1	28,596	28,596	31,447	31,447
Tier1	32,471	33,042	36,430	37,260
Total	37,873	38,748	41,685	43,733
RWAs	£m	£m	£m	£m
Credit risk	120,116	120,116	129,914	129,914
Counterparty credit risk	7,907	7,907	9,104	9,104
Market risk	7,917	7,917	9,362	9,362
Operational risk	21,031	21,031	21,930	21,930
Total RWAs	156,971	156,971	170,310	170,310
Capital adequacy ratios	%	%	%	%
CET1	18.2	18.2	18.5	18.5
Tier 1	20.7	21.0	21.4	21.9
Total	24.1	24.7	24.5	25.7
Leverage ratios	£m	£m	£m	£m
Tier 1 capital	32,471	33,042	36,430	37,260
UK Average Tier 1 capital (2)	33,233	33,804	36,397	37,231
UK Average leverage exposure (2)	568,802	568,802	576,906	576,906
UK Average leverage ratio (%) (2)	5.8%	5.9%	6.3%	6.5%
UK leverage ratio (%) (3)	5.8%	5.9%	6.4%	6.5%

(1) CRR as implemented by the Prudential Regulation Authority in the UK. End-point CRR basis includes an IFRS 9 transitional uplift to capital of £0.6 billion (31 December 2020 - £1.7 billion). Excluding this adjustment, the CET1 ratio would be 17.8% (31 December 2020 – 17.5%). The amended article for the prudential treatment of software assets was implemented in December 2020. Excluding this adjustment the CET1 ratio at 31 December 2021 would be 18.0% (31 December 2020 – 18.2%).
(2) Based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items.
(3) Presented on CRR end-point Tier 1 capital (including IFRS 9 transitional adjustment). The UK leverage ratio excludes central bank claims from the leverage exposure where deposits held are denominated in the same currency and of contractual maturity that is equal or longer than that of the central bank claims. Excluding an IFRS 9 transitional adjustment, the UK leverage ratio would be 5.7% (31 December 2020 – 6.1%). The amended article for the prudential treatment of software assets was implemented in December 2020. Excluding this adjustment, the UK leverage ratio at 31 December 2021 would be 5.7% (31 December 2020 – 6.3%).

On 1 January 2022 the CET1 ratio was 15.9% including the impact of RWA inflation, 200 basis points, the removal of the software development cost capital benefit, 20 basis points, and the tapering of IFRS 9 transitional relief of 10 basis points. RWAs increased by £18.8 billion, including £14.8 billion associated with mortgage risk weight changes.

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Capital, liquidity and funding risk continued

Capital flow statement

The table below analyses the movement in CRR CET1, AT1 and Tier 2 capital for the year.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 1 January 2021	31,447	4,983	5,255	41,685
Attributable profit for the period	2,950			2,950
Ordinary interim dividend paid	(348)			(348)
Directed buy back and associated dividend linked contribution	(1,231)			(1,231)
On-market ordinary share buy back programme	(1,500)			(1,500)
Foreseeable ordinary dividends	(846)			(846)
Foreseeable pension contributions	(365)			(365)
Foreign exchange reserve	(403)			(403)
FVOCI reserve	(91)			(91)
Own credit	22			22
Share capital and reserve movements in respect of employee share schemes	87			87
Goodwill and intangibles deduction	(130)			(130)
Deferred tax assets	(1)			(1)
Prudential valuation adjustments	12			12
New issues of capital instruments	—	933	1,635	2,568
Redemption of capital instruments	150	(2,041)	(1,580)	(3,471)
Net dated subordinated debt instruments	—		20	20
Foreign exchange movements	—		15	15
Adjustment under IFRS 9 transitional arrangements	(1,126)			(1,126)
Other movements	(31)		57	26
At 31 December 2021	28,596	3,875	5,402	37,873

- The CET1 decrease of c.£2.9 billion is mainly driven by the directed buy back and associated dividend linked contribution of £1.2 billion, the on-market share buy back programmes of £1.5 billion, foreseeable dividends and associated pension contributions of £1.2 billion, a £1.1 billion decrease in the IFRS 9 transitional adjustment and other reserve movements. These reductions were offset by the £3.0 billion attributable profit in the period.
- At H1 2021, an on-market ordinary share buy back programme of £750 million was announced resulting in a foreseeable charge to capital, of which £675 million has been executed by 31 December 2021. The outstanding £75 million remains as a foreseeable charge together with £750 million recognised in Q4 2021 for an additional on-market ordinary share buy back programme.
- AT1 reflects the £400 million 4.5% Reset Perpetual Subordinated Contingent Convertible Notes issued in March 2021 and $750 million 4.600% Reset Perpetual Subordinated Contingent Convertible notes in June 2021. It also reflects a $2.7 billion redemption of 8.625% Perpetual Subordinated Contingent Convertible Additional notes in August 2021.
- The Tier 2 movement is primarily due to the redemption of own debt of £1.5 billion in March 2021, a £1.0 billion issuance of subordinated Tier 2 notes in May 2021 and a €750 million issuance of subordinated Tier 2 notes in September 2021.

Capital, liquidity and funding risk continued

Risk-weighted assets

The table below analyses the movement in RWAs during the year, by key drivers.

	Credit risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk £bn	Total £bn
At 1 January 2021	129.9	9.1	9.4	21.9	170.3
Foreign exchange movement	(1.1)	(0.2)	—	—	(1.3)
Business movements	(4.9)	(0.9)	1.5	(0.9)	(5.2)
Risk parameter changes (1)	(2.2)	(0.1)	—	—	(2.3)
Methodology changes	0.1	—	0.3	—	0.4
Model updates	(0.5)	—	(3.3)	—	(3.8)
Other movements (2)	(0.9)	—	—	—	(0.9)
Acquisitions and disposals (3)	(0.2)	—	—	—	(0.2)
At 31 December 2021	120.2	7.9	7.9	21.0	157.0

The table below analyses the movement in RWAs by segment during the year.

	Go-forward group								
Total RWAs	Retail Banking £bn	Private Banking £bn	Commercial Banking £bn	RBS International £bn	NatWest Markets £bn	Central items & other £bn	Total excluding Ulster Bank RoI £bn	Ulster Bank RoI £bn	Total £bn
At 1 January 2021	36.7	10.9	75.1	7.5	26.9	1.4	158.5	11.8	170.3
Foreign exchange movement	—	—	(0.3)	—	(0.4)	—	(0.7)	(0.6)	(1.3)
Business movements	0.4	0.4	(6.0)	0.1	0.8	0.4	(3.9)	(1.3)	(5.2)
Risk parameter changes (1)	(0.4)	—	(1.2)	(0.1)	—	—	(1.7)	(0.6)	(2.3)
Methodology changes	—	—	0.1	—	0.3	—	0.4	—	0.4
Model updates	—	—	(0.5)	—	(3.3)	—	(3.8)	—	(3.8)
Other movements (2)	—	—	(0.8)	—	(0.1)	—	(0.9)	—	(0.9)
Acquisitions and disposals (3)	—	—	—	—	—	—	—	(0.2)	(0.2)
At 31 December 2021	36.7	11.3	66.4	7.5	24.2	1.8	147.9	9.1	157.0
Credit risk	29.4	9.9	58.0	6.5	6.4	1.8	112.0	8.2	120.2
Counterparty credit risk	0.2	0.1	0.3	—	7.3	—	7.9	—	7.9
Market risk	0.1	—	0.1	—	7.7	—	7.9	—	7.9
Operational risk	7.0	1.3	8.0	1.0	2.8	—	20.1	0.9	21.0
Total RWAs	36.7	11.3	66.4	7.5	24.2	1.8	147.9	9.1	157.0

(1) Risk parameter changes relate to changes in credit quality metrics of customers and counterparties (such as probability of default and loss given default) as well as internal ratings based model changes relating to counterparty credit risk.
(2) The movements in other include the following:
(a) RWA benefit of £0.8 billion as a result of the CRR COVID-19 amendment for Infrastructure Supporting Factor.
(b) Asset transfers from NatWest Markets to Commercial.
(3) The movement in acquisitions & disposals reflected a portfolio sale of non-performing loans in Ulster Bank RoI.

Total RWAs decreased to £157.0 billion during the period due to the following:

- Credit risk RWAs decreased by £9.8 billion due to repayments and expired facilities in Commercial Banking and additional decreases within Ulster Bank RoI due to repayments and facility maturities. Operational risk RWAs decreased by £0.9 billion following the annual recalculation in Q1 2021.
- Counterparty credit risk RWAs reduced by £1.2 billion, mainly reflecting reduced IMM exposures in NatWest Markets.
- Market risk RWAs decreased by £1.4 billion primarily driven by a decrease in modelled market risk reflecting a reduction in tenor basis risk in sterling flow rates, related to the transition from LIBOR to alternative risk-free rates.

Capital, liquidity and funding risk continued

Leverage exposure

	2021 £m	2020 £m
Cash and balances at central banks	177,757	124,489
Trading assets	59,158	68,990
Derivatives	106,139	166,523
Financial assets	412,817	422,647
Other assets	17,106	16,842
Assets of disposal groups	9,015	—
Total assets	781,992	799,491
Derivatives		
- netting and variation margin	(110,204)	(172,658)
- potential future exposures	35,035	38,171
Securities financing transactions gross up	1,397	1,179
Undrawn commitments (1)	44,240	45,853
Regulatory deductions and other adjustments	(8,980)	(8,943)
Claims on central banks	(174,148)	(122,252)
Exclusion of bounce back loans	(7,474)	(8,283)
UK leverage exposure (2)	561,858	572,558

(1) Leverage exposure includes a commitment treated as external for the purposes of the regulatory consolidation, which is treated as internal within the weighted undrawn commitments table below.
(2) The UK leverage ratio excludes central bank claims from the leverage exposure where deposits held are denominated in the same currency and of contractual maturity that is equal or longer than that of the central bank claims.

Liquidity key metrics

The table below sets out the key liquidity and related metrics monitored by NatWest Group.

	2021		2020	
	NatWest Group	UK DoLSub	NatWest Group	UK DoLSub
Liquidity coverage ratio (1)	172%	169%	165%	152%
Stressed outflow coverage (2)	194%	195%	183%	168%
Net stable funding ratio (3)	157%	151%	151%	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 NSFR minimum requirement of 100% will be effective from January 2022.

Weighted undrawn commitments

The table below provides a breakdown of weighted undrawn commitments.

	2021 £bn	2020 £bn
Unconditionally cancellable credit cards	1.8	1.8
Other unconditionally cancellable items	3.1	3.2
Unconditionally cancellable items (1)	4.9	5.0
Undrawn commitments <1 year which may not be cancelled	1.7	1.9
Other off-balance sheet items with 20% credit conversion factor (CCF)	0.3	0.4
Items with a 20% CCF	2.0	2.3
Revolving credit risk facilities	27.5	28.4
Term loans	3.3	3.6
Mortgages	—	—
Other undrawn commitments >1 year which may not be cancelled & off-balance sheet	1.1	1.2
Items with a 50% CCF	31.9	33.2
Items with a 100% CCF	5.3	5.4
Total	44.1	45.9

(1) Based on a 10% CCF.

Capital, liquidity and funding risk continued

Loss-absorbing capital

The following table illustrates the components of estimated loss-absorbing capital (LAC) in NatWest Group plc and operating subsidiaries and includes external issuances only. The table is prepared on a transitional basis, including the benefit of regulatory capital instruments issued from operating companies, to the extent they meet MREL criteria.

The roll-off profile relating to senior debt and subordinated debt instruments is set out on page 259.

	2021				2020			
	Par value (1) £bn	Balance sheet value £bn	Regulatory value (2) £bn	LAC value (3) £bn	Par value £bn	Balance sheet value £bn	Regulatory value £bn	LAC value £bn
CET1 capital (4)	28.6	28.6	28.6	28.6	31.4	31.4	31.4	31.4
Tier 1 capital: end-point CRR compliant AT1								
of which: NatWest Group plc (holdco)	3.9	3.9	3.9	3.9	5.0	5.0	5.0	5.0
of which: NatWest Group plc operating operating subsidiaries (opcos)	—	—	—	—	—	—	—	—
	3.9	3.9	3.9	3.9	5.0	5.0	5.0	5.0
Tier 1 capital: end-point CRR non compliant								
of which: holdco	0.6	0.6	0.5	0.5	0.7	0.7	0.7	0.5
of which: opcos	0.1	0.1	—	—	0.1	0.1	0.1	0.1
	0.7	0.7	0.5	0.5	0.8	0.8	0.8	0.6
Tier 2 capital: end-point CRR compliant								
of which: holdco	7.1	7.1	4.9	6.0	6.9	7.2	4.8	5.7
of which: opcos	0.3	0.3	—	—	0.4	0.4	0.1	0.1
	7.4	7.4	4.9	6.0	7.3	7.6	4.9	5.8
Tier 2 capital: end-point CRR non compliant								
of which: holdco	—	—	—	—	0.1	0.1	0.1	0.1
of which: opcos	0.6	0.9	0.3	0.1	1.6	1.9	1.1	1.0
	0.6	0.9	0.3	0.1	1.7	2.0	1.2	1.1
Senior unsecured debt securities								
of which: holdco	22.8	23.4	—	22.8	19.6	20.9	—	19.6
of which: opcos	22.7	22.6	—	—	20.9	21.5	—	—
	45.5	46.0	—	22.8	40.5	42.4	—	19.6
Tier 2 capital								
Other regulatory adjustments	—	—	0.5	0.5	—	—	0.4	0.4
	—	—	0.5	0.5	—	—	0.4	0.4
Total	86.7	87.5	38.7	62.4	86.7	89.2	43.7	63.9
RWAs				157.0				170.3
UK leverage exposure				561.9				572.6
LAC as a ratio of RWAs				39.8%				37.5%
LAC as a ratio of UK leverage exposure				11.1%				11.2%

(1) Par value reflects the nominal value of securities issued.
(2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation; to the extent they meet the current MREL criteria.
(3) LAC value reflects NatWest Group's interpretation of the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), published in June 2018. MREL policy and requirements remain subject to further potential development, as such NatWest Group's estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The LAC calculation includes Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
(4) Corresponding shareholders' equity was £41.8 billion (2020 - £43.9 billion).
(5) Regulatory amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

Capital, liquidity and funding risk continued

Loss-absorbing capital

The following table illustrates the components of the stock of outstanding issuance in NatWest Group and its operating subsidiaries including external and Internal issuances.

		NatWest Group plc £bn	NatWest Holdings Limited £bn	NWB Plc £bn	RBS plc £bn	UBIDAC £bn	NWM Plc £bn	NatWest Markets N.V. £bn	NWM Securities Inc. £bn	RBS International Limited £bn
Tier 1 (inclusive of AT1)	Externally issued	4.5	—	0.1	—	—	—	—	—	—
Tier 1 (inclusive of AT1)	Internally issued	—	3.7	2.4	1.0	—	0.9	0.2	—	0.3
		4.5	3.7	2.5	1.0	—	0.9	0.2	—	0.3
Tier 2	Externally issued	7.1	—	0.1	—	0.1	0.4	0.5	—	—
Tier 2	Internally issued	—	4.6	3.1	1.4	0.4	1.5	0.1	0.3	—
		7.1	4.6	3.2	1.4	0.5	1.9	0.6	0.3	—
Senior unsecured	Externally issued	23.4	—	—	—	—	—	—	—	—
Senior unsecured	Internally issued	—	11.3	5.7	0.4	0.5	3.9	—	—	—
		23.4	11.3	5.7	0.4	0.5	3.9	—	—	—
Total outstanding issuance		35.0	19.6	11.4	2.8	1.0	6.7	0.8	0.3	0.3

(1) The balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity.
(2) Balance sheet amounts reported for AT1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
(3) Internal issuance for NWB Plc, RBS plc and UBIDAC represents AT1, Tier 2 or Senior unsecured issuance to NatWest Holdings Limited and for NWM N.V. and NWM SI to NWM Plc.
(4) Senior unsecured debt does not include CP, CD and short term/medium term notes issued from NatWest Group operating subsidiaries.
(5) Tier 1 (inclusive of AT1) does not include CET1 numbers.

Capital, liquidity and funding risk continued

Roll-off profile

The following table illustrates the roll-off profile and weighted average spreads of NatWest Group's major wholesale funding programmes.

	As at and for year ended	Roll-off profile					
Senior debt roll-off profile (1)	31 December 2021	H1 2022	H2 2022	2023	2024	2025 & 2026	2027 & later
NatWest Group plc							
- amount (£m)	23,424	—	7	6,814	1,956	6,086	8,561
- weighted average rate spread (bps)	181	—	224	224	164	178	153
NWM Plc							
- amount (£m)	17,360	3,978	2,959	2,359	2,909	4,469	686
- weighted average rate spread (bps)	77	38	58	107	88	92	133
NatWest Bank Plc							
- amount (£m)	3,399	3,248	151	—	—	—	—
- weighted average rate spread (bps)	1	1	(2)	—	—	—	—
NWM N.V.							
- amount (£m)	1,109	576	533	—	—	—	—
- weighted average rate spread (bps)	13	15	11	—	—	—	—
NWM S.I.							
- amount (£m)	225	—	4	—	81	75	65
- weighted average rate spread (bps)	130	—	64	—	98	137	168
RBSI							
- amount (£m)	460	383	77	—	—	—	—
- weighted average rate spread (bps)	89	84	103	—	—	—	—
Securitisation							
- amount (£m)	867	—	—	—	—	289	578
- weighted average rate spread (bps)	5	—	—	—	—	10	3
Covered bonds							
- amount (£m)	2,887	—	—	751	2,136	—	—
- weighted average rate spread (bps)	129	—	—	44	160	—	—
Total notes issued - amount (£m)	49,731	8,185	3,731	9,924	7,082	10,919	9,890
Weighted average rate spread (bps)	121	24	51	182	130	137	143
Subordinated debt instruments roll-off profile (2)							
NatWest Group plc (£m)	7,094	—	981	1,429	1,525	1,953	1,206
NWM Plc (£m)	417	275	—	119	—	21	2
NatWest Bank Plc (£m)	87	—	87	—	—	—	—
NWM N.V. (£m)	548	—	—	104	—	—	444
UBIDAC (£m)	73	—	—	—	—	—	73
Total (£m)	8,219	275	1,068	1,652	1,525	1,974	1,725

(1) Based on final contractual instrument maturity.
(2) Based on first call date of instrument, however this does not indicate NatWest Group's strategy on capital and funding management. The table above does not include debt accounted Tier 1 instruments although those instruments form part of the total subordinated debt balance.
(3) The weighted average spread reflects the average net funding cost to NatWest Group and is calculated on an indicative basis.
(4) The roll-off table is based on sterling-equivalent balance sheet values.

Capital, liquidity and funding risk continued

Liquidity portfolio (audited)

The table below shows the liquidity portfolio by product, with primary liquidity aligned to internal stressed outflow coverage and regulatory 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 stressed outflow purposes.

	Liquidity value					
	2021			2020		
	NatWest Group (1) £m	NWH Group (2) £m	UK DoL Sub (3) £m	NatWest Group £m	NWH Group £m	UK DoL Sub £m
Cash and balances at central banks (4)	174,328	140,562	136,154	115,820	86,575	86,575
AAA to AA- rated governments	31,073	21,710	21,123	50,901	37,086	35,875
A+ and lower rated governments	25	—	—	79	—	—
Government guaranteed issuers, public sector entities and government sponsored entities	307	295	174	272	272	141
International organisations and multilateral development banks	2,720	1,807	1,466	3,140	2,579	2,154
LCR level 1 bonds	34,125	23,812	22,763	54,392	39,937	38,170
LCR level 1 assets	208,453	164,374	158,917	170,212	126,512	124,745
LCR level 2 assets	117	—	—	124	—	—
Non-LCR eligible assets	—	—	—	—	—	—
Primary liquidity	208,570	164,374	158,917	170,336	126,512	124,745
Secondary liquidity (5)	77,849	77,660	76,573	91,985	91,761	88,774
Total liquidity value	286,419	242,034	235,490	262,321	218,273	213,519

(1) NatWest Group includes the UK Domestic Liquidity Sub-Group (UK DoLSub), NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include The Royal Bank of Scotland International Limited, NWM N.V. and Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) NWH Group comprises UK DoLSub and Ulster Bank Ireland DAC who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) UK DoLSub comprises NatWest Group's four licensed deposit-taking UK banks within the ring-fenced bank: NWB Plc, RBS plc, Coutts & Company and Ulster Bank Limited. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022.
(4) Following a change in methodology in our internal stressed outflow coverage metric, cash placed at Central Bank of Ireland within UBIDAC is now reported in the liquidity portfolio.
(5) Comprises assets eligible for discounting at the Bank of England and other central banks.
(6) NatWest Markets Plc liquidity portfolio is reported in the NatWest Markets Plc Annual Report and Accounts.

Capital, liquidity and funding risk continued

Funding sources (audited)

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2021			2020		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank Deposits						
Repos	7,912	—	7,912	6,470	—	6,470
Other bank deposits (1)	5,803	12,564	18,367	5,845	8,291	14,136
	13,715	12,564	26,279	12,315	8,291	20,606
Customer Deposits						
Repos	14,541	—	14,541	5,167	—	5,167
Non-bank financial institutions	57,885	67	57,952	53,475	147	53,622
Personal	230,525	829	231,354	208,046	1,183	209,229
Corporate	175,850	113	175,963	163,595	126	163,721
	478,801	1,009	479,810	430,283	1,456	431,739
Trading liabilities (2)						
Repos (3)	19,389	—	19,389	19,036	—	19,036
Derivatives collateral	17,718	—	17,718	23,229	—	23,229
Other bank and customer deposits	849	704	1,553	819	985	1,804
Debt securities in issue - medium term notes	178	796	974	527	881	1,408
	38,134	1,500	39,634	43,611	1,866	45,477
Other financial liabilities						
Customer deposits	568	—	568	616	180	796
Debt securities in issue:						
Commercial paper and certificates of deposit	9,038	115	9,153	7,086	168	7,254
Medium term notes	6,401	29,451	35,852	4,648	29,078	33,726
Covered bonds	53	2,833	2,886	53	2,967	3,020
Securitisation	—	867	867	—	1,015	1,015
	16,060	33,266	49,326	12,403	33,408	45,811
Subordinated liabilities	1,375	7,054	8,429	365	9,597	9,962
Total funding	548,085	55,393	603,478	498,977	54,618	553,595
Of which: available in resolution (4)			*29,624*			*28,823*

(1) Includes £12.0 billion (2020 – £5.0 billion) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation and nil (2020 – £2.8 billion) relating to NatWest Group's participation in central bank financing operations under the European Central Bank's targeted long-term financing operations.
(2) Excludes short positions of £25.0 billion (2020 – £26.8 billion).
(3) Comprises central & other bank repos of £0.8 billion (2020 – £1.0 billion), other financial institution repos of £17.0 billion (2020 – £16.0 billion) and other corporate repos of £1.6 billion (2020 – £2.0 billion).
(4) 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. The balance consists of £23.4 billion (2020 – £20.9 billion) under debt securities in issue (senior MREL) and £6.2 billion (2020 – £7.9 billion) under subordinated liabilities.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	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	Trading activities £m	Total £m
Cash and balances at central banks	177,757	—	—	—	177,757	—	—	—	177,757	—	177,757
Trading assets	—	—	—	—	—	—	—	—	—	59,158	59,158
Derivatives	4	8	5	13	30	10	2	2	44	106,095	106,139
Settlement balances	2,141	—	—	—	2,141	—	—	—	2,141	—	2,141
Loans to banks - amortised cost	5,584	220	1,615	6	7,425	20	—	237	7,682	—	7,682
Loans to customers - amortised cost (1)	45,553	23,071	16,517	22,238	107,379	53,767	36,481	165,053	362,680	—	362,680
Personal	4,565	2,416	3,386	6,443	16,810	23,446	21,437	145,453	207,146	—	207,146
Corporate	28,527	10,116	5,106	7,218	50,967	23,881	13,876	18,853	107,577	—	107,577
Non-bank financial institutions	12,461	10,539	8,025	8,577	39,602	6,440	1,168	747	47,957	—	47,957
Other financial assets	2,502	1,705	1,573	5,439	11,219	9,251	7,558	17,800	45,828	317	46,145
Total financial assets	233,541	25,004	19,710	27,696	305,951	63,048	44,041	183,092	596,132	165,570	761,702
2020											
Total financial assets	167,371	20,237	21,478	26,907	235,993	74,266	52,380	192,431	555,070	235,860	790,930
2021											
Bank deposits excluding repos	4,930	454	285	134	5,803	564	12,000	—	18,367	—	18,367
Bank repos	6,251	1,661	—	—	7,912	—	—	—	7,912	—	7,912
Customer repos	3,532	11,009	—	—	14,541	—	—	—	14,541	—	14,541
Customer deposits excluding repos	445,811	12,944	3,200	2,305	464,260	918	69	22	465,269	—	465,269
Personal	225,623	1,664	1,822	1,416	230,525	829	—	—	231,354	—	231,354
Corporate	168,090	5,908	1,160	692	175,850	36	55	22	175,963	—	175,963
Non-bank financial institutions	52,098	5,372	218	197	57,885	53	14	—	57,952	—	57,952
Settlement balances	2,068	—	—	—	2,068	—	—	—	2,068	—	2,068
Trading liabilities	—	—	—	—	—	—	—	—	—	64,598	64,598
Derivatives	1	1	1	10	13	92	20	(5)	120	100,715	100,835
Other financial liabilities	1,602	5,547	5,020	3,891	16,060	15,840	9,533	7,893	49,326	—	49,326
CPs and CDs	1,523	2,864	2,266	2,385	9,038	105	10	—	9,153	—	9,153
Medium term notes	28	2,683	2,352	1,338	6,401	12,902	9,234	7,315	35,852	—	35,852
Covered bonds	50	—	3	—	53	2,833	—	—	2,886	—	2,886
Securitisations	—	—	—	—	—	—	289	578	867	—	867
Customer deposits DFV	1	—	399	168	568	—	—	—	568	—	568
Subordinated liabilities	—	37	272	1,066	1,375	3,165	1,959	1,930	8,429	—	8,429
Notes in circulation	3,047	—	—	—	3,047	—	—	—	3,047	—	3,047
Lease liabilities	26	49	72	91	238	220	165	640	1,263	—	1,263
Total financial liabilities	467,268	31,702	8,850	7,497	515,317	20,799	23,746	10,480	570,342	165,313	735,655
2020											
Total financial liabilities	428,632	17,297	10,730	7,106	463,765	23,319	19,708	11,354	518,146	232,831	750,977

(1) Loans to customers excludes £3.7 billion (2020 – £6.0 billion) of impairment provisions.

Capital, liquidity and funding risk continued

Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

The table below shows NatWest Group's debt securities in issue and subordinated liabilities by residual maturity.

	Trading liabilities	Other financial liabilities						
		Debt securities in issue						
2021	Debt securities in issue MTNs £m	Commercial paper and CDs £m	MTNs £m	Covered bonds £m	Securitisation £m	Subordinated liabilities £m	Total £m	Total notes in issue £m
Less than 1 year	178	9,038	6,401	53	—	1,375	16,867	17,045
1-3 years	335	105	12,902	2,833	—	3,165	19,005	19,340
3-5 years	112	10	9,234	—	289	1,959	11,492	11,604
More than 5 years	349	—	7,315	—	578	1,930	9,823	10,172
Total	974	9,153	35,852	2,886	867	8,429	57,187	58,161
2020								
Less than 1 year	527	7,086	4,648	53	—	365	12,152	12,679
1-3 years	169	165	13,349	749	—	3,854	18,117	18,286
3-5 years	240	3	8,538	2,218	296	3,349	14,404	14,644
More than 5 years	472	—	7,191	—	719	2,394	10,304	10,776
Total	1,408	7,254	33,726	3,020	1,015	9,962	54,977	56,385

The table below shows the currency breakdown.

2021	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	2,692	2,743	3,718	—	9,153
MTNs	2,471	19,032	13,718	1,605	36,826
Covered bonds	1,820	—	1,066	—	2,886
Securitisation	867	—	—	—	867
Subordinated liabilities	2,234	4,825	1,370	—	8,429
Total	10,084	26,600	19,872	1,605	58,161
2020 total	8,933	25,051	19,917	2,484	56,385

Capital, liquidity and funding risk continued

Funding gap: maturity and segment analysis

The contractual maturity of balance sheet assets and liabilities reflects the maturity transformation role banks perform, lending long-term but mainly obtaining funding through short-term liabilities such as customer deposits. In practice, the behavioural profiles of many liabilities show greater stability and longer maturity than the contractual maturity. This is particularly true of many types of retail and corporate deposits which, despite being repayable on demand or at short notice, have demonstrated very stable characteristics even in periods of acute stress.

In its analysis to assess and manage asset and liability maturity gaps, NatWest Group determines the expected customer behaviour through qualitative and quantitative techniques. These incorporate observed customer behaviours over long periods of time. This analysis is subject to governance through NatWest Group ALCo Technical committee down to a segment level. The net behavioural funding surplus/(gap) and contractual maturity analysis is set out below.

	Contractual maturity												Behavioural maturity			
	Loans to customers				Customer accounts				Net surplus/(gap)				Net surplus/(gap)			
2021	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn
Retail Banking	12	39	131	182	188	1	—	189	176	(38)	(131)	7	(7)	18	(4)	7
Private Banking	3	6	9	18	39	—	—	39	36	(6)	(9)	21	(1)	9	13	21
Commercial Banking	50	33	18	101	178	—	—	178	128	(33)	(18)	77	4	79	(6)	77
RBS International	7	6	3	16	38	—	—	38	31	(6)	(3)	22	5	6	11	22
NatWest Markets	12	4	1	17	13	1	—	14	1	(3)	(1)	(3)	1	(4)	—	(3)
Central items & other	2	—	—	2	1	—	—	1	(1)	—	—	(1)	(1)	—	—	(1)
Total excluding Ulster Bank RoI	86	88	162	336	457	2	—	459	371	(86)	(162)	123	1	108	14	123
Ulster Bank RoI	1	2	4	7	18	—	—	18	17	(2)	(4)	11	10	1	—	11
Total	87	90	166	343	475	2	—	477	388	(88)	(166)	134	11	109	14	134
2020	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Total	75	104	169	348	438	2	—	440	363	(102)	(169)	92	22	58	12	92

(1) Loans to customers and customer accounts include trading assets and trading liabilities respectively and excludes reverse repos and repos.

- The net customer funding surplus has increased by £42 billion during 2021 to £134 billion driven by a £37 billion growth in deposits and a £5 billion decline in loans to customers.
- Customer deposits and loans to customers are broadly matched from a behavioural perspective.
- The net funding surplus in 2021 is mainly concentrated in the longer dated buckets, reflecting stable characteristics of customer deposits.

Capital, liquidity and funding risk continued

Encumbrance (audited)

NatWest 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, credit card receivables and personal loans display many of these features.

NatWest 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 NatWest 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, NatWest 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.

Programmes to manage the use of assets to actively support funding are established within UK DoLSub, UBIDAC and NatWest Markets Plc.

Balance sheet encumbrance

The table shows the retained encumbrance assets of NatWest Group.

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned & encumbered assets held at central banks (5)	Collateral ring-fenced to meet regulatory requirement (6)	Unencumbered assets not pre-positioned with central banks				
2021	Covered debts & securitisations (1) £bn	SFT, derivatives and similar (2,3) £bn	Total (4) £bn	£bn	£bn	Readily available (7) £bn	Other available (8) £bn	Cannot be used (9) £bn	Total £bn	Total (10) £bn
Cash and balances at central banks	-	5.1	5.1	-	-	172.7	-	-	172.7	177.8
Trading assets	-	36.7	36.7	-	-	0.8	0.9	20.8	22.5	59.2
Derivatives	-	-	-	-	-	-	-	106.1	106.1	106.1
Settlement balances	-	-	-	-	-	-	-	2.1	2.1	2.1
Loans to banks - amortised cost	-	0.1	0.1	-	-	6.7	0.6	0.3	7.6	7.7
Loans to customers - amortised cost	11.8	1.8	13.6	122.4	-	58.1	116.5	48.4	223.0	359.0
- residential mortagages										
- UK	8.3	-	8.3	119.7	-	44.4	14.2	-	58.6	186.6
- RoI	1.2	-	1.2	2.7	-	2.0	-	-	2.0	5.9
- credit cards	-	-	-	-	-	3.5	0.4	-	3.9	3.9
- personal loans	-	-	-	-	-	5.1	2.4	1.4	8.9	8.9
- other	2.3	1.8	4.1	-	-	3.1	99.5	47.0	149.6	153.7
Other financial assets	-	15.4	15.4	-	2.0	27.7	0.4	0.6	28.7	46.1
Intangible assets	-	-	-	-	-	-	-	6.7	6.7	6.7
Other assets	-	-	-	-	-	-	1.9	6.4	8.3	8.3
Assets of disposal groups	0.1	-	0.1	3.8	-	1.9	3.2	-	5.1	9.0
Total assets	11.9	59.1	71.0	126.2	2.0	267.9	123.5	191.4	582.8	782.0
2020										
Total assets	14.8	70.8	85.6	134.0	2.2	203.7	123.1	250.9	577.7	799.5

(1) Covered debts and securitisations include securitisations, conduits, covered bonds and secured notes.
(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) Derivative cash collateral of £12.0 billion (2020 - £18.8 billion) has been included in the encumbered assets basis the regulatory requirement.
(4) 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.
(5) Assets pre-positioned at the central banks include loans provided as security as part of funding schemes and those encumbered under such schemes.
(6) Ring-fenced to meet regulatory requirement includes assets ring fenced to meet operational continuity in resolution (OCIR) investment mandate.
(7) 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 NatWest Group's liquidity portfolio and unencumbered debt securities.
(8) 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 pre-positioned with central banks but have not been subject to internal and external documentation review and diligence work.
(9) 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.
(10) In accordance with market practice, NatWest Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.

Market risk (audited)

NatWest Group is exposed to non-traded market risk through its banking activities and to traded market risk through its trading activities. Non-traded and traded market risk exposures are managed and discussed separately. The non-traded market risk section begins below. The traded market risk section begins on page 274. Pension-related activities also give rise to market risk. Refer to page 278 for more information on risk related to pensions.

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 non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk, equity risk and accounting volatility risk.

For detailed qualitative and quantitative information on each of these risk types, 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%.
- The sensitivity of net interest earnings to a 25 basis point upward shift in the market-implied yield curve was a cumulative £1,183 million over three years at 31 December 2021, down from £1,455 million at 31 December 2020. The decrease partly reflected the higher impact of central bank policy rates in the market-implied curve at 31 December 2021.
- NatWest Group's structural hedge of equity and deposits provides some protection against volatility in interest rates. Notably, the product structural hedge notional, which captures deposits in the Retail and Commercial Banking franchises, increased from £169 billion at 31 December 2020 to £206 billion at 31 December 2021 as more balances were included in the hedging programme. This increase mainly reflected the significant growth in customer deposits during the pandemic.
- Although swap rates began to rise in H2 2021, the yield on the structural hedge fell from 1.06% to 0.75%. This mainly resulted from maturing of swaps and increased hedging. Increased volumes are initially hedged at shorter dates to ensure an evenly amortising risk profile. The reduction in fixed yield also, in part, reflects the transition from LIBOR to the SONIA benchmark. New hedges are indexed against SONIA, which is a risk-free benchmark and therefore has a lower outright coupon.
- Sterling strengthened against the euro, to 1.19 at 31 December 2021 compared to 1.11 at 31 December 2020. It weakened slightly against the US dollar, to 1.35 at 31 December 2021 compared to 1.37 at 31 December 2020. Structural foreign currency exposures decreased, in sterling equivalent terms, over the year, mainly driven by increased hedging of NatWest Holdings' investment in UBIDAC.

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 Executive Risk Committee and the Board Risk Committee, as well as to the Asset & Liability Management Committee. Non-traded market risk policy sets out the governance and risk management framework.

Risk appetite

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

Its quantitative appetite is expressed in terms of value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity and stress limits, 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 NatWest Group remains within its risk appetite, triggers have been set and are actively managed. For further information on risk appetite and risk controls, refer to pages 192 and 193.

Non-traded market risk continued

Risk measurement (audited)

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

The following table shows one-day internal banking book value-at-risk (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.

NatWest Group's VaR metrics are explained on page 269. 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	10.2	13.7	6.4	8.6	14.1	17.7	8.0	12.3
Credit spread	102.9	113.5	92.4	100.9	103.2	121.1	63.7	111.5
Structural foreign exchange rate	11.4	13.2	9.2	12.0	10.8	14.7	9.1	8.9
Equity	12.4	14.6	11.1	14.3	28.5	35.4	24.9	11.6
Pipeline risk (1)	0.5	1.2	0.3	1.2	0.5	0.7	0.3	0.3
Diversification (2)	(12.9)			(35.6)	(18.9)			4.2
Total	124.5	147.1	101.4	101.4	138.2	159.9	70.8	148.8

(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) NatWest 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.

- On an average basis, non-traded VaR was broadly stable over 2021. Period-end VaR reflects the completion of the transition from LIBOR to risk-free benchmarks.
- The decrease in equity VaR, on an average basis, reflects the disposal of SABB in 2020.

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 NatWest 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, NatWest Group aggregates interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

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

Structural hedging

NatWest Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. These balances are usually hedged, either by investing directly in longer-term fixed-rate assets (such as fixed-rate mortgages or UK government gilts) or by using interest rate swaps, which are generally booked as cash flow hedges of floating-rate assets, in order to provide a consistent and predictable revenue stream.

After hedging the net interest rate exposure externally, NatWest Group allocates income to equity or products in structural hedges by reference to the relevant interest rate swap curve. Over time, this approach has provided a basis for stable income attribution to products and interest rate returns. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and NatWest Group's capital composition.

The table below shows the total income and total yield, incremental income relative to short-term cash rates, and the period-end and average notional balances allocated to equity and products in respect of the structural hedges managed by NatWest Group.

	2021					2020				
	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %	Incremental income £m	Total income £m	Period end notional £bn	Average notional £bn	Total yield %
Equity structural hedging	426	448	21	22	2.05	478	580	23	24	2.43
Product structural hedging	744	861	161	145	0.59	543	958	125	115	0.83
Other structural hedges	139	115	24	23	0.51	119	150	21	20	0.73
Total	1,309	1,424	206	190	0.75	1,140	1,688	169	159	1.06

Equity structural hedges refer to income allocated primarily to equity and reserves. At 31 December 2021, the equity structural hedge notional was allocated between NWH Group and NWM Plc in a ratio of approximately 80/20 respectively.

Product structural hedges refer to income allocated to customer products by NWH Group Treasury, mainly current accounts and customer deposits in Commercial Banking and UK Retail Banking. Other structural hedges refer to hedges managed by UBIDAC, Private Banking, Ulster Bank Limited and RBS International. Hedges associated with Ulster Bank Limited were moved from other structural hedges to product hedges in H1 2021 as Ulster Bank Limited products migrated to NatWest Bank Plc.

At 31 December 2021, approximately 93% by notional of total structural hedges were sterling-denominated.

Non-traded market risk continued

The following table presents the incremental income associated with product structural hedges at segment level.

	2021 £m	2020 £m
Retail Banking	346	251
Commercial Banking	398	292
Total	744	543

- The increase in hedge notional, on a period-end basis, mainly resulted from increased hedging of Personal and Commercial deposits. This reflected the increase in underlying customer deposit balances.
- The five-year sterling swap rate rose to 1.05% at the end of December 2021 from -0.01% at the end of December 2020. The ten-year sterling swap rate also rose, from 0.16% to 0.95%. Despite the swap rate rises, the yield of the structural hedge fell. This was partly due to the full-year impact of hedges booked in 2020 and the impact of hedging balance growth, where new hedges may be booked initially at shorter maturities than five or ten years and therefore attract a lower coupon than the five or ten-year swap rate.
- During 2021, sterling-denominated structural hedges were migrated from LIBOR to a SONIA index. US dollar-denominated structural hedges were migrated from LIBOR to a SOFR index. Because SONIA and SOFR are risk-free benchmarks, as maturing hedges are replaced the yield going forward will increasingly reflect the lack of risk premium. Euro-denominated hedges remain indexed against EURIBOR.

NTIRR can be measured using value-based or earnings-based approaches. 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.

NatWest 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 NatWest 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.

NatWest 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 NatWest Group's retail and commercial banking activities are included in the banking book VaR table presented earlier in this section. 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 NatWest Group's target maturity profile for the hedge.

Non-traded market risk continued

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 always 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 based on the 31 December 2021 balance sheet, which is assumed to remain constant. An earnings projection is derived from the market-implied 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.

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.

Three-year 25-basis-point sensitivity table

The table below shows the sensitivity of net interest earnings – for both structural hedges and managed rate accounts – on a one, two and three-year forward-looking basis to an upward or downward interest rate shift of 25 basis points.

In the upward rate scenario, yield curves were assumed to move in parallel, at both year-ends.

The downward rate scenario at both year-ends allows interest rates to fall to negative rates.

	+25 basis points upward shift			-25 basis points downward shift		
	Year 1	Year 2 (1)	Year 3 (1)	Year 1	Year 2 (1)	Year 3 (1)
2021	£m	£m	£m	£m	£m	£m
Structural hedges	43	144	235	(43)	(144)	(235)
Managed margin	282	220	255	(255)	(209)	(187)
Other	4			(5)		
Total	329	364	490	(303)	(353)	(422)
2020						
Structural hedges	37	118	199	(37)	(118)	(199)
Managed margin	319	380	387	(258)	(285)	(292)
Other	15			(20)		
Total	371	498	586	(315)	(403)	(491)

(1) The projections for Year 2 and Year 3 consider only the main drivers of earnings sensitivity, namely structural hedging and margin management.
(2) The assumption of a constant balance sheet means that UBIDAC balances are held constant. UBIDAC contributes a relatively small proportion of NatWest Group's overall earnings sensitivity. For example, UBIDAC contributes approximately 6% to NatWest Group's overall sensitivity to an upward 25-basis-point rate shift over three years.

- The increase in structural hedge sensitivity at 31 December 2021 reflects the increase in the hedge notional since 31 December 2020.
- The reduction in managed margin sensitivity in the upward and downward 25-basis-point rate shifts as well as in the upward 100-basis-point shift partly reflects the higher level of interest rates at 31 December 2021 compared to 31 December 2020. In the market-implied projection, the UK base rate is projected to rise several times from 0.25% over the three years from 31 December 2021. The UK base rate had been projected to fall below 0.1% over the three years from 31 December 2020. When interest rates are higher, the pricing response to further unexpected shifts in rates differs from the response when rates are very low or negative.

One-year 25 and 100-basis-point sensitivity table

The following table analyses the one-year scenarios by currency and, in addition, shows the impact over one year of a 100-basis-point upward shift in all interest rates.

	2021			2020		
	Shifts in yield curve			Shifts in yield curve		
	+25 basis points	-25 basis points	+100 basis points	+25 basis points	-25 basis points	+100 basis points
	£m	£m	£m	£m	£m	£m
Euro	20	(3)	129	7	(6)	99
Sterling	267	(264)	969	336	(287)	1,109
US dollar	40	(33)	143	26	(22)	102
Other	2	(3)	10	2	—	7
Total	329	(303)	1,251	371	(315)	1,317

Non-traded market risk continued

Sensitivity of fair value through other comprehensive income (FVOCI) and cash flow hedging reserves to interest rate movements

NatWest 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 also hedging of some personal and commercial lending portfolios, primarily fixed-rate mortgages. Generally, these swaps are booked in hedge accounting relationships. 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			
	+25 basis points	-25 basis points	+100 basis points	-100 basis points	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m	£m	£m	£m	£m
FVOCI reserves	(46)	45	(187)	174	(50)	48	(207)	181
Cash flow hedge reserves	(210)	214	(820)	877	(108)	109	(421)	447
Total	(256)	259	(1,007)	1,051	(158)	157	(628)	628

- The main driver of the increase in NatWest Group's cash flow hedge reserve sensitivity was 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 fair value through equity.

NatWest 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 – NatWest Group assesses its potential exposure to forecast foreign currency income and expenses. NatWest Group hedges forward some forecast expenses.

The most material non-traded open currency positions are the structural foreign exchange exposures arising 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 this ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. 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	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (1) £m	Residual Structural foreign currency exposures £m
US dollar	**1,275**	**(260)**	**1,015**	**(1,015)**	**—**
Euro	**6,222**	**(2,669)**	**3,553**	**—**	**3,553**
Other non-sterling	**990**	**(421)**	**569**	**—**	**569**
Total	**8,487**	**(3,350)**	**5,137**	**(1,015)**	**4,122**
2020					
US dollar	1,299	(3)	1,296	(1,296)	—
Euro	6,485	(829)	5,656	—	5,656
Other non-sterling	1,077	(350)	727	—	727
Total	8,861	(1,182)	7,679	(1,296)	6,383

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available.

- The decrease in net investments in foreign operations was partly driven by sterling strengthening against the euro.
- The increase in the sterling value of net investment hedges was mainly driven by increased hedging of NatWest Holdings' investment in UBIDAC.
- During the year, NatWest Group also increased net investment hedging in US dollar and other non-sterling currencies to reduce the potential impact on RWAs of changes to its regulatory foreign exchange hedging permission.
- 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 £0.3 billion in equity respectively.

Non-traded market risk continued

Equity risk (audited)

Non-traded equity risk is the potential variation in income and reserves arising from changes in equity valuations. Equity exposures may arise through strategic acquisitions, venture capital investments and restructuring arrangements.

Investments, acquisitions or disposals of a strategic nature are referred to the Acquisitions & Disposals Committee. Once approved by the CFO with support from the Acquisitions & Disposals Committee for execution, such transactions are referred for approval to the Board, the Executive Committee, the Chief Executive, the Chief Financial Officer or as otherwise required. Decisions to acquire or hold equity positions in the non-trading book that are not of a strategic nature, such as customer restructurings, are taken by authorised persons with delegated authority.

Equity positions are carried at fair value on the balance sheet based on market prices where available. If market prices are not available, fair value is based on appropriate valuation techniques or management estimates.

The table below shows the balance sheet carrying value of equity positions in the banking book.

	2021 £m	2020 £m
Exchange-traded equity	**16**	14
Private equity	**160**	160
Other	**66**	78
	242	252

The exposures may take the form of (i) equity shares listed on a recognised exchange, (ii) private equity shares defined as unlisted equity shares with no observable market parameters or (iii) other unlisted equity shares.

	2021 £m	2020 £m
Net realised gains arising from disposals	**8**	(248)
Unrealised gains included in Tier 1 or Tier 2 capital	**88**	82

(1) Includes gains or losses on FVOCI instruments only.

- The losses on disposals in 2020 mainly reflected the disposal of SABB.

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted for at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

Accounting volatility can be mitigated through hedge accounting. However, residual volatility will remain in cases where accounting rules mean that hedge accounting is not an option, or where there is some hedge ineffectiveness. Accounting volatility risk is reported to the Asset & Liability Management Committee monthly and capitalised as part of the Internal Capital Adequacy Assessment Process (ICAAP).

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Traded market risk

Definition (audited)

Traded market risk is the risk arising from changes in fair value on positions, assets, liabilities or commitments in trading portfolios as a result of fluctuations in market prices.

Sources of risk (audited)

Traded market risk mainly arises from NatWest Group's trading activities. These activities provide a range of financing, risk management and investment services to clients – including corporations and financial institutions – around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit. NatWest Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

All material traded market risk resides in NatWest Markets. The key categories are interest rate risk, credit spread risk and foreign currency price risk.

Trading activities may also give rise to counterparty credit risk. For further detail refer to the Credit risk section.

Key developments in 2021

- The UK, US and eurozone economies rebounded strongly in 2021 following the rollout of COVID-19 vaccines. However, inflation rose in H2 2021, in part due to global supply disruptions. This led to further market volatility, particularly in Rates, due to significant shifts in inflation expectations.
- Traded VaR remained within appetite, with an average-basis year-on-year reduction driven by de-risking activity in line with the strategic focus on RWA reduction.

Governance (audited)

Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

Risk appetite

NatWest Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NatWest Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments and recalibrated to ensure that they remain aligned to NatWest Group RWA targets. Limit reviews focus on optimising the alignment between traded market risk exposure and capital usage.

To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented. For more detail on risk appetite and risk controls, refer to pages 192 and 193.

Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business, franchise and NatWest Group-wide levels. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business, franchise and NatWest Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad-hoc reporting.

A risk review of trading businesses is undertaken weekly with senior risk and front office staff. This includes a review of profit and loss drivers, notable position concentrations and other positions of concern.

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to the Executive Risk Committee and Board Risk Committee.

Measurement

NatWest Group uses VaR, SVaR and the incremental risk charge to measure traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NatWest Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

These methods have been designed to capture correlation effects and allow NatWest Group to form an aggregated view of its traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Value-at-risk

For internal risk management purposes, VaR assumes a time horizon of one trading day and a confidence level of 99%.

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days on an equally-weighted basis.

Traded market risk continued

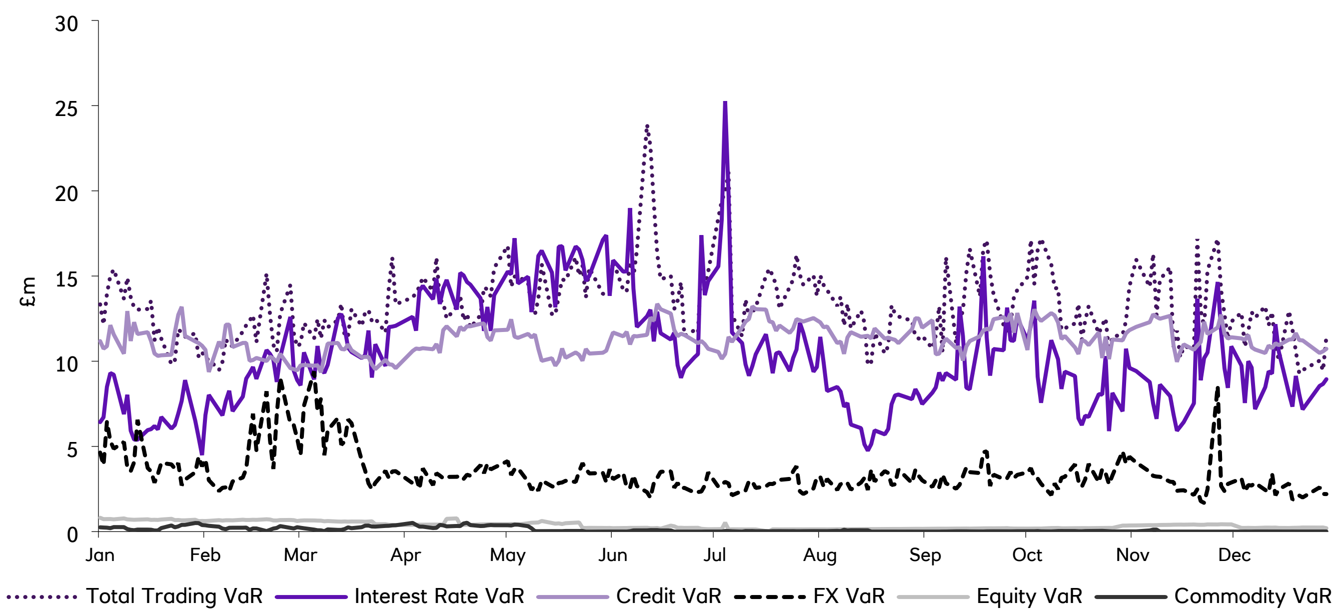
The model also captures the potential impact of interest rate risk; credit spread risk; foreign currency price risk; equity price risk; and commodity price risk.

When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:

- Back-testing: Internal and regulatory back-testing is conducted on a daily basis. (Information on internal back-testing is provided in this section. Information on regulatory back-testing appears in the Pillar 3 Report).
- Ongoing model validation: VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review: As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management refer to page 284. More information relating to pricing and market risk models is presented in the Pillar 3 Report.

One-day 99% traded internal VaR



Traded VaR (1-day 99%) (audited)

The table below shows one-day 99% internal VaR for NatWest Group's trading portfolios, split by exposure type.

	2021				2020			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**10.4**	**25.3**	**4.5**	**8.9**	8.7	20.2	4.8	6.3
Credit spread	**11.3**	**13.4**	**9.4**	**10.7**	15.3	27.2	8.7	10.3
Currency	**3.4**	**9.4**	**1.7**	**2.2**	4.2	8.4	2.1	3.0
Equity	**0.4**	**0.8**	**—**	**0.2**	0.6	2.0	0.2	0.7
Commodity	**0.1**	**0.5**	**—**	**—**	0.1	0.6	—	0.2
Diversification (1)	**(12.3)**			**(10.5)**	(12.8)			(10.3)
Total	**13.3**	**23.9**	**9.3**	**11.5**	16.1	25.7	10.1	10.2

(1) NatWest 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.

- Traded VaR increased in the first half of 2021 reflecting a rise in tenor basis risk in sterling flow trading. This related to the transition from LIBOR to alternative risk-free rates.
- A regulator-approved update to the VaR model was applied in the second half of the year, to address the impact of this transition.
- On an average basis, traded VaR decreased in 2021 compared to 2020. This was driven by de-risking activity in line with the strategic focus on RWA reduction.

Traded market risk

VaR back-testing

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical P&L. For more details on the back-testing approach, refer to the Pillar 3 Report.

The table below shows internal back-testing exceptions in the major NatWest Markets businesses for the 250-business-day period to 31 December 2021. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypothetical (Hypo) P&L.

	Back-testing exceptions	
	Actual	Hypo
Rates	1	2
Currencies	1	1
Credit	—	—
xVA	—	—

- The exceptions in the Rates business were mainly driven by market moves in sterling, euro and US dollar rates.
- The exceptions in the Currencies business were mainly driven by market moves related to the Turkish lira.

Stressed VaR (SVaR)

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions.

A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%.

The internal traded SVaR model captures all trading book positions.

	2021				2020			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Total internal traded SVaR	95	175	46	66	97	196	59	87

- Traded SVaR increased in the first half of 2021, reflecting a rise in tenor basis risk in sterling flow trading. This related to the transition from LIBOR to alternative risk-free rates.
- Traded SVaR subsequently decreased in the second half of the year following changes to the treatment of tenor basis risk in the VaR model.

Risks Not In VaR (RNIVs)

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the Pillar 3 Report.

Stress testing

For information on stress testing, refer to page 193.

Incremental risk charge (IRC)

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the Pillar 3 Report.

Market risk – linkage to balance sheet

The table below analyses NatWest Group's balance sheet by non-trading and trading business.

	2021			2020			
	Total £bn	Non-trading business £bn	Trading business £bn	Total £bn	Non-trading business £bn	Trading business £bn	Primary market risk factor
Assets							
Cash and balances at central banks	177.8	177.8	—	124.5	124.5	—	Interest rate
Trading assets	59.2	0.7	58.5	69.0	0.3	68.7	
Reverse repos	20.7	—	20.7	19.4	—	19.4	Interest rate
Securities	25.0	—	25.0	29.2	—	29.2	interest rate, credit spreads, equity
Other	13.5	0.7	12.8	20.4	0.3	20.1	Interest rate
Derivatives	106.1	1.6	104.5	166.5	2.3	164.2	Interest rate, credit spreads, equity
Settlement balances	2.1	0.2	1.9	2.3	0.1	2.2	Settlement
Loans to banks	7.7	7.6	0.1	7.0	6.9	0.1	Interest rate
Loans to customers	359.0	358.9	0.1	360.5	360.4	0.1	Interest rate
Other financial assets	46.1	46.1	—	55.1	55.1	—	Interest rate, credit spreads, equity
Intangible assets	6.7	6.7	—	6.7	6.7	—	Interest rate, credit spreads, equity
Other assets	8.3	8.3	—	7.9	7.9	—	
Assets of disposal groups	9.0	9.0	—	—	—	—	
Total assets	782.0	616.9	165.1	799.5	564.2	235.3	
Liabilities							
Bank deposits	26.3	26.3	—	20.6	20.6	—	Interest rate
Customer deposits	479.8	479.8	—	431.7	431.7	—	Interest rate
Settlement balances	2.1	—	2.1	5.5	3.3	2.2	Settlement
Trading liabilities	64.6	0.1	64.5	72.3	—	72.3	
Repos	19.4	—	19.4	19.0	—	19.0	Interest rate
Short positions	25.0	—	25.0	26.8	—	26.8	Interest rate, credit spreads
Other	20.2	0.1	20.1	26.5	—	26.5	Interest rate
Derivatives	100.8	3.6	97.2	160.7	5.2	155.5	Interest rate, credit spreads
Other financial liabilities	49.3	48.9	0.4	45.8	45.1	0.7	Interest rate
Subordinated liabilities	8.4	8.4	—	10.0	10.0	—	Interest rate
Notes in circulation	3.0	3.0	—	2.7	2.7	—	Interest rate
Other liabilities	5.9	5.9	—	6.4	6.4	—	
Total liabilities	740.2	576.0	164.2	755.7	525.0	230.7	

(1) Non-trading businesses are entities that primarily have exposures that are not classified as trading book. For these exposures, with the exception of pension-related activities, the main measurement methods are sensitivity analysis of net interest income, internal non-traded VaR and fair value calculations. For more information refer to the non-traded market risk section.
(2) Trading businesses are entities that primarily have exposures that are classified as trading book under regulatory rules. For these exposures, the main methods used by NatWest Group to measure market risk are detailed in the traded market risk section.
(3) Foreign exchange risk affects all non-sterling denominated exposures on the balance sheet across trading and non-trading businesses, and therefore has not been listed in the above tables.

Pension risk
Definition
Pension risk is the risk to NatWest 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 NatWest 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
NatWest 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 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 consolidated financial statements, for further details on NatWest 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. NatWest 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, NatWest 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 NatWest Group's exposure to pension risk during the year, and the overall position of the main defined benefit schemes that NatWest 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.
- NatWest Group has exposure to a number of defined benefit pension schemes in the Republic of Ireland. Following the announcement to commence a phased withdrawal from the Republic of Ireland, an agreement was reached with each of the schemes' Trustees, on a timeframe for discussions on the future support arrangements for the schemes on completion of the phased withdrawal, with all parties sharing the objective of having new support arrangements in place by the end of 2022.
- Following the changes to Ulster Bank Limited, it no longer participates in any of NatWest 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 NatWest 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 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 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 190.

Risk appetite
NatWest Group maintains an independent view of the risk inherent in its pension funds. NatWest 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 Executive Risk Committee and the 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 NatWest Group's balance sheet, income statement and capital position are incorporated into the overall NatWest Group stress test results.

NatWest Bank Plc (a subsidiary of NatWest Group) 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. As set out in Note 27 to the consolidated financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2021
- A new Ring-Fencing Hub was set up to provide an aggregated view of ring-fencing compliance and risk management. Oversight of the work to complete NatWest Group's attestation of compliance was also a key focus.
- 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.
- Provided strategic oversight and advice to NatWest Group's LIBOR transition programme.

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. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

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 NatWest Group's customers, employees or third parties undertake or facilitate financial crime, or if NatWest 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.

Financial crime risk continued

Governance

The Financial Crime Executive Steering Group, which is jointly chaired by the Chief Risk Officer and the 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 Executive Risk Committee, Board Risk Committee and NatWest Group Executive Committee.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. NatWest 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.

NatWest 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 NatWest 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. NatWest 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. NatWest 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 NatWest Group's competitiveness, profitability, or reputation damage.

Key developments in 2021

- A principles-based climate risk policy was approved by the Board Risk Committee and introduced in April 2021.
- In December 2021, the 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 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 Board Risk Committee and the Board.

The Chief Risk Officer shares accountability with the 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 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. In accordance with Bank of England guidance, NatWest Group used three scenarios as the foundation for its analysis. These were broadly consistent with scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System:

No Additional Action: no new policy action takes place to reduce greenhouse gas emissions. This leads to more than 3°C of warming and severe physical risks. The frequency and severity of extreme weather events such as flooding and tropical cyclones increases, and there are chronic changes in labour and land productivity.

Early Action: global temperature increases are limited to 1.5°C by 2100 as a result of stringent climate policies and innovation starting in 2021. Carbon prices increase steadily between 2021-2050, which drives significant decarbonisation. Coal use falls by 98% between 2021 and 2050, and the share of low-carbon energy in the global energy mix increases from 17% to 73% over the same period. Global CO_2 emissions reach net zero around 2050.

Late Action: strong climate policies successfully limit warming to 1.8°C by 2100, but decisive policy action is delayed until 2031. Carbon prices increase rapidly between 2031-2050. Global greenhouse gas emissions fall by 80% between 2030 and 2050 leading to a higher level of transition risk during the period.

In 2021 for the CBES, NatWest Group applied these 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.

To ensure that climate risk is factored into the capital planning and budgeting process, NatWest Group is leveraging the CBES scenarios and analytics to support the business-as-usual scenario analysis processes, for example the base case is consistent with the Early Action CBES scenario. In addition, climate risks consistent with the Late Action CBES scenario have been integrated into one of the Internal Capital Adequacy Assessment Process scenarios.

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 NatWest 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 NatWest Group is willing to accept.
- Oversight of NatWest 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 NatWest Group and its supply chain continue to be closely monitored. During 2021, there was further investment in NatWest 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 NatWest Group data strategy, designed to identify and implement enhancements to the effective use of data across NatWest Group.

Operational risk continued

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 oversight function is vital to support NatWest 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 NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest 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 Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting (as referenced in the Compliance report on page 181), 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 NatWest 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.

NatWest 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 NatWest Group's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect NatWest 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

NatWest 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.

Operational risk continued

Event and loss data management

The operational risk event and loss data management process ensures NatWest 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 an Early Event Escalation Process.

All financial impacts and recoveries associated with an operational risk event are reported against the date they were recorded in NatWest 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. NatWest Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Percentage and value of events

At 31 December 2021, events aligned to the clients, products and business practices event category accounted for 80% of NatWest Group's operational risk losses, which reflected a significant increase on 2020. In 2020, several large provision releases were recorded (that is, previously recorded provisions were released back to cashflow as they were no longer required). The value of these outweighed the provisions taken for other conduct-related matters, hence a negative movement was recorded in the clients, products and business practices category.

	Value of events				Volume of events (1)	
	£m		Proportion		Proportion	
	2021	2020	2021	2020	2021	2020
Fraud	**74**	85	**17%**	82%	**87%**	81%
Clients, products and business practices	**341**	(68)	**80%**	(66%)	**3%**	7%
Execution, delivery and process management	**8**	15	**2%**	15%	**7%**	8%
Employment practices and workplace safety	**2**	2	**—**	2%	**2%**	2%
Technology and infrastructure failures	**3**	70	**1%**	68%	**1%**	2%
Disasters and public safety	**—**	(1)	**—**	(1%)	**—**	—
	428	103	**100%**	100%	**100%**	100%

(1) Based on the volume and value of events (the proportion and cost of operational risk events to NatWest Group) where the associated loss is more than or equal to £10,000.

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. NatWest 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

NatWest 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. Model applications may give rise to different risks depending on the franchise in which they are used. Model risk is therefore assessed separately for each franchise in addition to the overall assessment made for NatWest Group.

Key developments in 2021

- Improvements to models were made in 2021 resulting in a significant reduction of out-of-appetite models across NatWest Group. Enhancements to models will continue in 2022 to bring NatWest Group back within model risk appetite.
- 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. Model risk matters are escalated to senior management in several ways. These include model risk oversight committees, as well as the relevant business and function model management committees. The Group Model Risk Oversight Committee provides a direct escalation route to the Group Executive Risk Committee and, where applicable, onwards to the Group Board Risk Committee.

Risk appetite

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

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 NatWest 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 NatWest Group's values and the public agenda; and contagion (when NatWest 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.

Reputational risk continued

Governance

A reputational risk policy supports reputational risk management across NatWest 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 Board Risk Committee oversees the identification and reporting of reputational risk. The Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NatWest 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 NatWest 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 Reputational Risk Committee, Board Risk Committee or the 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.

Financial statements

Independent auditors' report to the members of NatWest Group plc

Opinion

In our opinion:

- the financial statements of NatWest Group plc (the 'Parent Company') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 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, International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS as issued by the International Accounting Standards Board ('IASB');
- the Parent Company 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, IFRS as adopted by the EU and as issued by the IASB; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Group	Parent Company
– 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 34 to the financial statements; – Annual Remuneration Report identified as 'audited'; – Risk and capital management section identified as 'audited' – The Capital Requirements (Country-by-Country Reporting) Regulations 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 12 to the financial statements including a summary of critical accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, IFRS as adopted by the European Union and as issued by the IASB, and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, climate risk and operational risk;
- We evaluated management's assessment by considering the Group's ability to continue in operation and meets its liabilities under different scenarios including the impact of the Group's strategic plans and the continued economic impact of COVID-19. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts. We also considered other commitments of the Group including those in respect of its subsidiaries;
- 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 Parent Company's ability to continue as a going concern over the twelve months from the date when the financial statements are authorised for issue.

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

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

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

Tailoring the scope

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

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

The scoping for the current year is as follows:

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

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

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	95%	5%	-	100%
Total equity	89%	8%	3%	100%
Total income	92%	7%	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.

The audit scope of the specific scope components may not have included testing of all significant accounts within the components. 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, IFRS as adopted by the European Union and as issued by the IASB. In the Accounting Policy note, explanation of the impact of certain transition and physical risks were provided for the key assumptions and significant judgements 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 £369.8 billion (2020: £372.4 billion) and £3.8 billion of expected credit losses (ECL) (2020: £6.2 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 26% 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 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 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 Group Audit Committee

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

– Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
– Our testing of models and model assumptions identified some instances of 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

Report of the Group Audit Committee
Credit Risk section of the Risk and capital management section
Accounting policies
Note 15 to the financial statements

Strategic report
Financial review
Governance
Risk and capital management
Financial statements
Additional information

Risk	Our response to the risk
Impairment of goodwill and, in the Parent Company's accounts, investments in group undertakings.	
At 31 December 2021, the Group had reported goodwill of £5.5 billion (2020: £5.6 billion) and parent company has reported investments in group undertakings of £48.8 billion (2020: £46.2 billion). The recognition and carrying value of goodwill and, in the Parent Company's accounts, investments in group undertakings 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) 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 Group Audit Committee

We are satisfied that management methodologies, judgments and assumptions supporting the carrying value of goodwill and, in the Parent Company's accounts, investments in group undertakings, were reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:

– There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19, 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.
– We are satisfied with management's conclusion that the goodwill related to a legacy mortgage product reported under the retail CGU is impaired due to the decision to wind down the book of business. The goodwill in the remaining retail and commercial CGUs remains recoverable as at 31 December 2021 and management have adequately disclosed reasonably possible alternative scenarios relating to the key assumptions that could result in an impairment.
– Management impaired NatWest Group's investment in NWM, in addition they recognised a reversal in accumulated impairments in NWH due to the significant headroom as a result of the improved economic outlook. The sensitivity analyses we reviewed, and our independent procedures supported these assessments.
– We are satisfied that the disclosures appropriately reflect the sensitivity of the carrying value of investments in group undertakings and goodwill to certain reasonable alternative outcomes. As there are a number of other possible outcomes and it would be impracticable to estimate the effect of all of them, the directors have disclosed the uncertainty that other possible outcomes within the next financial year could require an adjustment to the carrying amount of investments in group undertakings and goodwill.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 17 to the Group financial statements and Note 9 to the Parent Company 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 £1.3 billion (2020: £1.9 billion) of provisions for liabilities and charges, including £0.8 billion (2020: £1.1 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 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 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

Report of the Group Audit Committee
Accounting policies
Note 21 and 27 to the financial statements

Risk	Our response to the risk
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
As reported in note 11 to the financial statements, as at 31 December 2021 the company held financial instruments with higher risk characteristics. This included (but is not limited to) reported level 3 assets of £2.0 billion (2020: £1.7 billion) and level 3 liabilities of £0.6 billion (2020: £0.9 billion) whose value is dependent upon unobservable inputs. The valuation of those financial instruments with higher risk characteristics can include both significant judgment and the risk of inappropriate revenue recognition through incorrect pricing as outlined below. The fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on inputs where there is limited market observability. Management's estimates which required significant judgment include: – Complex models - Complex model-dependent valuations of financial instruments, which include interest rate swaps linked to pre-payment behaviour and interest rate and foreign exchange options with exotic features; – Illiquid inputs - Pricing inputs and calibrations for illiquid instruments, including debt securities and loans. Additionally, the valuation of derivative instruments is dependent on discount rates associated with complex collateral arrangements; – Fair value adjustments - The appropriateness and completeness of fair value adjustments made to derivatives valuations including Funding Valuation Adjustments (FVA), Credit Valuation Adjustments (CVA), and material product and deal specific adjustments on long dated derivative portfolios; and – The manipulation of revenue recognition is most likely to arise through the inappropriate valuation of these instruments given the level of judgment involved.	Controls testing: We evaluated the design and operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, valuation models governance, collateral management, income statement analysis, and the associated controls over relevant information technology systems. We also observed the Valuation Committees where valuation inputs, assumptions and adjustments were discussed and approved. We involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following: – Complex models: Testing complex model-dependent valuations by performing independent revaluation to assess the appropriateness of models and the adequacy of assumptions and inputs used by the Group; – Illiquid inputs: Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources where available, to evaluate management's valuation; – Fair value adjustments: Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of emerging market practice and changes in the risk profile of the underlying portfolio; and revaluing a sample of counterparty level FVA and CVA, comparing funding spreads to third party data, independently challenging illiquid CVA inputs, and testing material product and deal specific adjustments on long-dated derivative portfolio. Throughout our audit procedures we considered the appropriateness of modelling changes in relation to IBOR transition and impact of climate change on the valuation of financial instruments, particularly in relation to long-dated illiquid positions. In addition, we assessed whether there were any indicators of aggregate bias in financial instrument marking and methodology assumptions. We performed back-testing analysis of recent trade activity and asset disposals to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We performed an analysis of significant collateral discrepancies with counterparties to assess the potential impact on the fair value of the underlying (and similar) financial instruments.

Key observations communicated to the Group Audit Committee

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

- Complex-model dependent valuations were appropriate based on the output of our independent revaluations, analysis of trade activity, assessment of the output of the independent price verification process, inspection of collateral disagreements and peer benchmarking;
- The fair value estimates of hard-to-price financial instruments appropriately reflected pricing information available at 31 December 2021; and
- Valuation adjustments applied to derivative portfolios for credit, funding and other risks were recorded in accordance with the requirements of IFRS considering trade activity for positions with common risk characteristics, analysis of market data and peer benchmarking.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Accounting policies
Note 11 to the financial statements

Risk	Our response to the risk
Pension valuation and net pension asset	
The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2021, the Group reported a net pension asset of £488 million (2020: £602 million) comprising £602 million of schemes in surplus and £114 million of schemes in deficit (2020: £723 million and £121 million respectively). The net pension asset 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 Group Audit Committee

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

- Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions were within a reasonable range;
- No material differences were identified through our independent valuation testing for a sample of pension assets; and
- Management's estimate of the impact of the 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 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 £157 million (2020: £160 million), which is 5% (2020: 5%) of the profit before tax of the Group of £4,032 million (2020: loss before tax of the Group including discontinued operations of £351 million) adjusted for loan impairment releases arising from COVID-19 economic recovery, normalised loan impairment charges, loss on redemption of own debt, 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 Parent Company to be £157 million (2020: £160 million) which is 0.3% (2020: 0.4%) of equity of the Parent Company and is consistent with the prior year. We believe this reflects the most useful measure for users of the financial statements as the Parent Company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

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 £118 million (2020: £80 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 teams for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £35 million to £106 million (2020: £30 million to £72 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.
We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £8 million (2020: £8 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information
The other information comprises the information included in the Annual Report and Accounts, including the Strategic Report, Financial Review, Corporate Governance, Report of the Group Nominations and Governance Committee, Report of the Group Audit Committee, Report of the Group Board Risk Committee, Report of the Group Sustainable Banking Committee, Report of the Technology and Innovation Committee, Report of the directors, Risk and capital management, Non-IFRS financial measures, Risk factors, Material contracts, and Additional information, 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, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

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

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

Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;

- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate;
- Directors' statement on fair, balanced and understandable;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and;
- The section describing the work of the audit committee.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

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

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

Other matters we are required to address

- Following the recommendation from the Group Audit Committee, we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering periods from our appointment through 31 December 2021.
- The audit opinion is consistent with the additional report to the Group Audit Committee.

Use of our report

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

Micha Missakian (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 (1) £m	2019 (1) £m
Interest receivable		**9,313**	9,798	11,127
Interest payable		**(1,699)**	(2,322)	(3,328)
Net interest income	1	**7,614**	7,476	7,799
Fees and commissions receivable		**2,698**	2,722	3,345
Fees and commissions payable		**(574)**	(722)	(848)
Income from trading activities		**323**	1,125	932
Other operating income		**451**	(93)	2,759
Non-interest income	2	**2,898**	3,032	6,188
Total income		**10,512**	10,508	13,987
Staff costs		**(3,676)**	(3,878)	(3,976)
Premises and equipment		**(1,133)**	(1,222)	(1,258)
Other administrative expenses		**(2,026)**	(1,845)	(2,828)
Depreciation and amortisation		**(923)**	(913)	(1,218)
Operating expenses	3	**(7,758)**	(7,858)	(9,280)
Profit before impairment releases/(losses)		**2,754**	2,650	4,707
Impairment releases/(losses)	15	**1,278**	(3,131)	(724)
Operating profit/(loss) before tax		**4,032**	(481)	3,983
Tax charge	7	**(996)**	(74)	(439)
Profit/(loss) from continuing operations		**3,036**	(555)	3,544
Profit from discontinued operations, net of tax (2)	8	**276**	121	256
Profit/(loss) for the year		**3,312**	(434)	3,800
Attributable to:				
Ordinary shareholders		**2,950**	(753)	3,133
Preference shareholders		**19**	26	39
Paid-in equity holders		**299**	355	367
Non-controlling interests		**44**	(62)	261
		3,312	(434)	3,800
Earnings per ordinary share - continuing operations	9	**23.0p**	(7.2p)	23.9p
Earnings per ordinary share - discontinued operations	9	**2.4p**	1.0p	2.1p
Total earnings per share attributable to ordinary shareholders - basic	9	**25.4p**	(6.2p)	26.0p
Earnings per ordinary share - fully diluted continuing operations	9	**22.9p**	(7.2p)	23.8p
Earnings per ordinary share - fully diluted discontinued operations	9	**2.4p**	1.0p	2.1p
Total earnings per share attributable to ordinary shareholders - fully diluted	9	**25.3p**	(6.2p)	25.9p

(1) Comparative results have been re-presented from those previously published to reclassify certain items as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) The results of discontinued operations, comprising the post-tax profit is shown as a single amount on the face of the income statement. An analysis of this amount is presented in Note 8 to the consolidated financial statements.

The accompanying notes on pages 313 to 377, the Accounting policies on pages 307 to 312 and the audited sections of the Financial review and Risk and capital management sections on pages 84 to 95 and 188 to 285 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2021

	2021 £m	2020 £m	2019 £m
Profit/(loss) for the year	**3,312**	(434)	3,800
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes			
- other movements (1)	**(669)**	4	(142)
Loss on fair value of credit in financial liabilities			
designated at FVTPL due to own credit risk	**(29)**	(52)	(189)
FVOCI financial assets	**13**	(64)	(71)
Tax	**164**	42	28
	(521)	(70)	(374)
Items that do qualify for reclassification			
FVOCI financial assets	**(100)**	44	(14)
Cash flow hedges	**(848)**	271	294
Currency translation	**(382)**	276	(1,836)
Tax	**213**	(89)	(170)
	(1,117)	502	(1,726)
Other comprehensive (loss)/income after tax	**(1,638)**	432	(2,100)
Total comprehensive income/(loss) for the year	**1,674**	(2)	1,700
Attributable to:			
Ordinary shareholders	**1,308**	(338)	1,044
Preference shareholders	**19**	26	39
Paid-in equity holders	**299**	355	367
Non-controlling interests	**48**	(45)	250
	1,674	(2)	1,700

(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. There was also a pre-tax loss of £192 million (€224 million) in relation to the re-measurement of the Group's Republic of Ireland pension schemes, primarily as a result of significant movements in underlying actuarial assumptions (2020: pre-tax gain of £72 million (€81 million)). In line with our policy, the present value of defined benefit obligations and the fair value of plan assets at the end of the reporting period, are assessed to identify significant market fluctuations and one-off events since the end of the prior financial year.

The accompanying notes on pages 313 to 377, the Accounting policies on pages 307 to 312 and the audited sections of the Financial review and Risk and capital management sections on pages 84 to 95 and 188 to 285 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Cash and balances at central banks	10	**177,757**	124,489
Trading assets	13	**59,158**	68,990
Derivatives	14	**106,139**	166,523
Settlement balances		**2,141**	2,297
Loans to banks - amortised cost	10	**7,682**	6,955
Loans to customers - amortised cost	10	**358,990**	360,544
Securities subject to repurchase agreements		**11,746**	11,542
Other financial assets excluding securities subject to repurchase agreements		**34,399**	43,606
Other financial assets	16	**46,145**	55,148
Intangible assets	17	**6,723**	6,655
Other assets	18	**8,242**	7,890
Assets of disposal groups	8	**9,015**	—
Total assets		**781,992**	799,491
Liabilities			
Bank deposits	10	**26,279**	20,606
Customer deposits	10	**479,810**	431,739
Settlement balances		**2,068**	5,545
Trading liabilities	13	**64,598**	72,256
Derivatives	14	**100,835**	160,705
Other financial liabilities	19	**49,326**	45,811
Subordinated liabilities	20	**8,429**	9,962
Notes in circulation		**3,047**	2,655
Other liabilities	21	**5,797**	6,388
Total liabilities		**740,189**	755,667
Ordinary shareholders' interests		**37,412**	38,367
Other owners' interests		**4,384**	5,493
Owners' equity	22	**41,796**	43,860
Non-controlling interests		**7**	(36)
Total equity		**41,803**	43,824
Total liabilities and equity		**781,992**	799,491

The accompanying notes on pages 313 to 377, the Accounting policies on pages 307 to 312 and the audited sections of the Financial review and Risk and capital management sections on pages 84 to 95 and 188 to 285 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	Alison Rose-Slade	Katie Murray	NatWest Group plc
Chairman	Group Chief Executive Officer	Group Chief Financial Officer	Registered No. SC45551

Consolidated statement of changes in equity for the year ended 31 December 2021

	2021 £m	2020 £m	2019 £m
Called-up share capital - at 1 January	**12,129**	12,094	12,049
Ordinary shares issued	**37**	35	45
Share cancellation (1,5)	**(698)**	—	—
At 31 December	**11,468**	12,129	12,094
Paid-in equity - at 1 January	**4,999**	4,058	4,058
Redeemed	**—**	(1,277)	—
Reclassified (2)	**(2,046)**	—	—
Securities issued during the period	**937**	2,218	—
At 31 December	**3,890**	4,999	4,058
Share premium - at 1 January	**1,111**	1,094	1,027
Ordinary shares issued	**50**	17	67
At 31 December	**1,161**	1,111	1,094
Merger reserve - at 1 January and 31 December	**10,881**	10,881	10,881
FVOCI reserve - at 1 January	**360**	138	343
Unrealised gains/(losses)	**32**	76	(107)
Realised (gains)/losses (3)	**(122)**	152	(90)
Tax	**(1)**	(6)	(8)
At 31 December	**269**	360	138
Cash flow hedging reserve - at 1 January	**229**	35	(191)
Amount recognised in equity	**(687)**	321	573
Amount transferred from equity to earnings	**(161)**	(50)	(279)
Tax	**224**	(77)	(68)
At 31 December	**(395)**	229	35
Foreign exchange reserve - at 1 January	**1,608**	1,343	3,278
Retranslation of net assets	**(484)**	297	(428)
Foreign currency gains/(losses) on hedges of net assets	**88**	(55)	83
Tax	**(17)**	6	(110)
Recycled to profit or loss on disposal of businesses	**10**	17	(1,480)
At 31 December	**1,205**	1,608	1,343
Capital redemption reserve - at 1 January	**—**	—	—
Share cancellation (1)	**698**	—	—
Redemption of preference shares	**24**	—	—
At 31 December	**722**	—	—
Retained earnings - at 1 January	**12,567**	13,946	14,312
Implementation of IFRS 16 on 1 January 2019	**—**	—	(187)
Profit/(loss) attributable to ordinary shareholders and other equity owners			
- continuing operations	**2,992**	(493)	3,283
- discontinued operations	**276**	121	256
Equity preference dividends paid	**(19)**	(26)	(39)
Paid-in equity dividends paid	**(299)**	(355)	(367)
Ordinary dividends paid	**(693)**	—	(3,018)
Shares repurchased during the year (1,5)	**(1,423)**	—	—
Unclaimed dividend	**—**	2	—
Redemption of preference shares	**(24)**	—	—
Redemption/reclassification of paid-in equity (2,6)	**150**	(355)	—
Realised gains/(losses) in period on FVOCI equity shares			
- gross	**3**	(248)	112
- tax	**—**	—	—
Remeasurement of the retirement benefit schemes			
- other movements (4)	**(669)**	4	(142)
- tax (4)	**168**	22	24
Changes in fair value of credit in financial liabilities designated at FVTPL			
- gross	**(29)**	(52)	(189)
- tax	**3**	8	20
Shares issued under employee share schemes	**8**	(11)	(6)
Share-based payments (7)	**(45)**	4	(113)
At 31 December	**12,966**	12,567	13,946

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

	2021 £m	2020 £m	2019 £m
Own shares held - at 1 January	**(24)**	(42)	(21)
Shares issued under employee share schemes	**36**	95	39
Own shares acquired (1)	**(383)**	(77)	(60)
At 31 December	**(371)**	(24)	(42)
Owners' equity at 31 December	**41,796**	43,860	43,547
Non-controlling interests - at 1 January	**(36)**	9	754
Currency translation adjustments and other movements	**4**	17	(11)
Profit/(loss) attributable to non-controlling interests	**44**	(62)	261
Dividends paid	**(5)**	—	(5)
Equity raised	**—**	—	45
Equity withdrawn and disposals	**—**	—	(1,035)
At 31 December	**7**	(36)	9
Total equity at 31 December	**41,803**	43,824	43,556
Attributable to:			
Ordinary shareholders	**37,412**	38,367	38,993
Preference shareholders	**494**	494	496
Paid-in equity holders	**3,890**	4,999	4,058
Non-controlling interests	**7**	(36)	9
	41,803	43,824	43,556

(1) In March 2021, there was an agreement with HM Treasury to buy 591 million ordinary shares in the Company from UK Government Investments Ltd (UKGI), at 190.5p per share for the total consideration of £1.13 billion. NatWest Group cancelled 391 million of the purchased ordinary shares, amounting to £744 million excluding fees, and held the remaining 200 million in own shares held, amounting to £381 million excluding fees. The nominal value of the share cancellation has been transferred to the capital redemption reserve.
(2) In July 2021, paid-in equity reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 capital notes.
(3) In 2020, the completion of the Alawwal bank merger resulted in the derecognition of the associate investment in Alawwal bank and recognition of a new investment in SABB held at fair value through other comprehensive income (FVOCI).
(4) 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. There was also a pre-tax loss of £192 million (€224 million) in relation to the re-measurement of the Group's Republic of Ireland pension schemes, primarily as a result of significant movements in underlying actuarial assumptions (2020: pre-tax gain of £72 million (€81 million)). In line with our policy, the present value of defined benefit obligations and the fair value of plan assets at the end of the reporting period, are assessed to identify significant market fluctuations and one-off events since the end of the prior financial year.
(5) In line with the announcement in July 2021, NatWest Group plc repurchased and cancelled 310.8 million shares for total consideration of £676.2 million excluding fees. Of the 310.8 million shares bought back, 2.8 million shares were settled and cancelled in January 2022. The nominal value of the share cancellations has been transferred to the capital redemption reserve with the share premium element to retained earnings.
(6) The redemption of paid-in equity includes a tax credit of £16 million.
(7) Share-based payments includes a tax credit of £10 million.

The accompanying notes on pages 313 to 377, the Accounting policies on pages 307 to 312 and the audited sections of the Financial review and Risk and capital management sections on pages 84 to 95 and 188 to 285 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m	2019 £m
Cash flows from operating activities				
Operating profit/(loss) before tax from continuing operations (1)		**4,032**	(481)	3,983
Operating profit before tax from discontinued operations		**279**	130	249
Adjustments for:				
Impairment (releases)/losses		**(1,335)**	3,242	696
Amortisation of discounts and premiums of other financial assets		**203**	267	255
Depreciation and amortisation		**923**	914	1,220
Change in fair value taken to profit or loss of other financial assets		**1,771**	(1,474)	(280)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**(1,083)**	962	856
Elimination of foreign exchange differences		**2,446**	(2,497)	949
Other non-cash items		**(164)**	(2)	(272)
Income receivable on other financial assets		**(581)**	(518)	(854)
(Profit)/loss on sale of other financial assets		**(118)**	(96)	22
(Profit)/loss on sale of subsidiaries and associates		**(48)**	16	(2,224)
Share of (profit)/loss of associates		**(216)**	30	14
Loss/(profit) on sale of other assets and net assets/liabiltiies		**23**	(16)	(58)
Interest payable on MRELs and subordinated liabilities		**964**	1,182	1,151
Loss on sale of MRELs and subordinated liabilities		**145**	324	—
Charges and releases on provisions		**478**	296	1,243
Defined benefit pension schemes		**215**	215	188
Net cash flows from trading activities		**7,934**	2,494	7,138
Decrease/(increase) in trading assets		**7,751**	4,147	(659)
Decrease/(increase) in derivative assets		**59,697**	(16,173)	(16,680)
Decrease/(increase) in settlement balance assets		**156**	2,090	(1,459)
(Increase)/decrease in loans to banks		**(252)**	(554)	3,563
Decrease/(increase) in loans to customers		**2,721**	(33,748)	(22,642)
(Increase)/decrease in other financial assets		**(128)**	221	924
(Increase)/decrease in other assets		**(57)**	8	707
Increase in assets of disposal groups		**(9,015)**	—	—
Increase/(decrease) in banks deposits		**5,673**	113	(2,804)
Increase in customer deposits		**48,071**	62,492	8,333
(Decrease)/increase in settlement balance liabilities		**(350)**	(1,652)	1,003
(Decrease)/increase in trading liabilities		**(7,658)**	(1,693)	1,599
(Decrease)/increase in derivative liabilities		**(59,870)**	13,826	17,982
Increase/(decrease) in other financial liabilities		**938**	(1,085)	2,871
Increase/(decrease) in notes in circulation		**392**	546	(43)
Decrease in other liabilities		**(1,463)**	(1,723)	(2,634)
Changes in operating assets and liabilities		**46,606**	26,815	(9,939)
Income taxes paid		**(856)**	(214)	(278)
Net cash flows from operating activities (2)		**53,684**	29,095	(3,079)

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

	Note	2021 £m	2020 £m	2019 £m
Cash flows from investing activities				
Sale and maturity of other financial assets		**16,859**	25,952	19,990
Purchase of other financial assets		**(10,150)**	(18,825)	(21,345)
Income received on other financial assets		**581**	518	854
Net movement in business interests and intangible assets	28	**(3,489)**	(70)	(84)
Sale of property, plant and equipment		**165**	348	428
Purchase of property, plant and equipment		**(901)**	(376)	(559)
Net cash flows from investing activities		**3,065**	7,547	(716)
Cash flows from financing activities				
Movement in MRELs		**2,736**	636	1,927
Movement in subordinated liabilities		**(3,452)**	(2,381)	(1,064)
Ordinary shares issued			—	17
Share cancellation		**(1,806)**	(2)	(21)
Dividends paid		**(1,016)**	(381)	(3,429)
Issue of paid-in equity		**937**	2,218	—
Net cash flows from financing activities		**(2,601)**	90	(2,570)
Effects of exchange rate changes on cash and cash equivalents		**(2,641)**	1,879	(1,983)
Net increase/(decrease) in cash and cash equivalents		**51,507**	38,611	(8,348)
Cash and cash equivalents at 1 January		**139,199**	100,588	108,936
Cash and cash equivalents at 31 December	30	**190,706**	139,199	100,588

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Includes interest received of £9,696 million (2020 - £10,007 million, 2019 - £11,245 million) and interest paid of £1,668 million (2020 - £2,414 million, 2019 - £3,318 million).

The accompanying notes on pages 313 to 377, the Accounting policies on pages 307 to 312 and the audited sections of the Financial review and Risk and capital management sections on pages 84 to 95 and 188 to 285 form an integral part of these financial statements.

Accounting policies

This section includes the basis of preparation of the financial statements and the significant accounting policies used to prepare the financial statements.

Our accounting policies are the specific principles, bases, conventions, rules, and practices we apply in preparing and presenting the financial statements. Further information is provided where judgment and estimation is applied to critical accounting policies and key sources of estimation uncertainty.

Future accounting developments details new or amendments to existing accounting standards, when they are effective from and where the NatWest Group is assessing their impact on future financial statements.

1. Presentation of financial statements

NatWest Group plc is incorporated in the UK and registered in Scotland. The financial statements are presented in the functional currency, pounds sterling.

NatWest Group plc's consolidated financial statements incorporate the results of NatWest Group plc and the entities it controls. Control arises when NatWest Group 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.

Transactions and balances between Group companies are eliminated in the consolidated financial statements to show only those transactions and balances external to the NatWest Group.

The audited financial statements are set out on pages 300 to 394 and the audited sections of Risk and capital management on pages 97 to 285. 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 183) and in accordance with UK adopted International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union. 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 NatWest 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 income from trading activities or other operating income as relevant. 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. Discontinued operations, Held for sale and Disposal group

The results of discontinued operations (comprising the post-tax profit or loss of discontinued operations and the post-tax results of either the ongoing measurement at fair value less costs to sell or disposal of the discontinued operation) are excluded from the results of continuing operations and are presented as a single amount as profit/(loss) from discontinued operations, net of tax in the income statement. Comparatives are represented for the income statement, cash flow statement, statement of changes in equity and related notes.

An asset or disposal group (assets and liabilities) is classified as held for sale if NatWest Group will recover its carrying amount principally through a sale transaction rather than through continuing use. These are measured at the lower of its carrying amount or fair value less cost to sell unless scoped out of IFRS 5 in which case the existing measurement provisions of IFRS apply. These are presented as single amounts, comparatives are not represented.

4. 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 NatWest Group. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NatWest Group or in ordinary shares of NatWest Group plc. NatWest Group operates a number of share-based compensation schemes 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 contribution pension scheme

A scheme where NatWest Group pays fixed contributions and there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

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.

NatWest 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 NatWest Group plc only include contributions that are substantively or contractually agreed and do not include discretionary features, including dividend-linked contributions

5. Intangible assets and goodwill

Intangible assets are identifiable non-monetary assets without physical substance acquired by NatWest 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 internally generated goodwill and 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

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

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

6. Impairment of non-financial assets

At each balance sheet date, NatWest Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, NatWest 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.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses on goodwill are not reversed

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

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

NatWest Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to 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 NatWest Group has a constructive obligation. An obligation exists when NatWest 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.

NatWest Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting its contractual obligations that exceed the expected economic benefits. When NatWest 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 in 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 NatWest Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NatWest Group company or on NatWest Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

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

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 (MFVTPL) measured at fair value and changes in fair value reported in the income statement; or
– designated at fair value through profit or loss (DFV) measured at fair value and changes in fair value reported in the income statement .

Classification by business model reflects how NatWest 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, RBSI and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring 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 NatWest Group's acquired interest is in equity shares, relevant policies for control, associates and joint ventures apply.

Impaired financial assets are written off and therefore derecognised from the balance sheet when NatWest Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For 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 NatWest Group's collectively assessed portfolios are:

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

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

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

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

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

15. Derivatives and hedging
Derivatives are reported on the balance sheet at fair value.

NatWest Group uses derivatives as part of its trading activities, 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 the 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 are recognised in the income statement in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

Hedge accounting
NatWest 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
NatWest Group plc'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 NatWest Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The accounting standards used in the preparation of the financial statements (see presentation of financial statements above) require the directors, in preparing NatWest 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 NatWest 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 NatWest 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 goodwill, deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries or greater economic effect as countries and companies implement plans to counter climate risks.

How Climate risk affects our accounting judgments and estimates
NatWest 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 NatWest 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. NatWest 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 of climate transition risk. The long term growth rate reflects external indicators which will include market expectations on climate risk. NatWest 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	11
Loan impairment provisions	15
Goodwill	17
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).

NatWest 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 consolidated financial statements

1 Net interest income

Net interest income is the difference between the interest NatWest Group earns from its interest-bearing assets, such as loans, balances with central banks and other financial assets, and the interest paid on its interest-bearing liabilities, such as deposits and subordinated liabilities.

Interest receivable on financial instruments classified as amortised cost, debt instruments classified as FVOCI and the interest element of the effective portion of any designated hedging relationships are measured using the effective interest rate, which allocates the interest receivable or interest payable over the expected life of the financial instrument at the rate that exactly discounts all estimated future cash flows to equal the financial 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 financial 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. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

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.

Continuing operations	2021 £m	2020 (1) £m	2019 (1) £m
Balances at central banks	99	90	321
Loans to banks - amortised cost	346	246	405
Loans to customers - amortised cost	8,615	8,979	9,547
Other financial assets	253	483	854
Interest receivable	9,313	9,798	11,127
Balances with banks	204	144	319
Customer deposits	556	911	1,256
Other financial liabilities	670	846	1,102
Subordinated liabilities	267	402	483
Internal funding of trading businesses	2	19	168
Interest payable	1,699	2,322	3,328
Net interest income	7,614	7,476	7,799

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

2 Non-interest income

There are three main categories of non-interest income: net fees and commissions, income from trading activities, and other operating income.

Net fees and commissions is the difference between fees received from customers for services provided by Natwest Group, such as credit card annual fees, mortgage arrangement fees, underwriting fees, payment services, brokerage fees, trade finance, investment management fees, trustee and fiduciary services, and fees incurred in the provision of those services, such as credit card interchange fees, customer incentives, loan administration, foreign currency transaction charges, brokerage fees, and mortgage valuation reports.

Income from trading activities is earned from short-term financial assets and financial liabilities to either make a spread between purchase and sale price or held to take advantage of movements in prices and yields.

Other operating income includes revenue from other operating activities which are not related to the principal activities of the company, such as share of profit or loss from associate, operating lease income, the profit or loss on the sale of a subsidiary or property, plant and equipment, profit or loss on own debt, and changes in the fair value of financial assets and liabilities designated at fair value through profit or loss.

For accounting policy information see Accounting policies note 2.

Continuing operations	2021 £m	2020 (1) £m	2019 (1) £m
Net fees and commissions (2)	**2,124**	2,000	2,497
Income from trading activities			
Foreign exchange	**364**	569	448
Interest rate	**(130)**	541	532
Credit	**83**	3	32
Changes in fair value of own debt and derivative liabilities attributable to own credit risk			
- debt securities in issue	**6**	(24)	(60)
- derivative liabilities	**—**	—	(20)
Equities, commodities and other	**—**	36	—
	323	1,125	932
Other operating income			
Loss on redemption of own debt	**(145)**	(324)	—
Operating lease and other rental income	**225**	232	250
Changes in fair value of financial assets and liabilities designated at fair value through profit or loss (3)	**(8)**	(54)	(17)
Changes in fair value of other financial assets at fair value through profit or loss (4)	**5**	2	58
Hedge ineffectiveness	**25**	24	48
(Loss)/profit on disposal of amortised cost assets	**(15)**	(18)	42
Profit/(loss) on disposal of fair value through other comprehensive income assets	**117**	96	(22)
(Loss)/profit on sale of property, plant and equipment (5)	**(30)**	13	58
Share of profits/(losses) of associated entities	**216**	(30)	(14)
Profit/(loss) on disposal of subsidiaries and associates (6)	**48**	(16)	2,224
Other income (7,8)	**13**	(18)	132
	451	(93)	2,759
	2,898	3,032	6,188

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Refer to Note 4 for further analysis.
(3) Including related derivatives.
(4) Includes instruments that have failed Solely payments of principal and interest testing under IFRS 9.
(5) Includes £44 million loss on the purchase of freeholds for properties where the Group was the primary leaseholder.
(6) 2019 includes a gain of £444 million (€523 million), a legacy liability release of £256 million and an FX recycling gain of £290 million on completion of the Alawwal bank merger in June 2019; In 2019, £1,102 million of FX recycling gains arising on the liquidation of RFS Holdings BV and £67 million in relation to a capital repayment by UBIDAC. The recycling gains and capital repayment have been calculated using the step-by-step method in IFRIC 16 and by reference to the proportion of equity applied to the FX translation reserve.
(7) Includes income from activities other than banking.
(8) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

3 Operating expenses

Operating expenses are expenses NatWest Group incurs for operation of the business such as salaries, bonus awards, pension costs, depreciation and other administrative expenses. Operating expenses are expenses NatWest Group incurs in the running of the business such as all personnel expenditure (for example salaries, bonus awards, pension costs and social security costs), premises and equipment costs (that arise from the occupation of premises and the use of equipment), depreciation and amortisation and other administrative expenses.

For accounting policy information see Accounting policies note 4.

Continuing operations	2021 £m	2020 (1) £m	2019 (1) £m
Salaries	**2,295**	2,494	2,477
Bonus awards	**267**	232	299
Temporary and contract costs	**240**	258	401
Social security costs	**300**	316	296
Pension costs	**354**	340	301
- defined benefit schemes (see Note 5)	**215**	215	188
- defined contribution schemes	**139**	125	113
Other	**220**	238	202
Staff costs	**3,676**	3,878	3,976
Premises and equipment (2)	**1,133**	1,222	1,258
UK bank levy (3)	**99**	167	134
Depreciation and amortisation (4,5)	**923**	913	1,218
Other administrative expenses (6)	**1,927**	1,678	2,694
Administrative expenses	**4,082**	3,980	5,304
	7,758	7,858	9,280

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) 2021 includes cost of £33 million including accelerated depreciation of £41 million (2020 - £144 million including £71 million accelerated depreciation; 2019 - £161 million including £40 million accelerated depreciation) in relation to the planned reduction of the property portfolio (2021 – freehold £3 million; leasehold £30 million; 2020 - freehold £1 million; leasehold £143 million; 2019 – freehold £4 million; leasehold £157 million).
(3) 2019 includes a rebate of £31 million relating to prior periods.
(4) 2021 includes a £58 million charge relating to the reduction in property portfolio, leasehold £48 million and freehold £10 million (2020 - £107 million charge, leasehold £86 million and freehold £21 million; 2019 - £287 million charge, leasehold £37 million and freehold £250 million).
(5) Includes impairment of goodwill of £85 million.
(6) Includes litigation and conduct costs, net of amounts recovered. Refer to Notes 21 and 27 for further details.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff, was 59,200 (2020 - 61,400; 2019 - 64,200). The average number of temporary employees during 2021 was 2,500 (2020 – 3,200; 2019 - 4,100).

The number of persons employed at 31 December, excluding temporary staff, by reportable segment, was as follows:

Continuing operations	2021	2020	2019
Retail Banking	**15,800**	17,200	19,600
Private Banking	**1,900**	1,900	1,700
Commercial Banking	**8,400**	9,700	9,700
RBS International	**1,400**	1,500	1,600
NatWest Markets	**1,600**	2,100	5,000
Central items & other	**27,000**	24,900	22,600
Ulster Bank RoI (1)	**1,700**	1,900	2,000
Total	**57,800**	59,200	62,200
UK	**40,600**	42,500	44,600
USA	**300**	300	400
India	**13,500**	13,200	13,500
Poland	**1,400**	1,200	1,300
Republic of Ireland	**1,200**	1,400	1,500
Rest of the World	**800**	600	900
Total	**57,800**	59,200	62,200

(1) Total number of persons employed in Ulster Bank RoI of 2,400 (2020 – 2,600; 2019 – 2,700) includes 700 people employed in discontinued operations at 31 December 2021 (2020 – 700; 2019 – 700).

3 Operating expenses continued

Share-based payments

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

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, 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 market price (as defined on pages 146-147) are used. The fair value of the award is recognised as services are provided over the vesting period.

Sharesave	2021 Average exercise price £	2021 Shares under option (million)	2020 Average exercise price £	2020 Shares under option (million)	2019 Average exercise price £	2019 Shares under option (million)
At 1 January	**1.64**	**96**	2.01	84	2.18	75
Granted	**1.80**	**24**	1.12	35	1.78	25
Exercised	**1.76**	**(10)**	1.83	—	2.83	(4)
Cancelled	**2.02**	**(15)**	2.20	(23)	2.25	(12)
At 31 December	**1.61**	**95**	1.64	96	2.01	84

Options are exercisable within six months of vesting; 6.0 million options were exercisable at 31 December 2021 (2020 – 6.3 million; 2019 – 3.2 million). The weighted average share price at the date of exercise of options was £2.19 (2020 - £1.57; 2019 - £2.49). At 31 December 2021, exercise prices ranged from £1.12 to £2.27 (2020 - £1.12 to £2.27; 2019 - £1.68 to £2.91) and the remaining average contractual life was 2.1 years (2020 - 2.3 years; 2019 – 2.7 years). The fair value of options granted in 2021 was £17 million (2020 - £8 million; 2019 - £11 million).

Deferred performance awards	2021 Value at grant £m	2021 Shares awarded (million)	2020 Value at grant £m	2020 Shares awarded (million)	2019 Value at grant £m	2019 Shares awarded (million)
At 1 January	**169**	**77**	196	76	233	92
Granted	**61**	**32**	109	67	110	42
Forfeited	**(10)**	**(5)**	(5)	(2)	(10)	(4)
Vested	**(88)**	**(39)**	(131)	(64)	(137)	(54)
At 31 December	**132**	**65**	169	77	196	76

The awards granted in 2021 vest in equal tranches on their anniversaries, predominantly over three years.

Long-term incentives	2021 Value at grant £m	2021 Shares awarded (million)	2021 Options over shares (million)	2020 Value at grant £m	2020 Shares awarded (million)	2020 Options over shares (million)	2019 Value at grant £m	2019 Shares awarded (million)	2019 Options over shares (million)
At 1 January	**50**	**24**	**—**	63	25	—	85	32	2
Granted	**6**	**3**	**—**	14	10	—	15	6	—
Vested/exercised	**(12)**	**(6)**	**—**	(17)	(7)	—	(12)	(4)	—
Lapsed	**—**	**—**	**—**	(10)	(4)	—	(25)	(9)	(2)
At 31 December	**44**	**21**	**—**	50	24	—	63	25	—

The market value of awards vested/exercised in 2021 was £13 million (2020 - £13 million; 2019 - £10 million). There are no vested options of shares exercisable up to 2022 (2020 - nil; 2019 - nil).

3 Operating expenses continued

Bonus awards

The following tables analyse NatWest Group's bonus awards for 2021.

	2021 £m	2020 £m	Change %
Non-deferred cash awards (1)	**38**	35	9%
Deferred cash awards	**214**	111	93%
Deferred share awards	**49**	60	(18%)
Total deferred bonus awards	**263**	171	54%
Total bonus awards (2)	**301**	206	46%
Bonus awards as a % of operating profit before tax (3)	**7%**	(83%)	
Proportion of bonus awards that are deferred	**87%**	83%	
of which			
- deferred cash awards	**81%**	65%	
- deferred share awards	**19%**	35%	

Reconciliation of bonus awards to income statement charge	2021 £m	2020 £m	2019 £m
Bonus awarded	**301**	206	307
Less: deferral of charge for amounts awarded for current year	**(99)**	(77)	(110)
Income statement charge for amounts awarded in current year	**202**	129	197
Add: current year charge for amounts deferred from prior years	**80**	114	127
Less: forfeiture of amounts deferred from prior years	**(15)**	(11)	(25)
Income statement charge for amounts deferred from prior years	**65**	103	102
Income statement charge for bonus awards (2)	**267**	232	299

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

Year in which income statement charge is expected to be taken for deferred bonus awards	Actual 2019 £m	Actual 2020 £m	Actual 2021 £m	Expected 2022 £m	Expected 2023 and beyond £m
Bonus awards deferred from 2019 and earlier	127	114	**28**	11	6
Bonus awards deferred from 2020	—	—	**52**	8	7
Less: forfeiture of amounts deferred from prior years	(25)	(11)	**(15)**	—	—
Bonus awards for 2021 deferred	—	—	**—**	86	13
	102	103	**65**	105	26

4 Segmental analysis

NatWest Group analyses its performance between the different operating segments of the Group. Ulster Bank RoI is presented separately from the Go-forward group (refer to the split below) to reflect the strategic decision on the phased withdrawal from the Republic of Ireland announced in February 2021. This is consistent with internal financial reporting and how senior management assesses the performance of each operating segment.

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

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

Retail Banking serves 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, corporate and institutional customers in the UK.

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

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

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

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

Allocation of central balance sheet items

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

	Go-forward group								
2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Continuing operations									
Net interest income	**4,074**	**480**	**2,582**	**383**	**9**	**(14)**	**7,514**	**100**	**7,614**
Net fees and commissions	**377**	**258**	**1,158**	**124**	**158**	**(16)**	**2,059**	**65**	**2,124**
Other non-interest income	**(6)**	**78**	**135**	**41**	**248**	**215**	**711**	**63**	**774**
Total income	**4,445**	**816**	**3,875**	**548**	**415**	**185**	**10,284**	**228**	**10,512**
Depreciation and amortisation	**(85)**	**—**	**(146)**	**(13)**	**(14)**	**(665)**	**(923)**	**—**	**(923)**
Other operating expenses	**(2,428)**	**(520)**	**(2,208)**	**(229)**	**(1,147)**	**179**	**(6,353)**	**(482)**	**(6,835)**
Impairment releases	**36**	**54**	**1,073**	**52**	**35**	**—**	**1,250**	**28**	**1,278**
Operating profit/(loss)	**1,968**	**350**	**2,594**	**358**	**(711)**	**(301)**	**4,258**	**(226)**	**4,032**
2020 (2)									
Continuing operations									
Net interest income	3,868	489	2,740	371	(57)	(57)	7,354	122	7,476
Net fees and commissions	379	257	1,110	94	99	(16)	1,923	77	2,000
Other non-interest income	(66)	17	108	32	1,081	(163)	1,009	23	1,032
Total income	4,181	763	3,958	497	1,123	(236)	10,286	222	10,508
Depreciation and amortisation	—	(8)	(149)	(17)	(16)	(723)	(913)	—	(913)
Other operating expenses	(2,540)	(447)	(2,281)	(274)	(1,294)	332	(6,504)	(441)	(6,945)
Impairment losses	(792)	(100)	(1,927)	(107)	(40)	(26)	(2,992)	(139)	(3,131)
Operating profit/(loss)	849	208	(399)	99	(227)	(653)	(123)	(358)	(481)

4 Segmental analysis continued

	Go-forward group								
2019 (2)	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other (1) £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Continuing operations									
Net interest income	4,130	521	2,842	478	(188)	(136)	7,647	152	7,799
Net fees and commissions	696	226	1,312	106	85	(23)	2,402	95	2,497
Other non-interest income	40	30	164	26	1,445	1,932	3,637	54	3,691
Total income	4,866	777	4,318	610	1,342	1,773	13,686	301	13,987
Depreciation and amortisation	—	(4)	(142)	(10)	(12)	(1,050)	(1,218)	—	(1,218)
Operating expenses	(3,618)	(482)	(2,458)	(254)	(1,406)	666	(7,552)	(510)	(8,062)
Impairment losses	(393)	6	(391)	(2)	51	(1)	(730)	6	(724)
Operating profit/(loss)	855	297	1,327	344	(25)	1,388	4,186	(203)	3,983

(1) 2019 predominantly related to strategic disposals in Functions.
(2) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

	Total revenue (2)								
	Go-forward group								
Year ended 31 December 2021	**Retail Banking £m**	**Private Banking £m**	**Commercial Banking £m**	**RBS International £m**	**NatWest Markets £m**	**Central items & Other £m**	**Total excluding Ulster Bank RoI £m**	**Ulster Bank RoI £m**	**Total £m**
Continuing operations									
External	**5,419**	**792**	**3,751**	**594**	**823**	**1,109**	**12,488**	**297**	**12,785**
Inter-segmental	**14**	**127**	**87**	**6**	**30**	**(265)**	**(1)**	**1**	**—**
Total	**5,433**	**919**	**3,838**	**600**	**853**	**844**	**12,487**	**298**	**12,785**
Year ended 31 December 2020 (1)									
Continuing operations									
External	5,386	702	3,734	505	1,984	961	13,272	280	13,552
Inter-segmental	39	163	64	3	13	(284)	(2)	2	—
Total	5,425	865	3,798	508	1,997	677	13,270	282	13,552
Year ended 31 December 2019 (1)									
Continuing operations									
External	6,161	703	4,347	639	2,516	3,447	17,813	350	18,163
Inter-segmental	62	241	139	19	558	(1,025)	(6)	6	—
Total	6,223	944	4,486	658	3,074	2,422	17,807	356	18,163

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Total revenue comprises interest receivable, fees and commissions receivable, income from trading activities and other operating income.

	Total income								
	Go-forward group								
Year ended 31 December 2021	**Retail Banking £m**	**Private Banking £m**	**Commercial Banking £m**	**RBS International £m**	**NatWest Markets £m**	**Central items & Other £m**	**Total excluding Ulster Bank RoI £m**	**Ulster Bank RoI £m**	**Total £m**
Continuing operations									
External	**4,433**	**801**	**3,939**	**548**	**554**	**—**	**10,275**	**237**	**10,512**
Inter-segmental	**12**	**15**	**(64)**	**—**	**(139)**	**185**	**9**	**(9)**	**—**
Total	**4,445**	**816**	**3,875**	**548**	**415**	**185**	**10,284**	**228**	**10,512**
Year ended 31 December 2020 (1)									
Continuing operations									
External	4,157	700	4,065	500	1,395	(537)	10,280	228	10,508
Inter-segmental	24	63	(107)	(3)	(272)	301	6	(6)	—
Total	4,181	763	3,958	497	1,123	(236)	10,286	222	10,508
Year ended 31 December 2019 (1)									
Continuing operations									
External	4,834	631	4,814	603	1,664	1,145	13,691	296	13,987
Inter-segmental	32	146	(496)	7	(322)	628	(5)	5	—
Total	4,866	777	4,318	610	1,342	1,773	13,686	301	13,987

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

4 Segmental analysis continued

Analysis of net fees and commissions	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
	Go-forward group								
2021									
Continuing operations									
Fees and commissions receivable									
- Payment services	306	35	538	19	20	—	918	53	971
- Credit and debit card fees	344	10	147	2	—	—	503	19	522
- Lending and financing	13	10	515	54	74	—	666	4	670
- Brokerage	48	6	—	1	41	—	96	—	96
- Investment management, trustee and fiduciary services (1)	3	230	—	45	—	—	278	2	280
- Underwriting fees	—	—	—	—	127	—	127	—	127
- Other	—	35	105	4	—	(112)	32	—	32
Total	714	326	1,305	125	262	(112)	2,620	78	2,698
Fees and commissions payable	(337)	(68)	(147)	(1)	(104)	96	(561)	(13)	(574)
Net fees and commissions	377	258	1,158	124	158	(16)	2,059	65	2,124
2020 (2)									
Continuing operations									
Fees and commissions receivable									
- Payment services	264	28	507	18	18	—	835	57	892
- Credit and debit card fees	299	9	129	2	—	—	439	21	460
- Lending and financing	42	7	505	34	86	—	674	4	678
- Brokerage	54	6	—	1	93	—	154	1	155
- Investment management, trustee and fiduciary services (1)	3	225	1	38	2	—	269	2	271
- Underwriting fees	—	—	—	—	183	—	183	—	183
- Other	1	26	82	3	4	(33)	83	—	83
Total	663	301	1,224	96	386	(33)	2,637	85	2,722
Fees and commissions payable	(284)	(44)	(114)	(2)	(287)	17	(714)	(8)	(722)
Net fees and commissions	379	257	1,110	94	99	(16)	1,923	77	2,000
2019 (2)									
Fees and commissions receivable									
- Payment services	292	33	659	27	24	—	1,035	60	1,095
- Credit and debit card fees	427	12	154	2	—	—	595	28	623
- Lending and financing	356	3	510	36	85	—	990	4	994
- Brokerage	55	5	—	—	96	—	156	8	164
- Investment management, trustee and fiduciary services	44	186	3	41	1	—	275	3	278
- Underwriting fees	—	—	—	—	170	—	170	—	170
- Other	2	27	90	2	69	(173)	17	4	21
Total	1,176	266	1,416	108	445	(173)	3,238	107	3,345
Fees and commissions payable	(480)	(40)	(104)	(2)	(360)	150	(836)	(12)	(848)
Net fees and commissions	696	226	1,312	106	85	(23)	2,402	95	2,497

(1) Comparisons with prior periods are impacted by the transfer of the Private Client Advice business to Private Banking from 1 January 2020.
(2) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

	2021 Assets £m	2021 Liabilities £m	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Retail Banking	209,973	192,715	197,618	178,617	182,305	153,999
Private Banking	29,854	39,388	26,206	32,457	23,304	28,610
Commercial Banking	184,564	184,890	187,413	174,251	165,399	140,863
RBS International	40,578	38,436	33,984	31,989	31,738	30,330
NatWest Markets	200,576	188,431	270,147	254,098	263,885	246,907
Central items & other	93,614	77,308	57,503	61,262	31,023	57,762
Total excluding Ulster Bank RoI	759,159	721,168	772,871	732,674	697,654	658,471
Ulster Bank RoI	22,833	19,021	26,620	22,993	25,385	21,012
Total	781,992	740,189	799,491	755,667	723,039	679,483

4 Segmental analysis continued

Segmental analysis of goodwill

There was an £85 million impairment of goodwill in Retail banking during 2021. The total carrying value of goodwill at 31 December was £5,522 million, comprised of Retail Banking £2,607 million; Commercial Banking £2,606 million; Private Banking £9 million; and RBS International £300 million. (2020 – total carrying value was £5,607 million comprising of Retail Banking £2,692 million; Commercial Banking £2,606 million; Private Banking £9 million; and RBS International £300 million). See note 17 for further details.

Geographical segments

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

	UK £m	USA £m	Europe £m	RoW £m	Total £m
2021					
Continuing operations					
Total revenue	12,100	87	565	33	12,785
Interest receivable	8,949	20	336	8	9,313
Interest payable	(1,483)	(2)	(211)	(3)	(1,699)
Net fees and commissions	1,820	27	235	42	2,124
Income from trading activities	247	53	(1)	24	323
Other operating income	387	2	62	—	451
Total income	9,920	100	421	71	10,512
Operating profit/(loss) before tax	4,143	48	(199)	40	4,032
Total assets	693,221	21,776	64,415	2,580	781,992
Total liabilities	676,684	23,286	38,835	1,384	740,189
Contingent liabilities and commitments	117,225	1	8,114	27	125,367
2020 (1)					
Continuing operations					
Total revenue	12,511	211	656	174	13,552
Interest receivable	9,479	—	297	22	9,798
Interest payable	(2,163)	—	(158)	(1)	(2,322)
Net fees and commissions	1,637	33	233	97	2,000
Income from trading activities	911	170	33	11	1,125
Other operating income	(117)	(22)	42	4	(93)
Total income	9,747	181	447	133	10,508
Operating profit/(loss) before tax	(193)	(85)	(291)	88	(481)
Total assets	704,725	25,439	66,884	2,443	799,491
Total liabilities	686,500	26,932	41,018	1,217	755,667
Contingent liabilities and commitments	118,654	—	10,068	10	128,732
2019 (1)					
Continuing operations					
Total revenue	16,925	228	882	128	18,163
Interest receivable	10,923	—	169	35	11,127
Interest payable	(3,255)	—	(70)	(3)	(3,328)
Net fees and commissions	2,191	37	197	72	2,497
Income from trading activities	727	148	49	8	932
Other operating income	2,305	13	432	9	2,759
Total income	12,891	198	777	121	13,987
Operating profit/(loss) before tax	3,543	186	172	82	3,983
Total assets	634,642	27,396	57,534	3,467	723,039
Total liabilities	613,151	31,715	33,539	1,078	679,483
Contingent liabilities and commitments	114,422	—	10,571	2	124,995

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

5 Pensions

NatWest Group operates two types of pension scheme: defined benefit and defined contribution. The defined contribution schemes invest contributions in a choice of funds and the accumulated contributions and investment returns are used by the employee to provide benefits on retirement, there is no legal or constructive obligation for NatWest Group to pay any further contributions or benefits. The defined benefit schemes provide pensions in retirement based on employees' pensionable salary and service.

NatWest Group's balance sheet includes any defined benefit pension scheme surplus or deficit as a retirement benefit asset or liability reported in other assets and other liabilities. The surplus or deficit is the difference between the liabilities to be paid from the defined benefit scheme, and the assets held by the scheme to meet these liabilities. The liabilities are calculated by external actuaries using a number of financial and demographic assumptions.

For some NatWest Group defined benefit schemes where there is a net defined benefit surplus which means any surplus in excess of present value of any economic benefits, the application of accounting standards means we don't recognise that surplus on the balance sheet as the trustees may have control over the use of the surplus.

For accounting policy information see Accounting policies note 4.

Defined contribution schemes

NatWest Group sponsors several defined contribution schemes in different territories, which new employees are entitled to join. NatWest Group pays specific contributions into individual investment funds on employees' behalf. Once those contributions are paid, there is no further liability on the NatWest Group balance sheet relating to the defined contribution scheme.

Defined benefit schemes

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

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

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

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

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

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 90% of all plan assets at 31 December 2021 (2020 - 90%) and are invested as shown below.

The Main section employs both physical and 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. In particular, movements in interest rate and inflation are substantially hedged by the Trustee.

Major classes of plan assets as a percentage of total plan assets of the Main section	2021 Quoted %	2021 Unquoted %	2021 Total %	2020 Quoted %	2020 Unquoted %	2020 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

5 Pensions continued

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

	2021 Notional amounts £bn	2021 Fair value Assets £m	2021 Fair value Liabilities £m	2020 Notional amounts £bn	2020 Fair value Assets £m	2020 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

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

Changes in value of net pension (assets)/liability	Main section Fair value of plan assets £m	Main section Present value of defined benefit obligation £m	Main section Asset ceiling/ minimum funding £m	Main section Net pension (assets)/ liability £m	All schemes Fair value of plan assets £m	All schemes Present value of defined benefit obligation £m	All schemes Asset ceiling/ minimum funding £m	All schemes Net pension (assets)/ liability £m
At 1 January 2020	46,555	39,669	6,886	—	51,925	44,115	7,315	(495)
Currency translation and other adjustments	—	4	—	4	92	71	—	(21)
Income statement	936	954	141	159	1,037	1,103	149	215
Statement of comprehensive income	5,486	5,130	426	70	6,027	5,704	319	(4)
Contributions by employer	233	—	—	(233)	296	—	—	(296)
Contributions by plan participants and other scheme members	9	9	—	—	14	14	—	—
Assets/liabilities extinguished upon settlement	—	—	—	—	(2)	(3)	—	(1)
Benefits paid	(1,896)	(1,896)	—	—	(2,140)	(2,140)	—	—
At 1 January 2021	51,323	43,870	7,453	—	57,249	48,864	7,783	(602)
Currency translation and other adjustments	—	—	—	—	(129)	(116)	(3)	10
Income statement								
Net interest expense	713	603	105	(5)	795	676	109	(10)
Current service cost	—	158	—	158	—	213	—	213
Past service cost	—	6	—	6	—	12	—	12
	713	767	105	159	795	901	109	215
Statement of comprehensive income								
Return on plan assets excluding recognised interest income	841	—	—	(841)	872	—	—	(872)
Experience gains and losses	—	(241)	—	(241)	—	(236)	—	(236)
Effect of changes in actuarial financial assumptions	—	(1,165)	—	(1,165)	—	(1,204)	—	(1,204)
Effect of changes in actuarial demographic assumptions	—	350	—	350	—	379	—	379
Asset ceiling adjustments	—	—	2,443	2,443	—	—	2,602	2,602
	841	(1,056)	2,443	546	872	(1,061)	2,602	669
Contributions by employer	705	—	—	(705)	780	—	—	(780)
Contributions by plan participants and other scheme members	8	8	—	—	13	13	—	—
Assets/liabilities extinguished upon settlement	—	—	—	—	—	—	—	—
Benefits paid	(1,569)	(1,569)	—	—	(1,793)	(1,793)	—	—
At 31 December 2021	52,021	42,020	10,001	—	57,787	46,808	10,491	(488)

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) NatWest Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NatWest Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the surplus is not recognised as the trustees may have control over the use of the surplus. Other NatWest Group schemes that this applies to include the Ulster Bank Pension Scheme (NI) and the NatWest Markets section.
(3) NatWest Group expects to make contributions to the Main section of £714 million in 2022. Following the £500 million 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.

5 Pensions continued

Amounts recognised on the balance sheet	All schemes 2021 £m	2020 £m
Fund asset at fair value	**57,787**	57,249
Present value of fund liabilities	**46,808**	48,864
Funded status	**10,979**	8,385
Assets ceiling/minimun funding	**10,491**	7,783
	488	602

Net pension assets/(liability) comprises	2021 £m	2020 £m
Net assets of schemes in surplus (included in Other assets, Note 18)	**602**	723
Net liabilities of schemes in deficit (included in Other liabilities, Note 21)	**(114)**	(121)
	488	602

The income statement charge comprises(1) :

	2021 £m	2020 £m
Continuing operations	**196**	195
Discontinued operations	**19**	20

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

Funding and contributions by NatWest Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and 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 NatWest 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 was 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 NatWest Group's defined benefit pension schemes' liabilities requires NatWest Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

5 Pensions continued

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

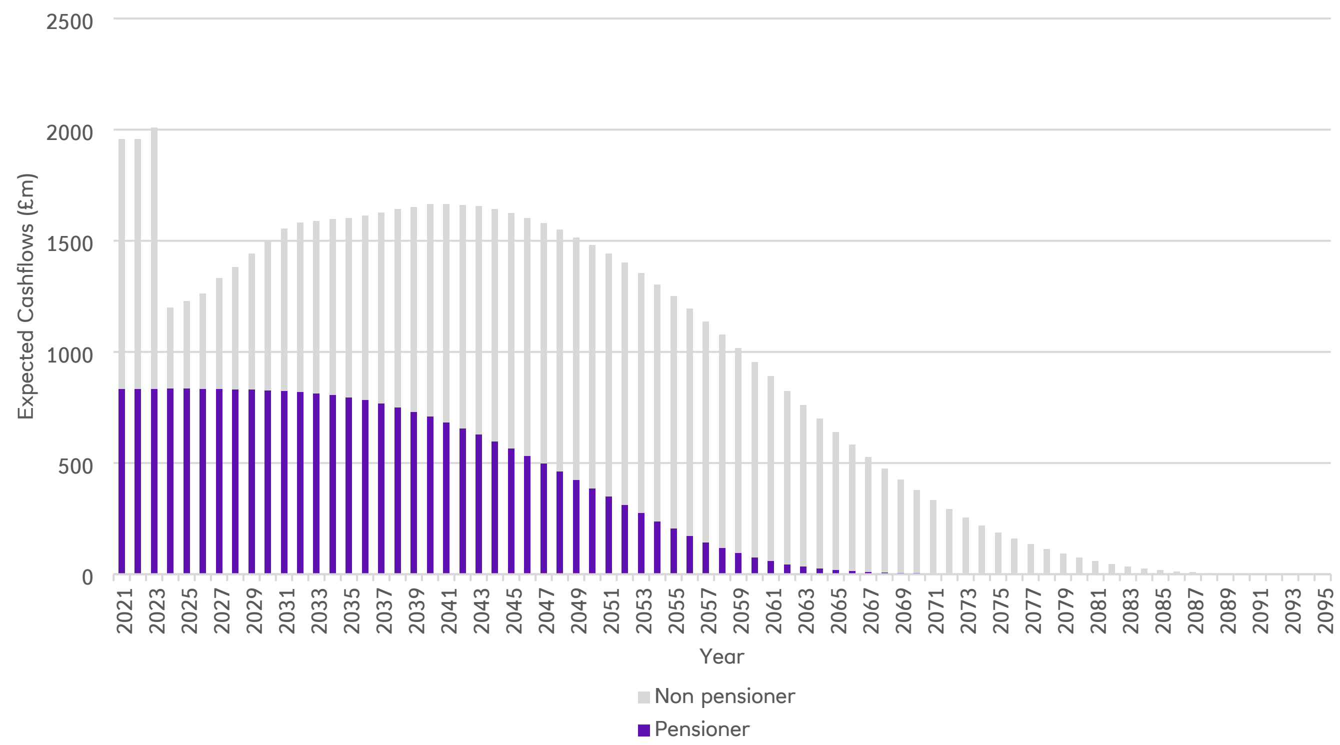
	Principal IAS 19 actuarial assumptions 2021 %	2020 %
Discount rate	**1.8**	1.4
Inflation assumption (RPI)	**3.3**	2.9
Rate of increase in salaries	**1.8**	1.8
Rate of increase in deferred pensions	**3.7**	3.0
Rate of increase in pensions in payment	**2.5**	2.7
Lump sum conversion rate at retirement	**18**	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.

		Change in life expectancies				
2021		- 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 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 NatWest Group schemes is shown below:

	Main section					All schemes				
History of defined benefit schemes	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of plan assets	52,021	51,323	46,555	43,806	44,652	57,787	57,249	51,925	48,752	49,746
Present value of plan obligations	42,020	43,870	39,669	35,466	37,937	46,808	48,864	44,115	39,607	42,378
Net surplus/(deficit)	10,001	7,453	6,886	8,340	6,715	10,979	8,385	7,810	9,145	7,368
Experience gains/(losses) on plan liabilities	241	427	275	(122)	(107)	237	455	279	(81)	(93)
Experience gains/(losses) on plan assets	841	5,486	3,021	(1,891)	1,580	872	6,027	3,556	(2,090)	1,728
Actual return on plan assets	1,554	6,422	4,266	(768)	2,735	1,667	7,064	4,930	(848)	3,013
Actual return on plan assets %	3.0%	13.8%	9.7%	(1.7%)	6.2%	2.9%	13.6%	10.1%	(1.7%)	6.1%

6 Auditor's remuneration

Amounts payable to NatWest Group's auditors for statutory audit and other services are set out below.

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

	2021 £m	2020 £m	2019 £m
Fees payable for:			
- the audit of NatWest Group's annual accounts (1)	4.4	4.7	3.8
- the audit of NatWest Group plc's subsidiaries (1)	29.6	30.6	25.7
- audit-related assurance services (1,2)	5.3	4.7	3.2
Total audit and audit-related assurance services fees	39.3	40.0	32.7
Other assurance services	0.4	0.6	1.2
Corporate finance services (3)	0.5	0.4	0.6
Total other services	0.9	1.0	1.8

(1) The 2021 audit fee was approved by the Group Audit Committee. At 31 December 2021, £19.7 million has been billed and paid in respect of the 2021 NatWest Group audit fees.
(2) Comprises fees of £1.1 million (2020 - £1.1 million) in relation to reviews of interim financial information, £3.5 million (2020 - £3.2 million) in respect of reports to NatWest Group's regulators in the UK and overseas, and £0.7 million (2020 - £0.4 million) in relation to non-statutory audit opinions.
(3) Comprises fees of £0.5 million (2020 - £0.4 million) in respect of work performed by the auditors as reporting accountants on debt and equity issuances undertaken by NatWest Group.

7 Tax

NatWest Group's corporate income tax charge for the period is set out below, together with a reconciliation to the expected tax charge calculated using the UK standard corporation tax rate and details of the NatWest Group's deferred tax balances.

For accounting policy information see Accounting policies note 9.

Analysis of the tax charge for the year

The tax charge comprises current and deferred tax in respect of profits and losses recognised or originating in the income statement. Tax on items originating outside the income statement is charged to other comprehensive income or direct to equity (as appropriate) and is therefore not reflected in the table below.

Current tax is tax payable or recoverable in respect of the taxable profit or loss for the year and any adjustments to tax payable in prior years. Deferred tax is explained on page 328.

Continuing operations	2021 £m	2020 (1) £m	2019 (1) £m
Current tax			
Charge for the year	(1,036)	(191)	(673)
Over provision in respect of prior years	31	86	122
	(1,005)	(105)	(551)
Deferred tax			
(Charge)/credit for the year	(185)	176	38
UK tax rate change impact (2)	165	75	—
Net increase/(decrease) in the carrying value of deferred tax assets in respect of UK, Ireland and Netherlands losses	12	(130)	55
Over/(under) provision in respect of prior years (3)	17	(90)	19
Tax charge for the year	(996)	(74)	(439)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) 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.
(3) 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.

7 Tax continued

Factors affecting the tax charge for the year

Taxable profits differ from profits reported in the income statement as certain amounts of income and expense may not be taxable or deductible. In addition, taxable profits may reflect items that have been included outside the income statement (for instance, in other comprehensive income) or adjustments that are made for tax purposes only.

The expected tax charge for the year is calculated by applying the standard UK corporation tax rate of 19% (2020 and 2019 – 19%) to the Operating profit or loss before tax in the income statement.

The actual tax charge differs from the expected tax charge as follows:

Continuing operations	2021 £m	2020 (1) £m	2019 (1) £m
Expected tax (charge)/credit	(766)	92	(757)
Losses and temporary differences in year where no deferred tax asset recognised	(51)	(43)	(24)
Foreign profits taxed at other rates	(11)	(29)	7
Non deductible goodwill impairment	(16)	—	—
Items not allowed for tax:			
- losses on disposals and write-downs	(55)	(22)	(71)
- UK bank levy	(18)	(32)	(26)
- regulatory and legal actions	(74)	14	(165)
- other disallowable items	(28)	(70)	(62)
Non-taxable items:			
- Alawwal bank merger gain disposal	—	—	215
- FX recycling on the liquidation of RFS Holdings	—	—	279
- other non-taxable items	73	28	80
Taxable foreign exchange movements	8	(3)	(1)
Unrecognised losses brought forward and utilised	10	16	16
(Decrease)/increase in the carrying value of deferred tax assets in respect of:			
- UK losses	(9)	7	129
- Ireland losses	(27)	(137)	(74)
- Netherlands losses	48	—	—
Banking surcharge	(341)	(27)	(199)
Tax on paid-in equity	48	61	73
UK tax rate change impact	165	75	—
Adjustments in respect of prior years	48	(4)	141
Actual tax charge	(996)	(74)	(439)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

Judgment: tax contingencies

NatWest Group's corporate income tax charge and its provisions for corporate income taxes necessarily involve a 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. NatWest Group recognises anticipated tax liabilities based on all available evidence and, where appropriate, in the light of external advice. Any difference between the final outcome and the amounts provided will affect current and deferred income tax charges in the period when the matter is resolved.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences where the carrying amount of an asset or liability differs for accounting and tax purposes. Deferred tax liabilities reflect the expected amount of tax payable in the future on these temporary differences. Deferred tax assets reflect the expected amount of tax recoverable in the future on these differences.

The net deferred tax asset recognised by the NatWest Group is shown below, together with details of the accounting judgments and tax rates that have been used to calculate the deferred tax. Details are also provided of any deferred tax assets or liabilities that have not been recognised on the balance sheet.

Analysis of deferred tax

	£m	£m
Deferred tax asset	(1,195)	(901)
Deferred tax liability	359	291
Net deferred tax asset	(836)	(610)

7 Tax continued

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	(139)	172	(118)	315	(951)	(24)	(745)
Charge/(credit) to income statement: (1)							
- continuing operations	15	(234)	33	114	46	(5)	(31)
- discontinued operations	—	—	—	—	9	—	9
Charge/(credit) to other comprehensive income	119	—	—	51	—	(7)	163
Currency translation and other adjustments	1	(2)	—	—	(9)	4	(6)
At 1 January 2021	(4)	(64)	(85)	480	(905)	(32)	(610)
Charge/(credit) to income statement:							
- continuing operations	19	21	(5)	(10)	(1)	(33)	(9)
- discontinued operations	—	—	—	—	3	—	3
Charge/(credit) to other comprehensive income	10	—	(7)	(222)	—	(5)	(224)
Currency translation and other adjustments	(1)	1	—	—	4	—	4
At 31 December 2021	24	(42)	(97)	248	(899)	(70)	(836)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

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

	2021 £m	2020 £m
UK tax losses carried forward		
- NWM Plc	56	62
- NWB Plc	608	592
- RBS plc	176	200
- Ulster Bank Limited	—	8
Total	840	862
Overseas tax losses carried forward		
- UBIDAC	11	43
- NWM N.V.	48	—
	899	905

Critical accounting policy: Deferred tax

NatWest Group has recognised a deferred tax asset of £1,195 million (31 December 2020 - £901 million) and a deferred tax liability of £359 million (31 December 2020 - £291 million). These include amounts recognised in respect of UK and overseas tax losses of £899 million (31 December 2020 - £905 million). Deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

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

Estimate - These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as climate change and the impact of COVID. The deferred tax assets in NWM Plc and UBIDAC are supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2021.

UK tax losses

Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in NatWest Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015.

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. NatWest 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 NatWest Group has increased by £163 million, with a £165 million tax credit included in the income statement (refer to reconciling item above), and a £2 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.

7 Tax continued

NWM Plc – NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2021 of £56 million (2020 - £62 million) in respect of tax losses amounting to £254 million will be recovered by the end of 2027. The movement in the current financial year reflects a £13 million decrease in the carrying value of the deferred tax asset, offset by a £7 million increase due to the UK tax rate change impact.

NWB 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.

RBS plc – A deferred tax asset of £176 million (2020 - £200 million) has been recognised in respect of losses of £722 million of total losses of £3,979 million carried forward at 31 December 2021. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2027.

Overseas tax losses

UBIDAC – A deferred tax asset of £11 million (2020 - £43 million) has been recognised in respect of losses of £88 million, and is now entirely supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2021. The movement in the current financial year reflects a £32 million reduction in the carrying value of the deferred tax asset following the announcement of the Group's withdrawal from the Republic of Ireland.

NatWest Market N.V. (NWM N.V.) – A deferred tax asset of £48 million has been recognised in respect of previously unrecognised tax losses and credits of £187 million of total tax losses and credits of £2,785 million carried forward at 31 December 2021. NWM N.V. Group expects the deferred tax asset to be utilised against future taxable profits by the end of 2026. NWM N.V. Group's Dutch fiscal unit has reported taxable profits in the period since the adoption of the new business model and repurposing of NWM N.V.'s banking license in 2019. In addition, NatWest Group strategic review of NWM Group has been largely completed in 2021, which has removed material uncertainties around the future business of NWM N.V.. As a result, NWM N.V. Group now considers it to be probable, based on its 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised.

Unrecognised deferred tax

Deferred tax assets of £5,437 million (2020 - £4,965 million; 2019 - £4,653 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £24,699 million (2020 - £25,091 million; 2019 - £23,555 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other deductible temporary differences, £77 million expire within five years and £4,288 million thereafter. The balance of tax losses and other deductible temporary differences carried forward has no expiry date.

Deferred tax liabilities of £302 million (2020 - £242 million; 2019 - £262 million) on aggregate underlying temporary differences of £1,032 million (2020 - £1,021 million; 2019 £1,074 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 Discontinued operations and assets and liabilities of disposal groups

Discontinued operations are reported separately on the income statement to allow users to distinguish the profits and cash flows from continuing operations from those activities that are subject to disposal.

Assets and liabilities which we intend to dispose of in a single transaction are also presented separately on the balance sheet.

For accounting policy information see Accounting policies note 3.

This note sets out the profit/(loss) from the discontinued operations (represented for comparative periods), the assets and liabilities of the disposal group and the operating cash flows attributable to the discontinued operations.

Two legally binding agreements for the sale of UBIDAC business were announced in 2021 as part of the phased withdrawal from the Republic of Ireland:

On 28 June 2021 we announced it had agreed a binding sale agreement with Allied Irish Banks, p.l.c. for the transfer of c.€4.2 billion (plus up to €2.8 billion of undrawn exposures), of performing commercial loans as well as c.280 colleagues that are wholly or mainly assigned to supporting that part of the business, with the final number of roles to be confirmed as the deal completes. The sale, subject to Competition and Consumer Protection Commission (CCPC) approval, is expected to be completed in a series of transactions during 2022 and Q1 2023.

On the 17 December 2021 we signed a legally binding agreement with Permanent TSB p.l.c. The proposed sale will include performing non-tracker mortgages, the performing loans in the micro-SME business; the UBIDAC Asset Finance business, including its Lombard digital platform, and a subset of Ulster Bank branch locations in the Republic of Ireland. The majority of loans are expected to transfer by Q4 2022. As part of the transaction it is anticipated that c.450 colleagues will have the right to transfer under the TUPE regulations with the final number of roles to be confirmed as the deal completes.

The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group at 31 December 2021. The Ulster Bank RoI operating segment continues to be reported separately and reflects the results and balance sheet position of its continuing operations.

(a) Profit from discontinued operations, net of tax

	2021 £m	2020 £m	2019 £m
Interest receivable	260	273	248
Net interest income	260	273	248
Non-interest income	9	15	18
Total income	269	288	266
Operating expenses	(47)	(47)	(45)
Profit before impairment losses	222	241	221
Impairment releases/(losses)	57	(111)	28
Operating profit before tax	279	130	249
Tax (charge)/credit	(3)	(9)	7
Profit from discontinued operations, net of tax	276	121	256

(b) Assets and liabilities of disposal groups

	2021 £m
Assets of disposal groups	
Loans to customers - amortised cost	9,002
Derivatives	5
Other assets	8
	9,015
Liabilities of disposal groups	
Other liabilities	5
	5
Net assets of disposal groups	9,010

(c) Operating cash flows attributable to discontinued operations

	2021 £m	2020 £m	2019 £m
Net cash flows from operating activities	1,290	(895)	(3,909)
Net increase/(decrease) in cash and cash equivalents	1,290	(895)	(3,909)

9 Earnings per share

Earnings per share is a metric to measure how much profit NatWest Group makes for each share that is in issue during the year. Basic earnings per ordinary share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted earnings per ordinary share is calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding plus the weighted average number of ordinary shares that would be issued on conversion of dilutive share options and convertible securities.

	2021 £m	2020 £m	2019 £m
Earnings			
Profit/(loss) from continuing operations attributable to ordinary shareholders	**2,674**	(874)	2,877
Profit from discontinued operations attributable to ordinary shareholders	**276**	121	256
Profit/(loss) attributable to ordinary shareholders	**2,950**	(753)	3,133
Weighted average number of shares (millions)			
Weighted average number of ordinary shares outstanding during the year	**11,622**	12,095	12,067
Effect of dilutive share options and convertible securities (1)	**45**	—	35
Diluted weighted average number of ordinary shares outstanding during the year	**11,667**	12,095	12,102

(1) As there was a loss from continuing operations attributable to the parent company for the period to 31 December 2020, the effect of share options and convertible securities was not dilutive.

10 Financial instruments – classification

Financial instruments are contracts that give rise to a financial asset of one entity and a corresponding financial liability or equity instrument of a counterparty entity, such as: cash; derivatives; loans; deposits; and settlement balances. This note presents financial instruments classified in accordance with IFRS 9 – Financial Instruments.

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 10, 12, 13 and 15.

10 Financial instruments - classification continued

Judgment: classification of financial assets

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**177,757**		**177,757**
Trading assets	**59,158**				**59,158**
Derivatives (1)	**106,139**				**106,139**
Settlement balances			**2,141**		**2,141**
Loans to bank - amortised cost (2)			**7,682**		**7,682**
Loans to customers - amortised cost (3)			**358,990**		**358,990**
Other financial assets	**317**	**37,266**	**8,562**		**46,145**
Intangible assets				**6,723**	**6,723**
Other assets				**8,242**	**8,242**
Assets of disposal groups				**9,015**	**9,015**
31 December 2021	**165,614**	**37,266**	**555,132**	**23,980**	**781,992**
Cash and balances at central banks			124,489		124,489
Trading assets	68,990				68,990
Derivatives (1)	166,523				166,523
Settlement balances			2,297		2,297
Loans to bank - amortised cost (2)			6,955		6,955
Loans to customers - amortised cost (3)			360,544		360,544
Other financial assets	440	44,902	9,806		55,148
Intangible assets				6,655	6,655
Other assets				7,890	7,890
31 December 2020	235,953	44,902	504,091	14,545	799,491

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (4)			**26,279**		**26,279**
Customer deposits			**479,810**		**479,810**
Settlement balances			**2,068**		**2,068**
Trading liabilities	**64,598**				**64,598**
Derivatives (1)	**100,835**				**100,835**
Other financial liabilities (5)		**1,671**	**47,655**		**49,326**
Subordinated liabilities		**703**	**7,726**		**8,429**
Notes in circulation			**3,047**		**3,047**
Other liabilities (6)			**1,356**	**4,441**	**5,797**
31 December 2021	**165,433**	**2,374**	**567,941**	**4,441**	**740,189**
Bank deposits (4)			20,606		20,606
Customer deposits			431,739		431,739
Settlement balances			5,545		5,545
Trading liabilities	72,256				72,256
Derivatives (1)	160,705				160,705
Other financial liabilities (5)		2,403	43,408		45,811
Subordinated liabilities		793	9,169		9,962
Notes in circulation			2,655		2,655
Other liabilities (6)			1,882	4,506	6,388
31 December 2020	232,961	3,196	515,004	4,506	755,667

(1) Includes net hedging derivatives assets of £44 million (2020 - £93 million) and net hedging derivatives liabilities of £120 million (2020 - £130 million).
(2) Includes items in the course of collection from other banks of £67 million (2020 - £148 million).
(3) Includes finance lease receivables of £8,531 million (2020 - £9,061 million).
(4) Includes items in the course of transmission to other banks of £56 million (2020 - £12 million).
(5) The carrying amount of other customer accounts designated at fair value through profit or loss is the same as the principal amount for both periods. No amounts have been recognised in the profit or loss for changes in credit risk associated with these liabilities as the changes are immaterial both during the period and cumulatively.
(6) Includes lease liabilities of £1,263 million (2020 - £1,698 million) held at amortised cost.

10 Financial instruments - classification continued

Judgment: classification of financial assets

	2021 £m	2020 £m
Reverse repos		
Trading assets	**20,742**	19,404
Loans to banks - amortised cost	**189**	153
Loans to customers - amortised cost	**25,962**	25,011
Repos		
Bank deposits	**7,912**	6,470
Customer deposits	**14,541**	5,167
Trading liabilities	**19,389**	19,036

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

	Instruments which can be offset			Potential for offset not recognised by IFRS					
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	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	**113,220**	**(7,961)**	**105,259**	**(85,006)**	**(15,035)**	**(2,428)**	**2,790**	**880**	**106,139**
Derivative liabilities	**108,594**	**(8,568)**	**100,026**	**(85,006)**	**(9,909)**	**(2,913)**	**2,198**	**809**	**100,835**
Net position (1)	**4,626**	**607**	**5,233**	**—**	**(5,126)**	**485**	**592**	**71**	**5,304**
Trading reverse repos	**44,529**	**(24,422)**	**20,107**	**(900)**	**—**	**(19,136)**	**71**	**635**	**20,742**
Trading repos	**42,664**	**(24,422)**	**18,242**	**(900)**	**—**	**(17,341)**	**1**	**1,147**	**19,389**
Net position	**1,865**	**—**	**1,865**	**—**	**—**	**(1,795)**	**70**	**(512)**	**1,353**
Non trading reverse repos	**33,729**	**(7,594)**	**26,135**	**—**	**—**	**(26,135)**	**—**	**16**	**26,151**
Non trading repos	**30,047**	**(7,594)**	**22,453**	**—**	**—**	**(22,453)**	**—**	**—**	**22,453**
Net position	**3,682**	**—**	**3,682**	**—**	**—**	**(3,682)**	**—**	**16**	**3,698**
2020									
Derivative assets	176,425	(10,807)	165,618	(137,086)	(19,608)	(5,053)	3,871	905	166,523
Derivative liabilities	171,614	(11,540)	160,074	(137,086)	(15,034)	(4,921)	3,033	631	160,705
Net position (1)	4,811	733	5,544	—	(4,574)	(132)	838	274	5,818
Trading reverse repos	43,908	(24,867)	19,041	(929)	—	(18,040)	72	363	19,404
Trading repos	42,203	(24,867)	17,336	(929)	—	(16,407)	—	1,700	19,036
Net position	1,705	—	1,705	—	—	(1,633)	72	(1,337)	368
Non trading reverse repos	36,117	(10,953)	25,164	—	—	(25,164)	—	—	25,164
Non trading repos	22,590	(10,953)	11,637	—	—	(11,637)	—	—	11,637
Net position	13,527	—	13,527	—	—	(13,527)	—	—	13,527

(1) 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 - 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 NatWest Group at 31 December 2021 subject to the above conversion provisions are £22,056 million of assets, £426 million of liabilities, £15,785 million of loan commitments and £557.7 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:

	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR (1) £m	Other IBOR (2) £m	Total £m
Trading assets	**62**	**90**	**—**	**152**
Loans to banks - amortised cost	**—**	**11**	**—**	**11**
Loans to customers - amortised cost	**4,788**	**4,565**	**267**	**9,620**
Other financial assets	**864**	**768**	**—**	**1,632**
Bank deposits	**—**	**37**	**—**	**37**
Customer deposits	**—**	**—**	**—**	**—**
Trading liabilities	**31**	**166**	**—**	**197**
Other financial liabilities	**2,390**	**7,023**	**131**	**9,544**
Subordinated liabilities	**—**	**90**	**—**	**90**
Loan commitments (3)	**1,016**	**6,366**	**55**	**7,437**
Derivatives notional (£bn)	**3.6**	**1,152.0**	**—**	**1,155.6**

At December 2021 NatWest 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 2021, but not the entire contract. These include currency swaps of GBP LIBOR of £8.7 billion with USD IBOR £8.2 billion and Other IBOR £0.5 billion; currency swaps of USD IBOR of £117 billion with GBP LIBOR £91.7 billion and Other IBOR £25.3 billion; currency swaps of EURIBOR of £0.1 billion with GBP LIBOR £0.1 billion; currency swaps of Other IBOR of £0.4 billion with USD IBOR £0.4 billion.

10 Financial instruments - classification continued

Interest rate benchmark reform

2020	Rates subject to IBOR reform GBP LIBOR £m	USD IBOR (1) £m	EURIBOR (2) £m	Other IBOR £m	Total £m
Trading assets	75	60	348	1	484
Loans to banks - amortised cost	23	82	101	—	206
Loans to customers - amortised cost	40,299	6,366	4,950	234	51,849
Other financial assets	2,918	303	370	—	3,591
Bank deposits	—	367	—	107	474
Customer deposits	—	—	—	4	4
Trading liabilities	54	414	269	2	739
Other financial liabilities	2,492	9,806	5,902	196	18,396
Subordinated liabilities	8	850	438	—	1,296
Loan commitments (3)	25,616	9,228	7,176	682	42,702
Derivatives notional (£bn)	1,407.5	1,368.8	2,358.7	289.6	5,424.6

(1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of preparing the 31 December 2020 Annual Reports & 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.

Included within the 31 December 2020 table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £5.2 billion with USD IBOR £2.0 billion, EURIBOR £2.9 billion and Other IBOR £0.3 billion. Currency swaps of USD IBOR of £231.7 billion with GBP LIBOR £98.5 billion, EURIBOR £85.8 billion and Other IBOR £47.4 billion. Currency swaps of EURIBOR of £5.1 billion with GBP LIBOR £2.3 billion, USD IBOR £1.8 billion and Other IBOR £1.0 billion. Currency swaps of Other IBOR of £2.2 billion with EURIBOR £0.7 billion, USD IBOR £1.2 billion and Other IBOR £0.3 billion.

Additionally, included above are basis swaps for GBP LIBOR of £97 billion, USD IBOR of £81 billion, EURIBOR of £49 billion and Other IBOR of £10 billion.

AT1 issuances

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

	31 December 2021 £m	31 December 2020 £m
US$1.15 billion 8% notes	734	734
US$2.65 billion 8.625% notes	—	2,046

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

11 Financial instruments - valuation

Financial instruments recognised at fair value are revalued using techniques that can include observable inputs (pricing information that is readily available in the market, for example UK Government securities), and unobservable inputs (pricing information that is not readily available, for example unlisted securities). Gains and losses are recognised in the income statement and statement of comprehensive income as appropriate. This note presents information on the valuation of financial instruments.

The table below provides an overview of the various sections contained within the note.

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.

NatWest 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.

(D) = Descriptive; (T) = Table

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 uncertainly 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 instruments 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.

11 Financial instruments – valuation continued

Valuation techniques

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

Non-modelled products are valued directly from a price input, typically on a position-by-position basis. 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 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

NatWest 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.

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.

11 Financial instruments – valuation continued

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 oversees pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant 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 NatWest 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.

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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.

11 Financial instruments - valuation continued

The table below shows the assets and liabilities held by NatWest 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 carry the most significant price uncertainty.

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Trading assets								
Loans	—	33,482	721	34,203	—	39,550	225	39,775
Securities	19,563	5,371	21	24,955	21,535	7,599	81	29,215
Derivatives	—	105,222	917	106,139	—	165,441	1,082	166,523
Other financial assets								
Loans	—	359	207	566	—	185	168	353
Securities	28,880	7,951	186	37,017	35,972	8,850	167	44,989
Total financial assets held at fair value	48,443	152,385	2,052	202,880	57,507	221,625	1,723	280,855
As % of total fair value assets	24%	75%	1%		20%	79%	1%	
Liabilities								
Trading liabilities								
Deposits	—	38,658	2	38,660	—	44,062	7	44,069
Debt securities in issue	—	974	—	974	—	1,408	—	1,408
Short positions	20,507	4,456	1	24,964	19,045	7,734	—	26,779
Derivatives	—	100,229	606	100,835	—	159,818	887	160,705
Other financial liabilities								
Debt securities in issue	—	1,103	—	1,103	—	1,607	—	1,607
Other deposits	—	568	—	568	—	796	—	796
Subordinated liabilities	—	703	—	703	—	793	—	793
Total financial liabilities held at fair value	20,507	146,691	609	167,807	19,045	216,218	894	236,157
As % of total fair value liabilities	12%	88%	0%		8%	92%	0%	

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred.
(2) For an analysis of debt securities held at mandatory fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Risk and capital management – Credit risk.

11 Financial instruments – valuation continued

Valuation adjustments

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:

	2021	2020
Adjustment	£m	£m
Funding – FVA	90	140
Credit – CVA	390	390
Bid – Offer	113	148
Product and deal specific	119	172
	712	850

There was a reallocation of FVA to CVA during the period following an update to the risk management of certain exposures. The net decrease across CVA and FVA was driven by reduced exposures, due to increases in interest rates and trade exit activity. The reduction in bid-offer and product and deal specific reserves followed reduced risk due to trade exit activity and LIBOR cessation.

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 NatWest 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 NatWest 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. On 31 December 2021, net gains of £71 million (2020 - £63 million) were carried forward. During the year, net gains of £103 million (2020 - £75 million) were deferred and £94 million (2020 - £100 million) were recognised in the income statement.

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

Own Credit

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

11 Financial instruments - valuation continued

Level 3 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.

Financial instrument	Valuation technique	Unobservable inputs	Units	2021 Low	2021 High	2020 Low	2020 High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	—	106	—	105
	Discount cash flow	Credit spreads	bps	40	102	69	119
	Discount cash flow	Discount margin	bps	46	55	51	226
Debt securities	Price-based	Price	%	—	240	—	232
Equity Shares	Price-based	Price	GBP	—	30,378	—	27,737
	Price-based	Price	%	—	7	—	80
	Discount cash flow	Discount margin	%	6	8	7	9
	Net asset valuation	Net asset value	%	80	120	80	120
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	6	635	2	500
		Correlation	%	(15)	95	(50)	95
		Volatility	%	30	108	27	80
		Upfront points	%	—	100	—	100
		Recovery rate	%	—	60	10	40
Interest rate & FX derivatives	Option pricing	Correlation	%	(50)	100	(50)	100
		Volatility	%	17	77	17	60
		Constant Prepayment Rate	%	2	16	2	18
		Mean Reversion	%	—	92	—	92
		Basis volatility	bps	8	18	15	21
		Inflation volatility	%	1	2	1	2
		Inflation rate	%	2	3	1	2
Equity derivatives	Option pricing	Correlation	%	(53)	87	(53)	87

(1) Valuation for private equity investments may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly, for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.
(2) NatWest Group does not have any material liabilities measured at fair value that are issued with an inseparable third-party credit enhancement.

11 Financial instruments – valuation continued

Level 3 sensitivities

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, FVA and own credit adjustments 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 and issued debt.

As such, the fair value levelling of the derivative portfolios and issued debt is not determined by CVA, FVA or own credit 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 Level 3 £m	2021 Favourable £m	2021 Unfavourable £m	2020 Level 3 £m	2020 Favourable £m	2020 Unfavourable £m
Assets						
Trading assets						
Loans	721	10	(10)	225	10	—
Securities	21	—	—	81	—	—
Derivatives	917	60	(70)	1,082	80	(80)
Other financial assets						
Loans	207	10	(10)	168	20	(10)
Securities	186	20	(20)	167	30	(20)
	2,052	100	(110)	1,723	140	(110)
Liabilities						
Trading liabilities						
Deposits	2	—	—	7	—	—
Debt securities in issue	—	—	—	—	—	—
Short positions	1	—	—	—	-	-
Derivatives	606	30	(30)	887	50	(40)
Other financial liabilities	—	—	—	—	—	—
	609	30	(30)	894	50	(40)

11 Financial instruments – valuation continued

Movement in level 3 assets and liabilities

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	1,388	335	1,723	894	2,233	321	2,554	1,317
Amounts recorded in the income statement (1)	(93)	(29)	(122)	(90)	127	(21)	106	(67)
Amounts recorded in the statement of comprehensive income	—	23	23	—	—	63	63	—
Level 3 transfers in	125	3	128	20	165	98	263	188
Level 3 transfers out	(104)	(6)	(109)	(168)	(139)	—	(139)	(368)
Purchases/originations (4)	965	452	1,416	305	441	327	768	127
Settlements/other decreases	(47)	(364)	(411)	(28)	(293)	(153)	(446)	(59)
Sales	(573)	(17)	(590)	(321)	(1,148)	(301)	(1,449)	(245)
Foreign exchange and other	(3)	(3)	(6)	(3)	2	1	3	1
At 31 December	1,658	394	2,052	609	1,388	335	1,723	894
Amounts recorded in the income statement in respect of balances held at year end - unrealised	(93)	(32)	(126)	(90)	129	(22)	107	(68)

(1) There were £3 million net losses on trading assets and liabilities (2020 – £194 million net gain) recorded in income from trading activities. Net losses on other instruments of £29 million (2020 – £21 million net losses) were recorded in other operating income and interest income as appropriate.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.
(4) Movement in the period includes new loan originations classified as HTC&S under IFRS 9 and fair valued through other comprehensive income. 2021 purchases include a new leveraged finance loan of £450 million. As a result of its composition and illiquid nature, pricing is based on unobservable inputs and the judgment of valuation experts.

11 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.

				Fair value hierarchy level		
2021	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	177.8					
Settlement balances	2.1					
Loans to banks	0.1	7.5	7.5	—	5.0	2.5
Loans to customers		359.0	354.1	—	28.0	326.1
Other financial assets - securities		8.6	8.6	4.4	0.7	3.5
2020						
Financial assets						
Cash and balances at central banks	124.5					
Settlement balances	2.3					
Loans to banks	0.1	6.9	6.9	—	3.8	3.1
Loans to customers		360.5	359.2	—	25.2	334.0
Other financial assets - securities		9.8	10.1	5.9	1.2	3.0
2021						
Financial liabilities						
Bank deposits	4.9	21.4	21.0	—	18.7	2.3
Customer deposits	442.4	37.4	37.6	—	18.1	19.5
Settlement balances	2.1					
Other financial liabilities - debt securities in issue		47.7	48.6	—	41.4	7.2
Subordinated liabilities		7.7	8.3	—	8.2	0.1
Notes in circulation	3.0					
2020						
Financial liabilities						
Bank deposits	4.4	16.2	16.2	—	11.3	4.9
Customer deposits	371.7	60.0	60.1	—	10.1	50.0
Settlement balances	5.5					
Other financial liabilities - debt securities in issue		43.4	44.6	—	34.7	9.9
Subordinated liabilities		9.2	9.8	—	9.7	0.1
Notes in circulation	2.7					

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, NatWest Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

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

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

Debt securities 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.

12 Financial instruments - maturity analysis

Remaining maturity

This note shows the maturity profile of NatWest Group's financial assets and liabilities by contractual date of maturity and contractual cash flows.

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

	2021			2020		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Cash and balances at central banks	177,757	—	177,757	124,489	—	124,489
Trading assets	40,263	18,895	59,158	42,037	26,953	68,990
Derivatives	34,538	71,601	106,139	46,244	120,279	166,523
Settlement balances	2,141	—	2,141	2,297	—	2,297
Loans to banks - amortised cost	7,425	257	7,682	6,835	120	6,955
Loans to customers - amortised cost	103,689	255,301	358,990	87,531	273,013	360,544
Other financial assets	11,151	34,994	46,145	8,901	46,247	55,148
Liabilities						
Bank deposits	13,715	12,564	26,279	12,315	8,291	20,606
Customer deposits	478,801	1,009	479,810	430,283	1,456	431,739
Settlement balances	2,068	—	2,068	5,545	—	5,545
Trading liabilities	41,664	22,934	64,598	45,037	27,219	72,256
Derivatives	34,593	66,242	100,835	47,361	113,344	160,705
Other financial liabilities	16,060	33,266	49,326	12,403	33,408	45,811
Subordinated liabilities	1,375	7,054	8,429	365	9,597	9,962
Notes in circulation	3,047	—	3,047	2,655	—	2,655
Lease liabilities	238	1,025	1,263	185	1,513	1,698

Assets and liabilities by contractual cash flows up to 20 years

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

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

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

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

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

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

MFVTPL assets of £165.6 billion (2020 - £235.9 billion) and HFT liabilities of £165.3 billion (2020 - £232.8 billion) have been excluded from the following tables.

12 Financial instruments – maturity analysis continued

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
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	177,757	—	—	—	—	—
Derivatives held for hedging	(23)	(32)	72	15	10	17
Settlement balances	2,141	—	—	—	—	—
Loans to banks - amortised cost	5,735	1,689	21	—	—	—
Loans to customers - amortised cost	65,760	43,144	63,979	45,057	73,044	90,115
Other financial assets (1)	3,924	7,576	10,467	8,048	7,444	5,523
Finance lease	290	340	746	504	704	377
	255,584	52,717	75,285	53,624	81,202	96,032
Liabilities by contractual maturity up to 20 years						
Bank deposits	13,292	421	566	12,003	—	—
Customer deposits	473,123	5,440	1,155	73	4	19
Settlement balances	2,068	—	—	—	—	—
Derivatives held for hedging	(57)	(31)	561	155	(152)	(198)
Other financial liabilities	6,967	9,293	16,953	10,062	7,905	292
Subordinated liabilities	66	1,604	3,481	2,170	1,496	563
Other liabilities- Notes in circulation	3,047	—	—	—	—	—
Lease liabilities	74	161	220	167	281	251
	498,580	16,888	22,936	24,630	9,534	927
Guarantees and commitments - notional amount						
Guarantees (2)	2,055	—	—	—	—	—
Commitments (3)	118,536	—	—	—	—	—
	120,591	—	—	—	—	—

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

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

13 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value and classified as held-for-trading. Financial instruments are classified as held for trading if they are held for the purpose of selling or repurchasing them in the short term, to make a spread between purchase and sale price or held to take advantage of movements in prices and yields.

For accounting policy information see Accounting policies note 10.

	2021 £m	2020 £m
Assets		
Loans		
Reverse repos	**20,742**	19,404
Collateral given	**12,047**	18,760
Other loans	**1,414**	1,611
Total loans	**34,203**	39,775
Securities		
Central and local government		
- UK	**6,919**	4,184
- US	**3,329**	5,149
- other	**10,929**	16,436
Financial institutions and corporate	**3,778**	3,446
Total securities	**24,955**	29,215
Total	**59,158**	68,990
Liabilities		
Deposits		
Repos	**19,389**	19,036
Collateral received	**17,718**	23,229
Other deposits	**1,553**	1,804
Total deposits	**38,660**	44,069
Debt securities in issue	**974**	1,408
Short positions	**24,964**	26,779
Total	**64,598**	72,256

14 Derivatives

Derivative is a term covering a wide range of financial instruments that derive their fair value from an underlying rate or price, for example interest rates or exchange rates (the underlying). NatWest Group uses derivatives as a part of its trading activities, to manage its own risks such as interest rate, foreign exchange, or credit risk and in certain customer transactions. This note shows contracted volumes of derivatives, how they are used for hedging purposes and more specifically the effects of the application of hedge accounting.

For accounting policy information see Accounting policies note 10 and 15.

	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	**3,167**	**38,517**	**39,286**	3,328	52,239	55,107
Interest rate contracts	**8,919**	**67,458**	**61,206**	10,703	114,115	105,214
Credit derivatives	**14**	**154**	**343**	15	161	376
Equity and commodity contracts	**—**	**10**	**—**	1	8	8
		106,139	**100,835**		166,523	160,705

NatWest 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.

NatWest Group's interest rate hedging relates to the management of NatWest Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NatWest 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 NatWest 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 LIBOR, EURIBOR and SONIA. These risk components are identified using the risk management systems of NatWest Group and encompass the majority of the hedged item's fair value risk.

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

Exchange rate risk also arises in NatWest Group where payments are denominated in 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, and net investment hedging, NatWest 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. NatWest Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured and recognised in the income statement as it arises.

IBOR reform - NatWest Group in the year continued to apply, for relationships directly affected by interest rate benchmark reform, Interest Rate Benchmark Reform Amendments to IAS 39 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.

14 Derivatives continued

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

	2021				2020			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	**65.6**	**1,176**	**2,057**	**897**	65.5	1,878	3,844	(875)
Cash flow hedging								
Interest rate contracts	**133.1**	**952**	**1,149**	**(931)**	128.8	2,035	1,210	217
Exchange rate contracts	**7.3**	**30**	**109**	**27**	10.8	37	116	(55)
Net investment hedging								
Exchange rate contracts	**0.5**	**11**	**1**	**7**	0.2	—	9	11
	206.5	**2,169**	**3,316**	**—**	205.3	3,950	5,179	(702)
IFRS netting/Clearing house settlements		**(2,125)**	**(3,196)**			(3,857)	(5,049)	
		44	**120**			93	130	

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

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

	2021 £bn	2020 £bn
Fair value hedging		
EURIBOR (1)	**—**	13.6
GBP LIBOR	**—**	11.2
USD LIBOR (2)	**20.2**	26.6
Other currency LIBOR	**—**	1.1
Cash flow hedging		
EURIBOR (1)	**—**	5.2
GBP LIBOR	**—**	51.7
SOFR (3)	**0.2**	—
USD LIBOR (2)	**3.1**	2.7

(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 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.
(4) Notional of £1 billion cross currency derivative contracts in cash flow hedge relationships will convert to repricing off the relevant risk-free rate at the first repricing date post cessation.

14 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
Fair value hedging								
Hedging assets - interest rate risk	**0.9**	**2.5**	**5.5**	**5.7**	**6.2**	**4.9**	**4.5**	**30.2**
Hedging liabilities - interest rate risk	**1.1**	**4.2**	**11.8**	**9.3**	**8.4**	**0.6**	**0.0**	**35.4**
Cash flow hedging								
Hedging assets								
Interest rate risk	**5.4**	**8.1**	**14.3**	**24.5**	**11.4**	**—**	**—**	**63.7**
Average fixed interest rate (%)	***1.40***	***1.19***	***1.35***	***0.65***	***0.82***	**—**	**—**	***0.97***
Hedging liabilities								
Interest rate risk	**8.8**	**21.1**	**33.0**	**3.3**	**2.5**	**0.7**	**—**	**69.4**
Average fixed interest rate (%)	***0.50***	***0.24***	***0.41***	***0.47***	***1.01***	***4.55***		***0.44***
Hedging assets								
Exchange rate risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Hedging liabilities								
Exchange rate risk	**0.1**	**2.4**	**3.5**	**1.3**	**—**	**—**	**—**	**7.3**
Net investment hedging								
Exchange rate risk	**0.5**	**—**	**—**	**—**	**—**	**—**	**—**	**0.5**
2020								
Fair value hedging								
Hedging assets - interest rate risk	1.2	2.3	6.3	7.4	8.9	5.1	4.2	35.4
Hedging liabilities - interest rate risk	—	0.6	10.1	11.6	7.1	0.5	0.2	30.1
Cash flow hedging								
Hedging assets								
Interest rate risk	0.7	10.5	19.3	13.9	10.5	0.1	—	55.0
Average fixed interest rate (%)	*1.28*	*1.22*	*1.51*	*1.06*	*0.92*	*3.12*	—	*1.23*
Hedging liabilities								
Interest rate risk	1.6	28.9	36.8	3.4	2.4	0.7	—	73.8
Average fixed interest rate (%)	*1.14*	*0.78*	*0.37*	*1.25*	*0.65*	*4.55*	—	*0.64*
Hedging assets								
Exchange rate risk	—	—	0.1	—	—	—	—	0.1
Hedging liabilities								
Exchange rate risk	—	3.3	5.3	1.0	1.1	—	—	10.7
Net investment hedging								
Exchange rate risk	0.1	0.1	—	—	—	—	—	0.2

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships were as below for the main currencies hedged.

	2021	2020
INR/GBP	**106.58**	95.29
USD/GBP	**1.38**	1.36
CHF/GBP	**1.25**	n/a
JPY/GBP	**132.93**	132.93
JPY/EUR	**n/a**	120.21
CNH/GBP	**8.74**	n/a

For net investment hedging of exchange rate risk, the average foreign exchange rates applicable were as below for the main currencies hedged.

	2021	2020
SEK/GBP	**11.74**	11.15
DKK/GBP	**8.85**	8.28
NOK/GBP	**12.12**	12.73
AED/USD	**3.67**	n/a
USD/GBP	**1.32**	n/a

14 Derivatives continued

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

2021	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Changes in fair value used as a basis to determine ineffectiveness (1) £m	Impact on hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	6,603	701	(478)	69
Other financial assets - securities	30,882	518	(1,576)	—
Total	37,485	1,219	(2,054)	69
Other financial liabilities - debt securities in issue	34,371	454	953	—
Subordinated liabilities	6,235	(9)	255	—
Total	40,606	445	1,208	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	63,025		1,984	
Other financial assets - securities	714		26	
Total	63,739		2,010	
Cash flow hedging - interest rate				
Bank and customer deposits	68,383		(1,084)	
Other financial liabilities - debt securities in issue	1,006		(21)	
Total	69,389		(1,105)	
Cash flow hedging - exchange rate				
Loans to banks and customer - amortised cost	21		—	
Other financial assets - securities	2		—	
Total	23		—	
Other financial liabilities - debt securities in issue	6,337		(5)	
Subordinated liabilities	742		(12)	
Other	200		(10)	
Total	7,279		(27)	
2020				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	6,858	1,228	323	77
Other financial assets - securities	35,754	2,268	1,568	—
Total	42,612	3,496	1,891	77
Other financial liabilities - debt securities in issue	29,317	1,336	(746)	—
Subordinated liabilities	6,441	293	(268)	10
Total	35,758	1,629	(1,014)	10
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	53,335		(601)	
Other financial assets - securities	1,550		(16)	
Total	54,885		(617)	
Cash flow hedging - interest rate				
Bank and customer deposits	72,880		409	
Other financial liabilities - debt securities in issue	1,014		13	
Total	73,894		422	
Cash flow hedging - exchange rate				
Loans to banks and customer - amortised cost	112		1	
Other financial assets - securities	30		—	
Total	142		1	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	6,272		20	
Subordinated liabilities	4,194		36	
Other	152		(2)	
Total	10,618		54	

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

14 Derivatives continued

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

	2021 Notional £bn	2021 Hedged adjustment £m	2020 Notional £bn	2020 Hedged adjustment £m
Fair value hedging				
EURIBOR (1)	—	—	15.1	27
GBP LIBOR	—	—	11.4	1,178
USD LIBOR (2)	21.8	7	28.1	(427)
Other currency LIBOR	—	—	1.1	1
Cash flow hedging				
EURIBOR (1)	—	—	4.1	(76)
GBP LIBOR	—	—	10.5	(473)
USD LIBOR (2)	3.3	21	2.7	(61)
BOE Base rate (3)	—	—	40.7	(156)
ECB REFI rate (3)	—	—	1.2	—
SONIA (3)	—	—	0.6	4

(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.
(4) Notional of £6.5 billion GBP LIBOR hedged items in cash flow hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

14 Derivatives continued

The following table shows an analysis of the pre-tax cash flow hedge reserve and foreign exchange hedge reserve.

	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	(295)	—	695	—
Foreign exchange risk	23	53	22	(13)
De-designated				
Interest rate risk	(297)	—	(424)	—
Foreign exchange risk	10	(759)	(1)	(775)
Total	(559)	(706)	292	(788)

	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	(700)		318	—
Foreign exchange risk	13	88	3	(57)
Total	(687)	88	321	(57)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	(181)	—	(19)	—
Interest rate risk to non-interest income (1)	20	—	—	—
Foreign exchange risk to net interest income	(4)	2	(35)	—
Foreign exchange risk to non-interest income	1	(2)	—	2
Foreign exchange risk to operating expenses	3	—	4	—
Total	(161)	—	(50)	2

(1) There was £20 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 comprises:

	2021 £m	2020 £m	2019 £m
Fair value hedging			
(Losses)/gains on hedged items attributable to the hedged risk	(846)	877	610
Gains/(losses) on the hedging instruments	897	(875)	(585)
Fair value hedging ineffectiveness	51	2	25
Cash flow hedging			
Interest rate risk	(26)	22	23
Cash flow hedging ineffectiveness	(26)	22	23
Total	25	24	48

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

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

15 Loan impairment provisions

Loan exposure and impairment metrics

There is a risk that customers and counterparties fail to meet their contractual obligation to settle outstanding amounts, known as expected credit losses (ECL). The calculation of ECL considers historic, current and forward-looking information to determine the amount we do not expect to recover. ECL is recognised on current and potential exposures, and contingent liabilities.

For accounting policy information see Accounting policies note 11. Further disclosures on credit risk and information on ECL methodology are shown from page 197.

The table below summarises loans and credit impairment measures within the scope of IFRS 9 Expected credit losses framework.

	2021 £m	2020 £m
Loans - amortised cost		
Stage 1	330,824	287,124
Stage 2	33,981	78,917
Stage 3	5,022	6,358
Of which: individual	*1,215*	*2,292*
Of which: collective	*3,807*	*4,066*
	369,827	372,399
ECL provisions (1)		
- Stage 1	302	519
- Stage 2	1,478	3,081
- Stage 3	2,026	2,586
Of which: individual	*363*	*831*
Of which: collective	*1,663*	*1,755*
	3,806	6,186
ECL provision coverage (2,3)		
- Stage 1 (%)	0.09	0.18
- Stage 2 (%)	4.35	3.90
- Stage 3 (%)	40.34	40.67
	1.03	1.66
Continuing operations		
Impairment (releases)/losses		
ECL (release)/charge (3,4)	(1,278)	3,131
Stage 1	(1,377)	(89)
Stage 2	(187)	2,601
Stage 3	286	619
Of which: individual	*20*	*194*
Of which: collective	*266*	*425*
Amounts written off	876	937
Of which: individual	*455*	*191*
Of which: collective	*421*	*746*

(1) Includes £5 million (2020 - £6 million) related to assets classified as FVOCI.
(2) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(3) Includes a £3 million charge (2020 - £12 million charge) related to other financial assets, of which £2 million release (2020 - £2 million charge) related to assets classified as FVOCI; and £34 million release (2020 - £28 million charge) related to contingent liabilities.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(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 totalling £176.3 billion (2020 – £122.8 billion) and debt securities of £44.9 billion (2020 – £53.8 billion).

15 Loan impairment provisions continued

Credit risk enhancement and mitigation

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

Critical accounting policy: Loan impairment provisions

Accounting policies note 11 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £3,806 million (2020 - £6,186 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.

16 Other financial assets

Other financial assets consist of debt securities, equity shares and loans that are not held for trading. Balances consist of local and central government securities, a component part of NatWest Group's liquidity portfolio.

For accounting policy information see Accounting policy 10.

	Debt securities							
	Central and local government			Other		Equity	Other	
	UK	US	Other	debt	Total	shares	loans	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	6	6	13	298	317
Fair value through other comprehensive income (1)	11,938	10,086	5,604	9,058	36,686	312	268	37,266
Amortised cost	3,821	156	81	4,504	8,562	—	—	8,562
Total	15,759	10,242	5,685	13,568	45,254	325	566	46,145
2020								
Mandatory fair value through profit or loss	—	—	—	88	88	14	338	440
Fair value through other comprehensive income (1)	17,458	11,742	6,802	8,591	44,593	294	15	44,902
Amortised cost	4,997	235	116	4,458	9,806	—	—	9,806
Total	22,455	11,977	6,918	13,137	54,487	308	353	55,148

(1) Upon initial recognition, the Group occasionally irrevocably designates some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial instruments: presentation, are not held for trading or they are held for strategic purposes. Such classification is determined on an instrument by instrument basis. Gains and losses on these equity instruments are not recycled to the income statement and dividends are recognised in profit or loss except when they represent a recovery of part of the cost of the instrument, in which case such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

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

Dividends on FVOCI equity shares include £4 million (2020: £5 million) in relation to the equity holding in OTC Derivative Limited and £1 million (2020: £2 million) for VISA Inc. Dividends received in relation to equity shares disposed during the year were nil (2020: £15 million for NWG's equity holding in SABB).

17 Intangible assets

Intangible assets, such as internally generated software and goodwill generated on business combinations are not physical in nature. This note presents the cost of the assets, which is the amount NatWest Group initially paid or incurred, additions and disposals during the year, and any amortisation or impairment. Amortisation is a charge that reflects the usage of the asset and impairment is a reduction in value arising from specific events identified during the year.

For accounting policy information see Accounting policies notes 5 and 6.

	2021			2020		
	Goodwill	Other (1)	Total	Goodwill	Other (1)	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January	9,939	2,592	12,531	9,980	2,293	12,273
Currency translation and other adjustments	—	29	29	—	(1)	(1)
Additions	—	479	479	—	348	348
Disposals and write-off of fully amortised assets	—	(50)	(50)	(41)	(48)	(89)
At 31 December	9,939	3,050	12,989	9,939	2,592	12,531
Accumulated amortisation and impairment						
At 1 January	4,332	1,544	5,876	4,373	1,278	5,651
Currency translation and other adjustments	—	31	31	—	1	1
Disposals and write-off of fully amortised assets	—	(28)	(28)	(41)	(26)	(67)
Impairment of intangible assets	85	2	87	—	9	9
Amortisation charge for the year	—	300	300	—	282	282
At 31 December	4,417	1,849	6,266	4,332	1,544	5,876
Net book value at 31 December	5,522	1,201	6,723	5,607	1,048	6,655

(1) Principally internally generated software.

Intangible assets and goodwill are reviewed for indicators of impairment. In 2021 £85 million of goodwill was impaired due to a reduction in the recoverable value.

NatWest Group's goodwill acquired in business combinations analysed by reportable segment is in Note 4 Segmental analysis. It is reviewed annually at 31 December for impairment. In 2021 goodwill in the Retail segment was impaired by £85 million. No other impairment was indicated at 31 December 2021 or 2020.

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.

Critical accounting policy: Goodwill

Critical estimates

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

17 Intangible assets continued

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

		Assumptions				Consequential impact of 1% adverse movement		Consequential impact of 5% adverse movement	
	Goodwill	Terminal growth rate	Pre-tax discount rate	Cost: income ratio (1)	Recoverable amount exceeded carrying value	Discount rate	Terminal growth rate	Forecast Income	Forecast cost
31 December 2021	£bn	%	%	%	£bn	£bn	£bn	£bn	£bn
Retail Banking	**2.6**	**1.6**	**13.9**	**51.6**	**6.8**	**(1.8)**	**(0.8)**	**(2.1)**	**(1.0)**
Commercial Banking	**2.6**	**1.6**	**13.9**	**52.3**	**6.3**	**(1.9)**	**(0.8)**	**(2.0)**	**(1.0)**
RBS International	**0.3**	**1.6**	**12.1**	**37.0**	**2.6**	**(0.6)**	**(0.3)**	**(0.4)**	**(0.1)**
31 December 2020									
Retail Banking	2.7	1.6	13.7	48.3	5.9	(1.8)	(0.8)	(2.0)	(0.9)
Commercial Banking	2.6	1.6	13.7	53.7	1.5	(1.5)	(0.5)	(1.8)	(0.9)
RBS International	0.3	1.6	12.1	42.7	1.1	(0.4)	(0.2)	(0.3)	(0.1)

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

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

	2021				2020			
Change in key assumptions to reduce headroom to nil (%)	Terminal growth rate %	Pre-tax discount rate %	Forecast income %	Forecast cost %	Terminal growth rate %	Pre-tax discount rate %	Forecast income %	Forecast cost %
Retail Banking	**(139.2)**	**8.1**	**(16.1)**	**32.7**	(25.4)	6.2	(14.6)	33.9
Commercial Banking	**(47.0)**	**6.6**	**(15.7)**	**32.8**	(4.0)	1.3	(4.1)	8.2
RBS International	**(85.2)**	**10.3**	**(30.3)**	**87.2**	(10.8)	4.4	(18.6)	52.8

18 Other assets

Other assets are not financial assets and reflect a grouping of assets that are not large enough to present separately on the balance sheet.

	2021 £m	2020 £m
Interests in associates (1)	**716**	449
Property, plant and equipment (2)	**4,230**	4,418
Pension schemes in net surplus (Note 5)	**602**	723
Prepayments	**360**	328
Accrued income	**248**	216
Tax recoverable	**190**	192
Deferred tax (Note 7)	**1,195**	901
Acceptances	**225**	272
Other	**476**	391
Other assets	**8,242**	7,890

(1) Includes interest in Business Growth Fund £700 million (2020 - £442 million).
(2) The estimated useful lives of NatWest Group's property, plant and equipment are: freehold buildings and long leasehold 50 years, short leaseholds for unexpired period of lease, property adaptation costs 10 to 15 years, computer equipment up to 5 years and other equipment 4 to 15 years.

19 Other financial liabilities

Other financial liabilities consist of customer deposits designated at fair value and debt securities in issue classified as designated at fair value and amortised cost.

For accounting policy information see Accounting policies notes 10 and 14.

	2021 £m	2020 £m
Customer deposits - designated as at fair value through profit or loss	**568**	796
Debt securities in issue		
- designated as at fair value through profit or loss	**1,103**	1,607
- amortised cost	**47,655**	43,408
Total	**49,326**	45,811

20 Subordinated liabilities

Subordinated liabilities are debt securities that, in the event of winding up or bankruptcy, rank below other liabilities for interest payments and repayment. The subordinated liabilities presented in the note are classified as designated at fair value and amortised cost.

For accounting policy information see Accounting policies notes 10 and 14.

	2021 £m	2020 £m
Dated loan capital	**8,051**	8,530
Undated loan capital	**259**	1,287
Preference shares	**119**	145
	8,429	9,962

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

New issue	Capital treatment	2021 £m	2020 £m
NatWest Group plc			
£1,000 million 3.622% dated notes 2030 (callable between May 2025 to August 2025)	Tier 2	**—**	996
US$850 million 3.032% dated notes 2035 (callable November 2030)	Tier 2	**—**	634
£1000 million 2.105% dated notes 2031 (callable between August 2026 to November 2026)	Tier 2	**996**	—
€750 million 1.043% dated notes 2032 (callable between June 2027 to September 2027)	Tier 2	**638**	—
		1,634	1,630
Redemptions			
NatWest Group plc			
US$2,250 million 6.13% dated notes 2022 (partial redemption)	Tier 2	**226**	499
US$1,000 million 6.10% dated notes 2023 (partial redemption)	Tier 2	**57**	358
US$2,000 million 7.5% dated notes 2020	Tier 2	**—**	1,528
US$762 million 7.648% undated notes (partial redemption)	Ineligible	**45**	497
US$106 million floating rate undated notes (callable on any interest payment date)	Ineligible	**77**	—
US$2,650 million 8.625% dated notes 2021 (callable August 2021) (1)	Tier 2	**1,914**	—
US$2,250 million 5.125% dated notes 2024 (partial redemption)	Tier 2	**729**	—
US$2,000 million 6% dated notes 2023 (partial redemption)	Tier 2	**436**	—
		3,484	2,882
NatWest Markets Plc			
US$125.6 million floating rate notes 2020	Tier 2	**—**	97
€145.6 million floating rate dated notes 2023 (partial redemption)	Tier 2	**20**	—
£31 million 7.38% notes (partial redemption)	Tier 2	**29**	—
£19 million 5.63% notes (partial redemption)	Tier 2	**20**	—
		69	97
National Westminister 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	
NWM N.V. and subsidiaries			
US$650 million 6.425% dated notes 2043 (partial redemption)	Ineligible	**73**	187
€15 million 6.00% notes 2020	Tier 2	**—**	11
		73	198

(1) In July 2021, paid in equity reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 capital notes which were subsequently redeemed in August 2021.

21 Other liabilities

Other liabilities are amounts due to third parties that are not financial liabilities including lease liabilities, amounts due for goods and services that have been received but not invoiced, tax due to HMRC, and retirement benefit liabilities. Liabilities which have a level of uncertainty regarding their timing or the future cost to settle them are included in other liabilities as provisions for liabilities and charges.

Other liabilities	2021 £m	2020 £m
Lease liabilities (Note 23)	1,263	1,698
Provisions for liabilities and charges	1,268	1,852
Retirement benefit liabilities (Note 5)	114	121
Accruals	1,508	990
Deferred income	319	361
Current tax	12	63
Deferred tax (Note 7)	359	291
Acceptances	225	272
Other liabilities (1)	729	740
	5,797	6,388

(1) Other liabilities include liabilities of disposal groups of £5 million (2020: nil). See Note 8 for further information.

Provisions for liabilities and charges	Customer redress (1) £m	Litigation and other regulatory (4) £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2021	749	365	271	178	289	1,852
Expected credit loss impairment release	—	—	—	(83)	—	(83)
Currency translation and other movements	(5)	—	2	(2)	(7)	(12)
Charge to income statements	173	307	113	—	196	789
Release to income statement	(25)	(86)	(118)	—	(82)	(311)
Provisions utilised	(418)	(309)	(37)	—	(203)	(967)
At 31 December 2021	474	277	231	93	193	1,268

(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.
(4) Majority of charge in the year and utilisation of litigation provisions relates to FCA investigation into money laundering.

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

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably.

Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

– Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
– Litigation and other regulatory: NatWest Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 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 for all material provisions is given in Note 27.

22 Share capital and other equity

Share capital consists of ordinary shares and preference shares and is measured as the number of shares allotted and fully paid multiplied by the nominal value of a share. Other equity includes paid-in equity, merger reserves, capital redemption reserve and own shares held.

For accounting policy information see Accounting policies note 14.

Allotted, called up and fully paid	2021 £m	2020 £m	Number of shares 2021 000s	Number of shares 2020 000s
Ordinary shares of £1	11,468	12,129	11,467,982	12,129,165
Cumulative preference shares of £1	1	1	483	900
Non-cumulative preference shares of US$0.01 (1)	—	—	10	10

(1) No shares were redeemed in 2021 or 2020. The company announced on 1 February 2022 that it had given notice to holders of the redemption on 31 March 2022 of the Series U Non-cumulative dollar preference shares.

Movement in allotted, called up and fully paid ordinary shares	£m	Number of shares 000s
At 1 January 2020	12,094	12,093,909
Shares issued	35	35,256
At 1 January 2021	12,129	12,129,165
Shares issued	38	37,584
Shares redeemed	(699)	(698,767)
At 31 December 2021	11,468	11,467,982

Ordinary shares

There is no authorised share capital under the company's constitution. At 31 December 2021, the directors had authority granted at the 2021 Annual General Meeting to issue up to £608,328,288 nominal of ordinary shares other than by pre-emption to existing shareholders. This figure was reduced to £578,791,771 to reflect the reduction in issued share capital resulting from the off-market buyback announced on 19 March 2021.

On 6 February 2019 the company held a General Meeting and shareholders approved a special resolution to give the company authority to make off-market purchases of its ordinary shares from HM Treasury (or its nominee) at such times as the directors may determine is appropriate. Full details of the proposal are set out in the Circular and Notice of General Meeting. This authority was renewed at the Annual General Meeting in 2021 and shareholders will be asked to renew the authority at the Annual General Meeting in 2022.

The company utilised the authority it obtained at the 2020 AGM to make an off-market purchase of 590,730,325 ordinary shares (nominal value £590,730,325) in the company from HMT on 19 March 2021, at a price of 190.50p per ordinary share for the total consideration of £1,125,341,269, representing 4.86% of the company's issued ordinary share capital. The company cancelled 390,730,325 of the purchased ordinary shares and held the remaining 200,000,000 ordinary shares in treasury. The company has used a total of 19,062,290 treasury shares to satisfy the exercise of options and the vesting of share awards under the employee share plans.

At the Annual General Meeting in 2021 shareholders authorised the company to make market purchases of up to 1,216,656,575 ordinary shares in the company. The directors utilised the authority obtained at the 2021 AGM to conduct a share buyback programme (the Programme) of up to £750 million, as announced to the market on 30 July 2021. The Programme's purpose is to reduce the ordinary share capital of NatWest Group. Taking into account the reduction in issued ordinary share capital which occurred as a result of the off-market buyback announced on 19 March 2021, the maximum number of ordinary shares that could be purchased by the company under the Programme was 1,157,583,542. The Programme commenced on 2 August 2021 and, as at 31 December 2021, 310,802,416 ordinary shares (nominal value £310,802,416) had been purchased by the company at an average purchase price of 217.5796p per ordinary share for the total consideration of £676,242,656.

A further 29,735,044 ordinary shares (nominal value £29,735,044) were purchased by the company from 1 January to 18 January 2022 at an average purchase price of 245.5264p per ordinary share for the total consideration of £73,007,375. All of the purchased ordinary shares were cancelled, representing 2.93% of the company's issued ordinary share capital. Shareholders will be asked to renew the authorisation at the Annual General Meeting in 2022.

In 2021, the company issued 38 million ordinary shares of £1 each in connection with employee share plans.

In 2021 NatWest Group paid an interim dividend of £347 million, or 3.0p per ordinary share (2020 - nil).

The company has announced that the directors have recommended a final dividend of £844.3 million, or 7.5p per ordinary share (2020 – £364 million, or 3p) subject to shareholder approval at the Annual General Meeting on 28 April 2022.

If approved, payment will be made on 4 May 2022 to shareholders on the register at the close of business on 18 March 2022. The ex-dividend date will be 17 March 2022.

Cumulative preference shares

At the 2021 Annual General Meeting, shareholders authorised the company to make an off-market purchase of preference shares in the company. The company announced on 15 December 2021 that it had utilised this authority to purchase 157,546 5.5% cumulative preference shares (nominal value £157,546), representing 39.39% of the share class, at a purchase price of 102% for the total consideration of £160,697 and 259,314 11.00% cumulative preference shares (nominal value £259,314), representing 51.86% of the share class, at a purchase price of 155% for the total consideration of £401,937. The company cancelled all of the purchased preference shares.

Non-cumulative preference shares

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

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

22 Share capital and other equity continued

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

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

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

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

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

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

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

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	2019 £m
Additional Tier 1 notes			
US$2.0 billion 7.5% notes callable August 2020 (1)	—	—	1,277
US$1.15 billion 8% notes callable August 2025 (1)	735	735	735
US$2.65 billion 8.625% notes callable August 2021 (2)	—	2,046	2,046
US$1.5 billion 6.000% notes callable December 2025 - June 2026 (3)	1,220	1,220	—
GBP£1.0 billion 5.125% notes callable May - November 2027 (4)	998	998	—
GBP£0.4 billion – March 2021 issuance (5)	399	—	—
US$0.75 billion – June 2021 issuance (6)	538	—	—
	3,890	4,999	4,058

(1) Issued in August 2015. In the event of conversion, converted into ordinary shares at a price of $3.606 nominal per £1 share.
(2) Issued in August 2016. In the event of conversion, converted into ordinary shares at a price of $2.284 nominal per £1 share. In July 2021, paid-in equity reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 Capital notes.
(3) Issued in June 2020. In the event of conversion, converted into ordinary shares at a price of £1.754 (translated at applicable exchange rate) per £1 share.
(4) Issued in November 2020. In the event of conversion, converted into ordinary shares at a price of £1.754 nominal per £1 share.
(5) Issued in March 2021. In the event of conversion, converted into ordinary shares at a price of £1.754 nominal per £1 share.
(6) Issued in June 2021. In the event of conversion, converted into ordinary shares at a price of £1.754 (translated at applicable exchange rate) per £1 share.

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

Capital redemption reserve - under UK companies legislation, when shares are redeemed or purchased wholly or partly out of the company's profits, the amount by which the company's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of the company's paid up share capital. On 15 June 2017, the Court of Session approved a reduction of NatWest plc capital so that the amounts which stood to the credit of the capital redemption reserve were transferred to retained earnings. The nominal value of the shares bought back from HM Treasury in March 2021 and via the Programme during 2021 have been transferred to the Capital redemption reserve.

Own shares held - at 31 December 2021, 15 million ordinary shares of £1 each of the company (2020 - 16 million) were held by employee share trusts in respect of share awards and options granted to employees. During the year, the employee share trusts purchased no ordinary shares and delivered 1 million ordinary shares in satisfaction of the exercise of options and the vesting of share awards under the employee share plans. The company retains the flexibility to use newly issued shares, shares purchased by the NatWest Group Employee Share Ownership Trust and any available treasury shares to satisfy obligations under its employee share plans. The company does not use performance conditions or targets based on earnings per share (EPS), total shareholder return (TSR), and net asset value (NAV) in connection with its employee share plans.

As part of the shares bought back from HM Treasury in March 2021, the company transferred 200 million ordinary shares to treasury. The company has used a total of 19,062,290 treasury shares to satisfy the exercise of options and the vesting of share awards under the employee share plans. The balance of ordinary shares held in treasury as at 31 December 2021 was 180,937,710.

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

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

23 Leases

A lease is a contract or part of a contract whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in exchange for a payment or series of payments.

This note presents the income, expenses, assets, liabilities and cash flows of NatWest Group in the capacity of both lessee and lessor.

Lessee

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

	2021 £m	2020 £m
Amount recognised in consolidated income statement		
Interest payable	(38)	(42)
Depreciation (1)	(167)	(209)
Rental expenses on short term leases	—	(1)
Income from subleasing right to use assets	4	4

	2021 £m	2020 £m
Amount recognised on balance sheet		
Right of use assets include property, plant and equipment (2),(3)	733	955
Additions to right of use assets	70	80
Lease liabilities (3),(4)	(1,263)	(1,698)

The total cash outflow for leases is £195 million (2020: £220 million), including payment of principal amount of £164 million (2020: £179 million) which are included in the operating activities in the cash flow statement.

(1) Includes impairment of right of use assets of £52 million (2020: £89 million).
(2) Includes right of use asset for 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 are shown in Note 12.

Lessor

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

	2021 £m	2020 £m
Amount included in consolidated income statement		
Finance leases		
Finance income on the net investment in leases	298	289
Operating leases		
Lease income	169	168

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

	2021 £m	2020 £m
Amount receivable under finance leases		
Within 1 year	3,272	3,156
1 to 2 years	2,044	2,231
2 to 3 years	1,443	1,609
3 to 4 years	757	952
4 to 5 years	429	492
After 5 years	1,423	1,688
Lease payments total	9,368	10,128
Unguaranteed residual values	225	232
Future drawdowns	(21)	(22)
Unearned income	(891)	(1,081)
Present value of lease payments	8,681	9,257
Impairments	(150)	(196)
Net investment in finance leases	8,531	9,061

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23 Leases continued

The following tables show undiscounted lease receivables from operating leases:

	2021 £m	2020 £m
Amount receivable under operating leases		
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

	2021 £m	2020 £m
Nature of operating lease assets on the balance sheet		
Transportation	282	327
Car and light commercial vehicles	21	28
Other	223	245
	526	600

Fair value of investment properties under operating lease are £838 million (2020: £840 million) and had lease income of £59 million (2020: £60 million). The following table shows undiscounted lease receivables from investment properties:

	2021 £m	2020 £m
Amount receivable under investment properties		
Within 1 year	63	67
1 to 2 years	62	127
2 to 3 years	58	54
3 to 4 years	56	76
4 to 5 years	51	88
After 5 years	304	142
Total	594	554

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 where these can be a medium for a single transaction or portfolio of similar transactions. SEs are established as investment or funding vehicles, within the NatWest Group and for client transactions.

Consolidated structured entities

Securitisations

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

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

Other credit risk transfer securitisations

NatWest Group also transfers credit risk on originated loans and mortgages without the transfer of assets to a SE. As part of this, NatWest 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 debt programme

Group companies have assigned loans to customers and debt investments to bankruptcy remote limited liability partnerships to provide security for issues of debt securities. NatWest Group retains all of the risks and rewards of these assets and continues to recognise them. The partnerships are consolidated by NatWest Group and the related covered bonds included within other financial liabilities. At 31 December 2021, £8,965 million (2020 - £10,758 million) of loans to customers and nil (2020 - £318 million) of debt investments provided security for debt securities in issue and other borrowing of £3,512 million (2020 - £4,105 million).

Lending of own issued securities

NatWest Group has issued, retained, and lent debt securities under securities lending arrangements. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transaction. NatWest Group retains all of the risks and rewards of own issued liabilities lent under such arrangements and does not recognise them. At 31 December 2021, £1,494 million (2020 - £1,893 million) of secured own issued liabilities have been retained and lent under securities lending arrangements. At 31 December 2021, £1,564 million (2020 - £2,029 million) of loans and other debt instruments provided security for secured own issued liabilities that have been retained and lent under securities lending arrangements.

Unconsolidated structured entities

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

	2021			2020		
	Asset backed securitisation vehicles £m	Investment funds and others £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and others £m	Total £m
Trading assets and derivatives						
Trading assets	490	117	607	319	46	365
Derivative assets	251	18	269	441	16	457
Derivative liabilities	(170)	(1)	(171)	(319)	(21)	(340)
Total	571	134	705	441	41	482
Non trading assets						
Loans to customers	1,692	361	2,053	1,400	497	1,897
Other financial assets	3,645	379	4,024	3,892	170	4,062
Total	5,337	740	6,077	5,292	667	5,959
Liquidity facilities/loan commitments	1,403	135	1,538	1,482	204	1,686
Maximum exposure	7,311	1,009	8,320	7,215	912	8,127

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25 Asset transfers

This note provides an overview of asset transfers which do not qualify for derecognition and therefore continue to be recognised in NatWest Group's balance sheet.

For accounting policy information see Accounting policies note 4.

Transfers that do not qualify for derecognition

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

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

The following assets have failed derecognition (1)	2021 £m	2020 £m
Trading assets	**13,084**	20,526
Loans to bank - amortised cost	**38**	5
Loans to customers - amortised cost	**1,837**	39
Other financial assets	**11,746**	11,542
Total	**26,705**	32,112

(1) Associated liabilities were £24,747 million (2020 – £31,932 million).

Assets pledged as collateral

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

Assets pledged against liabilities	2021 £m	2020 £m
Trading assets	**23,601**	28,728
Loans to banks - amortised cost	**62**	49
Loans to customers - amortised cost	**20,108**	15,939
Other financial assets (1)	**3,624**	4,966
Total	**47,395**	49,682

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

As part of the covered debt programme £8,965 million of loans to customers and other debt instruments (2020 – £11,076 million) have been transferred to bankruptcy remote limited liability partnerships within the NatWest Group to provide collateral for issues of debt securities and other borrowing by the NatWest Group of £3,512 million (2020 – £4,105 million). See Structured Entities Note.

Own asset securitisations

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

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

	2021				2020			
		Debt Securities in issue				Debt Securities in issue		
Asset Type	Assets £m	Held by third parties £m	Held by NatWest Group (1) £m	Total £m	Assets £m	Held by third parties £m	Held by NatWrst Group (1) £m	Total £m
Mortgages - RoI	**1,244**	**—**	**1,314**	**1,314**	1,921	243	1,848	2,091
Cash deposits	**42**				146			
	1,286				2,067			

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

26 Capital resources

NatWest Group's regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation to determine the strength of its capital base.

This note shows a reconciliation of shareholders' equity to regulatory capital.

	PRA transitional basis 2021 £m	2020 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**41,796**	43,860
Preference shares - equity	**(494)**	(494)
Other equity instruments	**(3,890)**	(4,999)
	37,412	38,367
Regulatory adjustments and deductions		
Own credit	**21**	(1)
Defined benefit pension fund adjustment	**(465)**	(579)
Cash flow hedging reserve	**395**	(229)
Deferred tax assets	**(761)**	(760)
Prudential valuation adjustments	**(274)**	(286)
Goodwill and other intangible assets	**(6,312)**	(6,182)
Foreseeable ordinary dividends	**(846)**	(364)
Foreseeable charges	**(825)**	—
Foreseeable pension contributions	**(365)**	(266)
Adjustment under IFRS 9 transitional arrangements	**621**	1,747
Other regulatory adjustments	**(5)**	—
	(8,816)	(6,920)
CET1 capital	**28,596**	31,447
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**3,875**	4,983
Qualifying instruments and related share premium subject to phase out	**571**	690
Qualifying instruments issued by subsidiaries and held by third parties subject to phase out	**—**	140
AT1 capital	**4,446**	5,813
Tier 1 capital	**33,042**	37,260
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,935**	4,882
Qualifying instruments issued by subsidiaries and held by third parties	**314**	1,191
Other regulatory adjustments	**457**	400
Tier 2 capital	**5,706**	6,473
Total regulatory capital	**38,748**	43,733

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

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

27 Memorandum items

Contingent liabilities and commitments

NatWest Group provides its customers with a variety of services to support their businesses, such as guarantees. These are reported as commitments. Contingent liabilities are possible obligations dependent on a future event or present obligations which are either not probable or cannot be measured reliably.

For accounting policy information see Accounting policies note 8.

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 NatWest Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NatWest Group's expectation of future losses.

	Less than 1 year £m	More than 1 year but less than 3 years £m	More than 3 years but less than 5 years £m	Over 5 years £m	2021 £m	2020 £m
Guarantees	993	321	195	546	2,055	2,244
Other contingent liabilities	1,005	435	43	521	2,004	2,321
Standby facilities, credit lines and other commitments	60,029	26,775	27,136	7,368	121,308	124,167
Contingent liabilities and commitments	62,027	27,531	27,374	8,435	125,367	128,732

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

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

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

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

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

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

Contractual obligations for future expenditure not provided for in the accounts

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

	2021 £m	2020 £m
Capital expenditure on property, plant and equipment	16	15
Contracts to purchase goods or services (1)	682	729
	698	744

(1) Of which due within 1 year: £301 million (2020 – £267 million).

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Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NatWest Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NatWest Group's financial statements. NatWest Group earned fee income of £280 million (2020 - £245 million; 2019 - £250 million) from these activities.

The Financial Services Compensation Scheme

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

Litigation and regulatory matters

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

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

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

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

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 NatWest Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NatWest Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 21 for information on material provisions.

Material Matters in which NatWest Group is currently involved are set out below. We have provided information 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 NatWest Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 425.

Litigation

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

NatWest Group companies continue to defend RMBS-related claims in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleges that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. In Q4 2021, NWMSI settled RMBS claims by the State of New Mexico for an amount that was covered by an existing provision. In addition, NWMSI previously agreed to settle a purported RMBS class action entitled New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al. for US$55.3 million. This was paid into escrow pending court approval of the settlement, which was granted in March 2019, but which remains the subject of an appeal by a class member who does not want to participate in the settlement.

London Interbank Offered Rate (LIBOR) and other rates litigation

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

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2021, the United States Court of Appeals for the Second Circuit (US Court of Appeals), reversing a December 2016 decision of the SDNY, held that plaintiffs in these cases have adequately asserted the court's personal jurisdiction over NWM Plc and other non-US banks, including with respect to antitrust class action claims on behalf of over-the-counter plaintiffs and exchange-based purchaser plaintiffs.

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Litigation and regulatory matters

In the same decision, the appellate court affirmed the SDNY's prior decision that plaintiffs who purchased LIBOR-based instruments from third parties (as opposed to the defendants) lack antitrust standing to pursue such claims. The appellate court remanded these matters to the SDNY for further proceedings in light of its rulings. A separate appeal concerning the SDNY's dismissal of a fraud class action on behalf of lender plaintiffs remains pending in the US Court of Appeals. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NatWest Group companies and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The UK proceedings are at the disclosure stage.

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and the plaintiffs have commenced an appeal to the US Court of Appeals. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NatWest Group companies in September 2021. That dismissal may be the subject of a future appeal.

In addition to the above, five other class action complaints were filed against NatWest Group companies in the SDNY, each relating to a different reference rate. In February 2017, the SDNY dismissed the case relating to Euribor for lack of personal jurisdiction and in August 2019, the SDNY dismissed the case relating to Pound Sterling for various reasons. Plaintiffs' appeals in both cases remain pending. In July 2019, the SDNY dismissed the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate ('SIBOR / SOR') but in March 2021, the US Court of Appeals reversed the SDNY's decision, such that the case has returned to the SDNY, where it is the subject of a further motion to dismiss. In the class action relating to the Australian Bank Bill Swap Reference Rate, the SDNY in February 2020 declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of NatWest Group (including NatWest Group plc). The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery. In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

NWM Plc is also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service outside the jurisdiction, which was granted in July 2020.

The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of an appeal to Israel's Supreme Court in respect of dismissal of the substantive case against banks that had a presence in Israel.

In January 2019, a class action antitrust complaint was filed in the SDNY alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NWM Plc, NWMSI and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. One plaintiff sought to appeal the dismissal, but on 14 February 2022, the 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, NWM Plc, NWMSI and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to dismiss, which remains pending.

FX litigation

NWM Plc, NWMSI and/or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business. In 2015, NWM Plc paid US$255 million to settle the consolidated antitrust class action filed in the SDNY on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. In 2018, some members of the settlement class who opted out of that class action settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery.

In April 2019, some of the same claimants in the opt-out case described above, as well as others, served proceedings (which are ongoing) in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the Competition Appeal Tribunal in January 2022.

An FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. Plaintiffs have filed a motion for class certification, which defendants are opposing.

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUD $0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc and NWMSI have been named in the action as 'other cartel participants', but are not respondents. The claim was served in June 2019 and, after a number of interlocutory

27 Memorandum items continued

Litigation and regulatory matters

pleading disputes, NWM Plc is preparing its defence.

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

In November 2020, proceedings were issued in the High Court of Justice of England and Wales against NWM Plc by a claimant who sought an account of profits and/or damages in respect of alleged historical FX trading misconduct. The claim was served on NWM Plc in March 2021 and discontinued in December 2021.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion to certify, which names The Royal Bank of Scotland plc (now NWM Plc) and several other banks as defendants, was served on NWM Plc in May 2020. NWM Plc has filed a motion challenging the permission to serve the consolidated motion outside the Israeli jurisdiction, which remains pending.

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission of 16 May 2019 is unlawful, along with unspecified damages. The claimant has indicated that it may seek to amend its claim to also refer to the December 2021 decision by the EC (described below under "Foreign exchange related investigations"). A hearing is scheduled for June 2022.

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

Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action pending in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The complaint was dismissed in March 2021. Plaintiffs have filed an amended complaint, which defendants are again seeking to have dismissed.

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

Swaps antitrust litigation

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

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants include several NatWest Group companies, including NatWest Group plc. Defendants are seeking dismissal.

Odd lot corporate bond trading antitrust litigation

In October 2021, the SDNY granted defendants' motion to dismiss the class action antitrust complaint alleging that from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. Plaintiffs have commenced an appeal of the dismissal.

Spoofing litigation

In December 2021, three substantially similar class actions complaints were filed in federal court in the United States against NWM Plc and NWMSI alleging Commodity Exchange Act and common law unjust enrichment claims arising from manipulative trading known as spoofing. The complaints refer to NWM Plc's December 2021 spoofing-related guilty plea (described below under "US investigations relating to fixed-income securities") and purport to assert claims on behalf of those who transacted in US Treasury securities and futures and options on US Treasury securities between 2008 and 2018. The three complaints are pending in the United States District Court for the Northern District of Illinois.

Madoff

NWM N.V. is a defendant in two actions filed by the trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court subject to NWM N.V.'s legal and factual defences.

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Litigation and regulatory matters

EUA trading litigation

NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in European Union Allowances (EUAs) in 2009 and were alleged to be VAT defaulting traders within (or otherwise connected to) EUA supply chains of which NWM Plc was a party. In March 2020, the court held that NWM Plc and Mercuria Energy Europe Trading Limited ('Mercuria') were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009.

In October 2020, the High Court quantified total damages against NWM Plc and Mercuria at £45 million plus interest and costs, and permitted the defendants to appeal to the Court of Appeal. In May 2021 the Court of Appeal set aside the High Court's judgment and ordered that a retrial take place before a different High Court judge. The claimants have sought permission from the Supreme Court to appeal. The Court of Appeal also dismissed an appeal by Mercuria against the finding by the High Court that NWM Plc and Mercuria were both vicariously liable. Mercuria has sought permission from the Supreme Court to appeal that decision.

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.

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.

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

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

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

Securities underwriting litigation

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

1MDB litigation

A claim for a material sum has been issued, but not served, recently in Malaysia by 1MDB against Coutts & Co Ltd for alleged losses in connection with the 1MDB fund. Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

Regulatory matters (including investigations and customer redress programmes)

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

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

27 Memorandum items continued

Litigation and regulatory matters

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

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

Investigations

US investigations relating to fixed-income securities

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018.

The 2018 trading occurred during the term of a non-prosecution agreement (NPA) between NWMSI and the United States Attorney's Office for the District of Connecticut (USAO CT), under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA.

The plea agreement reached with the US Department of Justice and the USAO CT resolves both the spoofing conduct and the breach of the NPA.

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation and has paid a US$25.2 million criminal fine, approximately US$2.8 million in criminal forfeiture and approximately US$6.8 million in restitution out of existing provisions. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

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 425.

Foreign exchange related investigations

In recent years, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the Commodity Futures Trading Commission, the US Department of Justice, the Board of Governors of the Federal Reserve System, the European Commission (EC) and others. In December 2021, the EC announced that a settlement had been reached with NatWest Group plc, NWM Plc and other banks in relation to its investigation into past breaches of competition law regarding spot foreign exchange trading. NatWest Group plc and NWM Plc were fined EUR 32.5 million in total relating to conduct that took place between 2011 and 2012. The fine was covered by existing provisions. This concludes the EC's investigations into NatWest Group's past spot foreign exchange trading activity.

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 425.

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.

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Litigation and regulatory matters

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

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation phase has concluded, although an appeals process is currently anticipated to run until the end of 2022. NatWest Group has made provisions totalling €358 million (£300 million), of which €335 million (£281 million) had been utilised by 31 December 2021.

UBIDAC customers have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). UBIDAC is challenging three FSPO adjudications in the Irish High Court. The outcome and impact of that challenge on those and related complaints is uncertain but may be material.

UBIDAC has identified further legacy business issues and these remediation programmes are ongoing. NatWest Group has made provisions of €188 million (£158 million), of which €156 million (£131 million) had been utilised by 31 December 2021 for these programmes.

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

This note shows cash flows relating to obtaining or losing control of associates or subsidiaries and net assets and liabilities purchased and sold. These cash flows are presented as investing activities on the cash flow statement.

	2021 £m	2020 £m	2019 £m
Fair value given for businesses acquired (1)	—	—	(55)
Additional investment in associates	(51)	(40)	—
Net assets/liabilities purchased	(3,128)	—	—
Net outflow of cash in respect of acquisitions	(3,179)	(40)	(55)
Sale of interests in associates	—	27	—
Net assets/liabilities disposed	114	288	351
Profit on disposal	55	3	—
Net inflow of cash in respect of disposals	169	318	351
Cash expenditure on intangible assets	(479)	(348)	(380)
Net outflow of cash	(3,489)	(70)	(84)

(1) 2019 includes the purchase of Free agent.

29 Analysis of changes in financing during the year

This note shows cash flows and non-cash movements relating to the financing activities of the Group. These activities reflect movements in share capital, share premium, paid-in equity, subordinated liabilities and MRELs.

	Share capital, share premium, and paid-in equity			Subordinated liabilities			MRELs		
	2021 £m	2020 £m	2019 £m	2021 £m	2020 £m	2019 £m	2021 £m	2020 £m	2019 £m
At 1 January	18,239	17,246	17,134	9,962	9,979	10,535	20,873	19,249	16,821
Ordinary shares issued	—	—	17						
Issue of paid-in equity	937	2,218	—						
Issue of subordinated liabilities				1,634	1,631	577			
Redemption of subordinated liabilities				(4,765)	(3,502)	(1,108)			
Interest on subordinated liabilities				(321)	(510)	(533)			
Issue of MRELs							3,383	1,309	3,640
Maturity/redemption of MRELs							—	(2)	(1,285)
Interest on MRELs							(647)	(671)	(428)
Net cash inflow/(outflow) from financing	937	2,218	17	(3,452)	(2,381)	(1,064)	2,736	636	1,927
Ordinary shares issued	87	52	95	—	—	—	—	—	—
Share cancellation	(698)	—	—	—	—	—	—	—	—
Effects of foreign exchange	—	—	—	(18)	(234)	(315)	(190)	(514)	(683)
Changes in fair value of subordinated liabilities and MRELs				(434)	133	317	(649)	829	539
Paid in equity reclassified to subordinated liabilities	(2,046)	(1,277)	—	1,915	1,632	—			
Loss on sale of subordinated liabilities and MRELs				145	324	—	—	—	—
Interest on subordinated liabilities and MRELs				311	509	506	653	673	645
At 31 December	16,519	18,239	17,246	8,429	9,962	9,979	23,423	20,873	19,249

30 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash, loans to banks and treasury bills 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.

	2021 £m	2020 £m	2019 £m
At 1 January			
- cash	124,489	80,993	91,368
- cash equivalents	14,710	19,595	17,568
	139,199	100,588	108,936
Net increase/(decrease) in cash and cash equivalents	51,507	38,611	(8,348)
At 31 December	190,706	139,199	100,588
Comprising:			
Cash and balances at central banks	177,757	124,489	80,993
Trading assets	7,137	9,220	12,578
Other financial assets	16	173	459
Loans to banks - amortised cost (1)	5,796	5,317	6,558
Cash and cash equivalents	190,706	139,199	100,588

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £4,293 million (2020 - £7,592 million; 2019 - £7,570 million).

Certain members of NatWest Group are required by law or regulation to maintain balances with the central banks in the jurisdictions in which they operate. Natwest Markets N.V. had mandatory reserve deposits with De Nederlandsche Bank N.V. of €60 million (2020 - €81 million, 2019 €47 million). The Royal Bank of Scotland International (Holdings) Limited had balances with Central Bank of Luxembourg of €123 million (2020 - €59 million, 2019 €58 million)

31 Directors' and key management remuneration

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

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

Directors' remuneration	2021 £000	2020 £000
Non-executive directors emoluments	1,641	1,708
Chairman and executive directors emoluments	4,688	4,349
	6,329	6,057
Amounts receivable under long-term incentive plans and share option plans	549	609
Total	6,878	6,666

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2021 and 2020.

Compensation of key management

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

	2021 £000	2020 £000
Short-term benefits	18,124	18,718
Post-employment benefits	380	474
Share-based payments	2,491	3,249
	20,995	22,441

32 Transactions with directors and key management

This note presents information relating to any transactions with directors and key management. Key management comprises directors of the company and Persons Discharging Managerial Responsibilities (PDMRs) of NatWest Group plc.

For the purposes of IAS 24 Related party disclosures, key management comprise directors of the company and PDMRs of NatWest Group plc. 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.

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	9,128	5,165
Customer deposits	51,018	45,747

At 31 December 2021, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NatWest Group, as defined in UK legislation, were £7,023,190 in respect of loans to seven persons who were directors of the company at any time during the financial period.

33 Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements. Transactions between an entity and any related party are disclosed in the financial statements to ensure readers are aware of how financial statements may be affected by these transactions.

UK Government

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

At 31 December 2021, HM Treasury's holding in the company's ordinary shares was 52.96%.

NatWest Group enters into transactions with many of these bodies. Transactions include the payment of: taxes – principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies (including the bank levy (Note 3) and FSCS levy (Note 27) - together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

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

Members of NatWest Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.406% 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.

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

Other related parties

- In their roles as providers of finance, NatWest Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company.
- NatWest Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NatWest Group.
- In accordance with IAS 24, transactions or balances between NatWest Group entities that have been eliminated on consolidation are not reported.
- 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.

34 Post balance sheet events

A post balance sheet event is an event that takes place between 31 December 2021 (reporting date) and 17 February 2022 (date of approval of these financial statements). Significant events are included in the financial statements either to provide new information about conditions that existed at 31 December 2021, including estimates used to prepare the financial statements (known as an adjusting event) or to provide new information about conditions that did not exist at 31 December 2021 (non-adjusting events). This note provides information relating to material non-adjusting events.

On 27 January 2022, NatWest Group announced that we will create a new franchise, Commercial and Institutional, bringing together our Commercial, NatWest Markets and RBS International businesses to form a single franchise, with common objectives, to best support our customers across the full non-personal customer lifecycle. Our reporting will follow this new structure from Q1 2022.

Regulatory calls were announced as a result of the PRA determination that certain instruments can no longer be included as part of Tier 1 capital on a solo and/or consolidated basis after 31 December 2021:

- On 1 February 2022, NatWest Group plc gave notice of redemption to holders of the USD Series U Non-Cumulative Dollar Preference Shares (ISIN US39057AA62). The notional outstanding of $1,013 billion plus dividends for the current period to, but excluding the redemption date of 31 March 2022 will be paid to noteholders at par.
- On 1 February 2022, NatWest Group plc gave notice of redemption to holders of the $1,200 billion 7.648% dollar Perpetual Regulatory Tier One Security (ISIN US780097AH44). The notional outstanding of $67.5 million plus interest for the current period will be paid to noteholders at a make whole price calculated at least one business day prior to the redemption date of 3 March 2022.

On 11 February 2022, NatWest Group plc gave notice to noteholders of the redemption of its €1.5 billion Fixed to Floating Rate notes due 8 March 2023. The notes will be redeemed on the optional redemption date of 8 March 2022. Payment of principal and accrued interest will be settled upon redemption at par. The call is because the note will cease to be MREL eligible from 8 March 2022.

Other than as disclosed in the accounts, there have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change or additional disclosure.

Parent company financial statements and notes

Balance sheet as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Derivatives with subsidiaries		**974**	1,580
Amounts due from subsidiaries	4	**29,962**	26,910
Other financial assets		**668**	579
Investments in Group undertakings	9	**48,835**	46,229
Other assets		**38**	117
Total assets		**80,477**	75,415
Liabilities			
Amounts due to subsidiaries	4	**378**	723
Derivatives		**704**	1,102
Other financial liabilities		**23,600**	21,056
Subordinated liabilities	8	**7,740**	7,944
Other liabilities		**150**	151
Total liabilities		**32,572**	30,976
Owners' equity		**47,905**	44,439
Total liabilities and equity		**80,477**	75,415

Owners' equity includes a total comprehensive profit for the year, dealt with in the accounts of the parent company, of £7,141 million (2020 - £9,598 million loss). This is primarily due to a VIU write back on subsidiaries and intercompany dividends that eliminate on consolidation.

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

The accompanying notes on pages 381 to 394 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	Alison Rose-Slade	Katie Murray	NatWest Group plc
Chairman	Group Chief Executive Officer	Group Chief Financial Officer	Registered No. SC45551

Statement of changes in equity for the year ended 31 December 2021

	2021 £m	2020 £m	2019 £m
Called-up share capital - at 1 January	**12,129**	12,094	12,049
Ordinary shares issued	**37**	35	45
Share cancellation (1,3)	**(698)**	—	—
At 31 December	**11,468**	12,129	12,094
Paid-in equity - at 1 January	**4,979**	4,047	4,047
Redeemed	**—**	(1,277)	—
Reclassified (2)	**(2,037)**		
Securities issued during the period	**933**	2,209	—
At 31 December	**3,875**	4,979	4,047
Share premium - at 1 January	**1,111**	1,094	1,027
Ordinary shares issued	**50**	17	67
At 31 December	**1,161**	1,111	1,094
Cash flow hedging reserve - at 1 January	**42**	67	83
Amount recognised in equity	**8**	4	18
Amount transferred from equity to earnings	**(12)**	(33)	(39)
Tax	**(2)**	4	5
At 31 December	**36**	42	67
Capital Redemption reserve - at 1 January	**—**	—	—
Share cancellation	**698**	—	—
At 31 December	**698**	—	—
Own Shares held - at 1 January	**—**	—	—
Shares issued under employee share schemes	**37**	—	—
Own shares acquired	**(385)**	—	—
At 31 December	**(348)**	—	—
Retained earnings - at 1 January	**26,178**	36,485	37,181
Profit/(Loss) attributable to ordinary shareholders and other equity owners	**7,147**	(9,573)	2,728
Equity preference dividends paid	**(19)**	(26)	(39)
Ordinary dividend paid	**(693)**	—	(3,018)
Paid-in equity dividends paid	**(299)**	(355)	(367)
Unclaimed dividend	**—**	2	—
Shares issued under employee share schemes	**(1)**	—	—
Shares repurchased during the year	**(1,423)**	—	—
Redemption/reclassification of paid-in equity	**125**	(355)	—
At 31 December	**31,015**	26,178	36,485
Owners' equity at 31 December	**47,905**	44,439	53,787

(1) In March 2021, there was an agreement with HM Treasury to buy 591 million ordinary shares in the Company from UK Government Investments Ltd (UKGI), at 190.5p per share for the total consideration of £1.13 billion. NatWest Group cancelled 391 million of the purchased ordinary shares, amounting to £744 million excluding fees, and held the remaining 200 million in own shares held, amounting to £381 million excluding fees. The nominal value of the share cancellation has been transferred to the capital redemption reserve.
(2) In July 2021, paid-in equity reclassified to liabilities as the result of a call in August 2021 of US$2.65 billion AT1 Capital notes.
(3) In line with the announcement in July 2021, NatWest Group plc repurchased and cancelled 310.8 million shares for total consideration of £676.2 million excluding fees. Of the 310.8 million shares bought back, 2.8 million shares were settled and cancelled in January 2022. The nominal value of the share cancellations has been transferred to the capital redemption reserve with the share premium element to retained earnings.
(4) The total distributable reserves for the Bank is £31,015 million (2020 – 26,178 million).

The accompanying notes on pages 381 to 394 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2021

	2021 £m	2020 £m	2019 £m
Operating profit/(loss) before tax from continuing operations	7,133	(9,698)	2,799
Adjustments for:			
Impairment releases on intercompany loans to bank	(6)	—	—
Net impairment (reversals)/charges of investments in Group undertakings	(2,600)	9,606	1,489
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	(440)	672	221
Elimination of foreign exchange differences	(14)	(540)	(526)
Other non-cash items	(12)	(31)	(23)
Dividends receivable from subsidiaries	(4,872)	(485)	(5,596)
Loss on sale of investments in Group undertakings	22	—	1,739
Interest payable on MRELs and subordinated liabilities	447	537	513
Loss on sale of MRELs and subordinated liabilities	113	324	—
Charges and releases on provisions	(3)	(8)	(25)
Net cash flows from trading activities	(232)	377	591
Decrease/(increase) in derivative assets with subsidiaries	614	(598)	(436)
(Increase)/decrease in amounts due from subsidiaries	(1,825)	(792)	863
Increase in other financial assets	(89)	(302)	(36)
Decrease/(increase) in other assets	2	(2)	113
(Decrease)/increase in amounts due to subsidiaries	(347)	289	(193)
(Decrease)/increase in derivative liabilities with subsidiaries	(398)	391	266
Increase/(decrease) in other financial liabilities	—	2	(1)
Decrease in other liabilities	(2)	(33)	—
Change in operating assets and liabilities	(2,045)	(1,045)	576
Income taxes received	97	40	15
Net cash flows from operating activities (1)	(2,180)	(628)	1,182
Net movement in business interests	(29)	(27)	(442)
Dividends received from subsidiaries	4,872	485	3,751
Net cash flows from investing activities	4,843	458	3,309
Movement in MRELs	1,531	(147)	(142)
Movement in subordinated liabilities	(2,256)	(1,972)	(709)
Ordinary shares issued	87	109	17
Share cancellations	(1,808)	—	—
Dividends paid	(1,011)	(381)	(3,424)
Issue of paid-in equity	933	2,209	—
Net cash flows from financing activities	(2,524)	(182)	(4,258)
Effects of exchange rate changes on cash and cash equivalents	4	1	(1)
Net increase/(decrease) in cash and cash equivalents	143	(351)	232
Cash and cash equivalents at 1 January	188	539	307
Cash and cash equivalents at 31 December (2)	331	188	539

(1) Includes interest received of £183 million (2020 - £344 million, 2019 - £371 million) and interest paid of £551 million (2020 - £816 million, 2019 - £988 million).
(2) Cash and cash equivalents comprise intragroup loans and advances with a maturity of less than 3 months for 2021, 2020 and 2019.

1. Presentation of financial statements

The financial statements are prepared on a going concern basis based on the directors' assessment that the parent company will continue in operational existence for a period of twelve months from the date the financial statements are approved (refer to the Report of the directors page 184). The accounting policies applied to the parent company financial statements are the same as those applied in the consolidated financial statements on pages 300 to 377.

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

The accounting policies that are applicable to the parent company are included in NatWest Group plc's accounting policies which are set out on pages 307 to 312 of the consolidated financial statements, except that it has no policy regarding consolidation.

2. Critical accounting policies and sources of estimation uncertainty

The reported results of the parent company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgments and assumptions involved in the parent company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are those involved in assessing the impairment, if any, in its investments in group undertakings, refer to Note 9.

Future accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2021. The parent company is assessing the effect of adopting these standards and amendments on its financial statements but does not expect the effect to be material.

3 Derivatives with subsidiaries – designated hedges

Fair value hedging is used to hedge loans and other financial liabilities, and cash flow hedging is used to hedge other financial liabilities and subordinated liabilities.

For accounting policy information see accounting policies notes 10 and 15.

Derivatives held for hedging purposes are as follows:

	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Fair value hedging - interest rate contracts	22.2	825	167	25.0	1,537	359
Cash flow hedging - exchange rate contracts	4.9	8	—	5.8	7	3
Total		833	167		1,544	362

4 Financial instruments – classification

The following tables analyse NWG plc's financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

For accounting policy information see accounting policies 10, 12, 13 and 14.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Derivatives with subsidiaries	**974**				**974**
Amounts due from subsidiaries	**16,189**	**—**	**13,773**	**—**	**29,962**
Other financial assets	**665**	**3**	**—**		**668**
Investment in Group undertakings				**48,835**	**48,835**
Other assets				**38**	**38**
31 December 2021	**17,828**	**3**	**13,773**	**48,873**	**80,477**
Derivatives with subsidiaries	1,580				1,580
Amounts due from subsidiaries	15,506	—	11,404	—	26,910
Other financial assets	576	3	—		579
Investment in Group undertakings				46,229	46,229
Other assets				117	117
31 December 2020	17,662	3	11,404	46,346	75,415

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Amounts due to subsidiaries	**252**	**—**	**113**	**13**	**378**
Derivatives with subsidiaries	**704**				**704**
Other financial liabilities	**—**	**6,624**	**16,976**		**23,600**
Subordinated liabilities		**—**	**7,740**		**7,740**
Other liabilities				**150**	**150**
31 December 2021	**956**	**6,624**	**24,829**	**163**	**32,572**
Amounts due to subsidiaries	542	—	111	70	723
Derivatives with subsidiaries	1,102				1,102
Other financial liabilities	—	3,987	17,069		21,056
Subordinated liabilities		—	7,944		7,944
Other liabilities				151	151
31 December 2020	1,644	3,987	25,124	221	30,976

Amounts due from/to subsidiaries

	2021 £m	2020 £m
Assets		
Loans to banks and customers - amortised cost	**13,773**	11,404
Other financial assets	**16,189**	15,506
Amounts due from subsidiaries	**29,962**	26,910
Derivatives (1)	**974**	1,580
Liabilities		
Bank and customer deposits	**252**	542
Other liabilities	**13**	70
Subordinated liabilities	**113**	111
Amounts due to subsidiaries	**378**	723
Derivatives (1)	**704**	1,102

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

5 Financial instruments

Interest rate benchmark reform

The total amount of exposure for NatWest Group plc at 31 December 2021 subject to conversion provisions is £1.6 billion derivative notionals.

	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR (1) £m	Other IBOR (2) £m	Total £m
Amounts due from subsidiaries	**—**	**9,338**	**—**	**9,338**
Other financial assets	**—**	**665**	**—**	**665**
Amounts due to subsidiaries	**—**	**—**	**—**	**—**
Other financial liabilities	**1,320**	**7,055**	**97**	**8,472**
Subordinated liabilities	**—**	**604**	**—**	**604**
Derivatives notional - with subsidiaries (£bn)	**—**	**20.4**	**—**	**20.4**

		Rates subject to IBOR reform			
2020	GBP LIBOR £m	USD IBOR (1) £m	EURIBOR (2) £m	Other IBOR £m	Total £m
Amounts due from subsidiaries	1,422	15,444	4,557	38	21,461
Other financial assets	—	577	—	—	577
Other financial liabilities	1,376	9,540	4,187	108	15,211
Subordinated liabilities	—	767	—	—	767
Derivatives notional - with subsidiaries (£bn)	4.1	23.7	9.8	0.1	37.7

(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. December 2020 data includes EURIBOR exposure as subject to reform

AT1 issuances

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

These are outlined below:

	31 December 2021 £m	31 December 2020 £m
USD$2 billion 8.0169%	**1,581**	1,581
£300 million 6.597%	**300**	300
USD$2.65 billion 7.9916%	**1,161**	2,095
USD$950 million 7.9604%	**749**	749
USD$200 million 5.540%	**155**	155

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

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

	2021		2020	
	Carrying value £bn	Fair value £bn	Carrying value £bn	Fair value £bn
Financial assets				
Amounts due from subsidiaries (1)	**13.8**	**13.9**	11.4	11.7
Financial liabilities				
Amounts due to subsidiaries (2)	**0.1**	**0.2**	0.1	0.1
Other financial liabilities - debt securities in issue (3)	**17.0**	**17.5**	17.1	17.7
Subordinated liabilities (3)	**7.7**	**8.2**	7.9	8.6

(1) Fair value hierarchy level 2 - £5.9 billion (2020 - £6.4 billion) and level 3 - £8.1 billion (2020 - £5.3 billion).
(2) Fair value hierarchy level 2 (2020 – level 3).
(3) Fair value hierarchy level 2.

7 Financial instruments - maturity analysis

Remaining maturity

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

	2021			2020		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Derivatives with subsidiaries	49	925	974	3	1,577	1,580
Amounts due from subsidiaries	8,276	21,686	29,962	5,591	21,319	26,910
Other financial assets	—	668	668	—	579	579
Liabilities						
Amounts due to subsidiaries (1)	254	111	365	543	110	653
Derivatives with subsidiaries	1	703	704	38	1,064	1,102
Other financial liabilities	3,709	19,891	23,600	203	20,853	21,056
Subordinated liabilities	1,018	6,722	7,740	36	7,908	7,944

(1) Amounts due to subsidiaries relating to non-financial instruments of £13 million (2020 - £70 million) have been excluded from the table.

Financial liabilities: contractual maturity

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

Held-for-trading liabilities amounting to £0.8 billion (2020 - £1.3 billion) have been excluded from the tables.

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						
Amounts due to subsidiaries (1)	—	9	18	18	44	89
Derivatives held for hedging	28	22	73	17	31	—
Other financial liabilities	1,484	2,662	8,866	5,406	7,060	—
Subordinated liabilities	20	1,274	3,277	2,199	1,567	544
	1,532	3,967	12,234	7,640	8,702	633
2020						
Liabilities by contractual maturity						
Amounts due to subsidiaries (1)	—	7	18	18	44	88
Derivatives held for hedging	47	73	187	46	30	—
Other financial liabilities	222	420	9,884	5,623	6,522	—
Subordinated liabilities	22	361	3,728	3,444	907	674
	291	861	13,817	9,131	7,503	762

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

8 Subordinated liabilities

	2021 £m	2020 £m
Dated loan capital	7,689	7,768
Undated loan capital	51	175
Preference shares	—	1
	7,740	7,944

(1) Excludes amounts due to NatWest Group subsidiaries of £113 million (2020 - £111 million).

Redemptions in the period are disclosed in Note 20 to the consolidated accounts.

For accounting policy information see Accounting policies notes 10 and 14.

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

Dated loan capital	Capital treatment	2021 £m	2020 £m
US$2,250 million 6.13% dated notes 2022	Tier 2	986	1,234
US$650 million 6.425% dated notes 2043 (callable January 2034) (1)	Ineligible	554	593
US$2,000 million 6.00% dated notes 2023	Tier 2	1,073	1,574
US$1,000 million 6.10% dated notes 2023	Tier 2	354	419
US$2,250 million 5.13% dated notes 2024	Tier 2	956	1,778
US$750 million 3.754% dated notes 2029	Tier 2	558	551
US$850 million 3.032% dated notes 2035 (callable November 2030)	Tier 2	584	606
£1,000 million 3.622% dated notes 2030 (callable between May 2025 to August 2025)	Tier 2	995	1,013
£1000 million 2.105% dated notes 2031 (callable between August 2026 to November 2026)	Tier 2	999	—
€750 million 1.043% dated notes 2032 (callable between June 2027 to September 2027)	Tier 2	630	—
		7,689	7,768

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

Undated loan capital	Capital treatment	2021 £m	2020 £m
US$106 million floating rate notes (callable semi-annually)	Ineligible	—	78
US$762 million 7.648% notes (callable September 2031) (1)	Ineligible	51	97
		51	175

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

Preference shares (1)	Capital treatment	2021 £m	2020 £m
£0.5 million 11% and £0.4 million 5.5% cumulative preference shares of £1 (not callable)	Ineligible	—	1

(1) Further details of the contractual terms of the preference shares are given in Note 22 to the consolidated accounts.

The following table analyses intercompany subordinated liabilities:

Undated loan capital	Capital treatment	2021 £m	2020 £m
US$150 million 8.00% undated notes 2012	Tier 2	113	112

9 Investments in Group undertakings

Critical accounting policy: Investments in Group undertakings

At each reporting date, the company assesses whether there is any indication that its investment in its Group undertakings is impaired. If any such indication exists, the company undertakes an impairment test by comparing the carrying value of the investment in its Group undertakings with its estimated recoverable amount. The key judgment is in determining the recoverable amount. The recoverable amount of an investment in its Group undertakings is the higher of its fair value less cost to sell and its value in use, being an assessment of the discounted future cash flows of the entity. Impairment testing inherently involves a number of judgments: the five-year cash flow forecast, the choice of appropriate discount and growth rates, and the estimation of fair value.

For accounting policy information see Accouting policies note 16.

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

	2021 £m	2020 £m
At 1 January	**46,229**	55,808
Additional investments in Group undertakings	**940**	27
Disposals of investments in Group undertakings	**(934)**	—
Impairment of investments (1)	**2,600**	(9,606)
At 31 December	**48,835**	46,229

(1) Net of impairment reversals.

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 August 2021 the company issued £941 million of contingent convertible AT1 notes to NWH Ltd and redeemed £934 million of contingent convertible AT1 notes issued to NWH Ltd. In 2020 the company invested additional capital of £27 million in its subsidiaries, NWM Plc and RBS AA Holdings.

In 2021, Impairment of investments includes a £5,250 million reversal of an earlier impairment of the company's investment in NatWest Holdings Limited as improved five-year cash flow forecasts increased the value in use and a £2,650 million impairment of the company's investment in NatWest Markets Plc 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 mainly related to NatWest Holdings Limited.

The impact of reasonably possible changes to the more significant variables in the value in use calculations for Natwest Holdings Limited are presented below. This reflects the sensitivity of the value in use to each variable on its own. It is possible that more than one change may occur at the same time. The value in use calculations use 10% as a discount rate and 1.6% as a long term growth rate.

The value in use model shows the following sensitivities:

	Potential VIU movement	
	2021 £bn	2020 £bn
1% adverse movement in discount rate	**(4.4)**	(4.0)
1% adverse movement in terminal growth rate	**(2.0)**	(1.5)
£250 million adverse movement in operating profit before tax	**(2.1)**	(2.2)

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

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

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

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

10 Analysis of changes in financing during the year

	Share capital, share premium, and paid-in equity			Subordinated liabilities			MRELs		
	2021 £m	2020 £m	2019 £m	2021 £m	2020 £m	2019 £m	2021 £m	2020 £m	2019 £m
At 1 January	**18,219**	17,235	17,123	**8,055**	7,763	8,059	**6,655**	6,440	6,785
Ordinary shares issued	**87**	52	17						
Issue of paid-in equity	**933**	2,209	—						
Issue of subordinated liabilities				**1,634**	1,631	577			
Redemption of subordinated liabilities				**(3,598)**	(3,207)	(855)			
Interest on subordinated liabilities				**(292)**	(396)	(431)			
Issue of MRELs							**598**	(3)	1,178
Maturity/redemption of MRELs							**1,082**	(2)	(1,285)
Interest on MRELs							**(149)**	(142)	(35)
Net cash inflow/(outflow) from financing	**1,020**	2,261	17	**(2,256)**	(1,972)	(709)	**1,531**	(147)	(142)
Issue of ordinary shares	**—**	—	95						
Effects of foreign exchange				**44**	(264)	(264)	**(54)**	(275)	(261)
Changes in fair value of subordinated liabilities and MRELs				**(309)**	173	268	**(131)**	499	(46)
Paid in equity reclassified to subordinated liabilities	**(2,037)**	(1,277)	—	**1,915**	1,632	—			
Loss on sale of subordinated liabilities and MRELs				**114**	324	—			
Interest on subordinated liabilities and MRELs				**290**	399	409	**157**	138	104
Other	**(698)**	—	—	**—**	—	—	**—**	—	—
At 31 December	**16,504**	18,219	17,235	**7,853**	8,055	7,763	**8,158**	6,655	6,440

11 Directors' and key management remuneration

Directors' remuneration is disclosed in Note 31 to the consolidated accounts. The directors had no other reportable related party transactions or balances with the company.

12 Related undertakings

Legal entities and activities at 31 December 2021

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

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

Entity name	Activity	Regulatory treatment	Notes
280 Bishopsgate Finance Ltd	INV	FC	(1)
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(1)
Care Homes 1 Ltd	BF	FC	(1)
Care Homes 2 Ltd	BF	FC	(1)
Care Homes 3 Ltd	BF	FC	(1)
Care Homes Holdings Ltd	BF	FC	(1)
Churchill Management Ltd	BF	FC	(1)
Coutts & Company	CI	FC	(17)
Coutts Finance Company	BF	FC	(17)
Desertlands Entertainment Ltd	BF	FC	(1)
Distant Planet Productions Ltd	BF	FC	(1)
Esme Loans Ltd	BF	FC	(1)
FreeAgent Central Ltd	SC	FC	(33)
FreeAgent Holdings Ltd	SC	FC	(33)
G L Trains Ltd	BF	FC	(21)
Gatehouse Way Developments Ltd	INV	DE	(1)
ITB2 Ltd	BF	FC	(3)
KUC Properties Ltd	BF	DE	(3)
Land Options (West) Ltd	INV	DE	(3)
Lombard & Ulster Ltd	BF	FC	(16)
Lombard Business Finance Ltd	BF	FC	(1)
Lombard Business Leasing Ltd	BF	FC	(1)
Lombard Corporate Finance (6) Ltd	BF	FC	(1)
Lombard Corporate Finance (7) Ltd	BF	FC	(1)
Lombard Corporate Finance (11) Ltd	BF	FC	(1)
Lombard Corporate Finance (15) 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)
Nanny McPhee Productions Ltd	BF	FC	(1)
National Westminster Bank Plc	CI	FC	(1)
National Westminster Home Loans Ltd	BF	FC	(1)
NatWest Corporate Investments	BF	FC	(1)
NatWest Holdings Ltd	INV	FC	(1)
NatWest Invoice Finance Ltd	OTH	FC	(1)
NatWest Markets Plc	CI	FC	(28)
NatWest Markets Secretarial Services Ltd	SC	FC	(1)
NatWest Markets Secured Funding LLP	BF	FC	(20)
NatWest Property Investments Ltd	INV	DE	(1)
NatWest Trustee and Depositary Services Ltd	INV	FC	(1)
NatWest Ventures Investments Ltd	BF	FC	(1)
P of A Productions Ltd	BF	FC	(1)
Patalex Productions Ltd	BF	FC	(1)
Patalex V Productions Ltd	BF	FC	(1)
Pittville Leasing Ltd	BF	FC	(1)
Premier Audit Company Ltd	BF	FC	(1)
Price Productions Ltd	BF	FC	(1)
Priority Sites Investments Ltd	BF	DE	(1)
Priority Sites Ltd	INV	DE	(1)
Property Venture Partners Ltd	INV	FC	(3)
R.B. Capital Leasing Ltd	BF	FC	(1)
R.B. Equipment Leasing Ltd	BF	FC	(1)
R.B. Leasing (April) Ltd	BF	FC	(1)
R.B. Leasing (September) Ltd	BF	FC	(1)
R.B. Leasing Company Ltd	BF	FC	(3)
R.B. Quadrangle Leasing Ltd	BF	FC	(1)
R.B.S. Special Investments Ltd	BF	FC	(1)
RB Investments 3 Ltd	OTH	FC	(1)
RBOS (UK) Ltd	BF	FC	(1)
RBS AA Holdings (UK) Ltd	BF	FC	(1)
RBS Asset Management Holdings	BF	FC	(17)
RBS Collective Investment Funds Ltd	BF	FC	(11)
RBS HG (UK) Ltd	BF	FC	(1)
RBS Invoice Finance Ltd	BF	FC	(1)
RBS Management Services (UK) Ltd	SC	FC	(1)
RBS Mezzanine Ltd	BF	FC	(3)
RBS Property Developments Ltd	INV	FC	(3)
RBS Property Ventures Investments Ltd	BF	FC	(3)
RBS SME Investments Ltd	BF	FC	(1)
RBSG Collective Investments Holdings Ltd	BF	FC	(11)
RBSG International Holdings Ltd	BF	FC	(3)
RBSM Capital Ltd	BF	FC	(3)
RBSSAF (2) Ltd	BF	FC	(1)
RBSSAF (8) Ltd	BF	FC	(1)
RBSSAF (12) Ltd	BF	FC	(1)
RBSSAF (25) Ltd	BF	FC	(1)
RoboScot Equity Ltd	BF	FC	(3)
Royal Bank Investments Ltd	BF	FC	(3)
Royal Bank Leasing Ltd	BF	FC	(3)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(3)
Royal Bank Ventures Investments Ltd	BF	FC	(3)
Royal Scot Leasing Ltd	BF	FC	(3)
RoyScot Trust Plc	BF	FC	(1)
SIG 1 Holdings Ltd	BF	FC	(3)
SIG Number 2 Ltd	BF	FC	(3)
The One Account Ltd	BF	FC	(1)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(3)
The Royal Bank of Scotland plc	CI	FC	(28)
Ulster Bank Ltd	CI	FC	(16)

12 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Ulster Bank Pension Trustees Ltd	TR	DE	(16)
Voyager Leasing Ltd	BF	FC	(1)
Walton Lake Developments Ltd	INV	DE	(1)
West Register (Hotels Number 3) Ltd	INV	DE	(3)
West Register (Property Investments) Ltd	BF	DE	(3)
West Register (Realisations) Ltd	INV	DE	(3)
Winchcombe Finance Ltd	BF	FC	(1)
World Learning Limited	BF	FC	(29)

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

Entity name	Activity	Regulatory treatment	Notes
AA Merchant Services B.V.	BF	FC	(13)
Airside Properties AB	BF	FC	(2)
Airside Properties ASP Denmark AS	BF	FC	(12)
Airside Properties Denmark AS	BF	FC	(12)
Alcover A.G.	BF	DE	(72)
Alternative Investment Fund B.V.	BF	FC	(13)
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	(62)
Brödmagasinet KB	BF	FC	(2)
C.J. Fiduciaries Ltd	BF	FC	(15)
Candlelight Acquisition LLC	BF	FC	(6)
Coutts & Co (Cayman) Ltd	BF	FC	(19)
Coutts & Co Ltd	CI	FC	(70)
Coutts General Partner (Cayman) V Ltd	BF	FC	(64)
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	(10)
Fastighets AB Stockmakaren	BF	FC	(18)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(2)
Fastighetsbolaget Holma I Höör AB	BF	FC	(10)
Financial Asset Securities Corp.	BF	FC	(6)
First Active Ltd	BF	FC	(7)
Forskningshöjden KB	BF	FC	(2)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(10)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	(10)
Fyrsate Fastighets AB	BF	FC	(10)
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	(10)
Kastrup Commuter K/S	BF	FC	(12)
Kastrup Hangar 5 K/S	BF	FC	(12)
Kastrup V & L Building K/S	BF	FC	(12)
KB Eurohill	BF	FC	(2)
KB Lagermannen	BF	FC	(2)
KB Likriktaren	BF	FC	(2)
KEB Investors, L.P.	BF	FC	(54)
Koy Espoon Entresse II	BF	FC	(4)
Koy Helsingin Mechelininkatu 1	BF	FC	(4)
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	(24)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(4)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(4)
Koy Lohjan Ojamonharjuntie 61	BF	FC	(4)
Koy Millennium	BF	FC	(4)
Koy Nummelan Portti	BF	FC	(4)
Koy Nuolialan päiväkoti	BF	FC	(4)
Koy Pennalan Johtotie 2	BF	FC	(4)
Koy Peltolantie 27	BF	FC	(24)
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)
Lombard Finance (CI) Ltd	BF	FC	(15)
Lothbury Insurance Company Ltd	BF	DE	(67)
Lundbyfilen 5 AB	BF	FC	(18)
Maja Finance S.R.L.	BF	FC	(50)
Narmovegen 455 AS	BF	FC	(5)
National Westminster International Holdings B.V.	BF	FC	(77)
NatWest Germany GmbH	OTH	FC	(34)
NatWest Innovation Services Inc.	OTH	FC	(6)
NatWest Markets Group Holdings Corporation	BF	FC	(6)
NatWest Markets N.V.	CI	FC	(23)
NatWest Markets Securities Inc.	INV	FC	(6)
NatWest Markets Securities Japan Ltd	INV	FC	(14)
NatWest Services (Switzerland) Ltd	SC	FC	(61)
Nordisk Renting AB	BF	FC	(2)
Nordisk Renting AS	BF	FC	(58)
Nordisk Renting OY	BF	FC	(4)
Nordisk Renting Facilities Management AB	BF	FC	(18)
Nordisk Specialinvest AB	BF	FC	(2)
Nordiska Strategifastigheter Holding AB	BF	FC	(2)
NWM Services India Private Ltd	SC	FC	(39)
Nybergflata 5 AS	BF	FC	(5)
Optimus KB	BF	FC	(2)
R.B. Leasing BDA One Ltd	BF	FC	(74)
Random Properties Acquisition Corp. III	INV	FC	(6)
RBS (Gibraltar) Ltd	BF	FC	(63)
RBS AA Holdings (Netherlands) B.V.	BF	FC	(13)
RBS Acceptance Inc.	BF	FC	(6)
RBS Americas Property Corp.	SC	FC	(6)
RBS Asia Financial Services Ltd	BF	FC	(14)
RBS Asia Futures Ltd	BF	FC	(14)

12 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
RBS Assessoria Ltd	SC	FC	(43)
RBS Asset Management (Dublin) Ltd	BF	FC	(66)
RBS Commercial Funding Inc.	BF	FC	(6)
RBS Deutschland Holdings GmbH	BF	FC	(34)
RBS Employment (Guernsey) Ltd	SC	FC	(69)
RBS Financial Products Inc.	BF	FC	(6)
RBS Group (Australia) Pty Ltd	BF	FC	(30)
RBS Holdings III (Australia) Pty Ltd	BF	FC	(30)
RBS Holdings N.V.	BF	FC	(23)
RBS Holdings USA Inc.	BF	FC	(6)
RBS Hollandsche N.V.	BF	FC	(23)
RBS International Depositary Services S.A.	CI	FC	(46)
RBS Investments (Ireland) Ltd	BF	FC	(7)
RBS Netherlands Holdings B.V.	BF	FC	(13)
RBS Nominees (Hong Kong) Ltd	BF	FC	(14)
RBS Nominees (Ireland) Ltd	BF	FC	(7)
RBS Nominees (Netherlands) B.V.	BF	FC	(13)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(59)
RBS Prime Services (India) Private Ltd	OTH	FC	(37)
RBS Services India Private Ltd	SC	FC	(48)
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	(18)
Svenskt Fastighetskapital AB	BF	FC	(2)
Svenskt Energikapital AB	BF	FC	(2)
Svenskt Fastighetskapital Holding AB	BF	FC	(2)
The RBS Group Ireland Retirement Savings Trustee Ltd	TR	FC	(7)
The Royal Bank of Scotland International (Holdings) Ltd	BF	FC	(15)
The Royal Bank of Scotland International Ltd	CI	FC	(15)
Tygverkstaden 1 KB	BF	FC	(2)
Ulster Bank (Ireland) Holdings Unlimited Company	INV	FC	(7)
Ulster Bank Dublin Trust Company Unlimited Company	TR	FC	(7)
Ulster Bank Holdings (ROI) Ltd	BF	FC	(7)
Ulster Bank Ireland Designated Activity Company	CI	FC	(7)
Ulster Bank Pension Trustees (RI) Ltd	TR	FC	(7)

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

Entity name	Activity	Regulatory treatment	Notes
RBS Capital LP II	BF	DE	(76)
RBS Capital Trust II	BF	DE	(44)
RBS International Employees' Pension Trustees Ltd	BF	DE	(15)
RBSG Capital Corp.	BF	DE	(6)
West Granite Homes Inc.	INV	DE	(41)

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
BGF Group Plc	BF	AHC	PC	25	(21)
Falcon Wharf Ltd	OTH	EAJV	PC	50	(32)
GWNW City Developments Ltd	BF	EAJV	DE	50	(32)
Higher Broughton (GP) Ltd	BF	AHC	PC	41	(60)
Higher Broughton Partnership LP	BF	AHC	DE	41	(55)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(1)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(26)
JCB Finance Ltd	BF	FC	FC	75	(26)
Landpower Leasing Ltd	BF	FC	FC	75	(26)
London Rail Leasing Ltd	BF	EAJV	PC	50	(49)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(20)
Natwest Covered Bonds LLP	BF	FC	FC	73	(21)
Natwest Markets Secured Funding (LM) Ltd	BF	FC	PC	20	(20)
Oaxaca Ltd	OTH	IA	IA	24	(80)
Pollinate International Ltd	OTH	AHC	DE	30	(79)
RBS Sempra Commodities LLP	BF	FC	FC	51	(3)
Silvermere Holdings Ltd	BF	FC	FC	95	(11)
Vizolution Ltd	OTH	AHC	PC	5	(65)

12 Related undertakings continued

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

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Ardmore Securities No.1 DAC	BF	FC	DE	0	(22)
Ardmore Securities No.2 DAC	BF	FC	DE	0	(22)
CITIC Capital China Mezzanine Ltd	BF	IA	PC	33	(51)
Dunmore Securities No.1 DAC	BF	FC	DE	0	(22)
Eris Finance S.R.L.	BF	IA	PC	45	(50)
German Public Sector Finance B.V.	BF	EAJV	PC	50	(56)
Herge Holding B.V.	BF	IA	PC	63	(73)
Lunar Funding VIII Ltd	BF	FC	FC	0	(8)
Lunar Luxembourg SA	BF	FC	DE	0	(78)
Lunar Luxembourg Series 2019- 04	BF	FC	DE	0	(78)
Lunar Luxembourg Series 2019- 05	BF	FC	DE	0	(78)
Lunar Luxembourg Series 2019- 06	BF	FC	DE	0	(78)
Lunar Luxembourg Series 2020- 01	BF	FC	DE	0	(78)
Lunar Luxembourg Series 2020- 02	BF	FC	DE	0	(78)
Natwest Secured Funding DAC	BF	FC	FC	0	(47)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(9)
Nightingale LF 2021-1 Ltd	BF	FC	DE	0	(9)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(9)
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	(9)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(9)
Pharos Estates Ltd	OTH	AHC	DE	49.49	(42)
Sempra Energy Trading LLC	BF	FC	FC	51	(6)
Spring Allies Jersey Ltd	BF	IA	DE	49	(9)
Thames Asset Global Securitization No.1 Inc.	BF	FC	FC	0	(36)
The Drive4Growth Company Ltd	OTH	IA	DE	20	(52)
Wiśniowy Management sp. Z.o.o.	SC	AHC	DE	25	(59)

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	(53)
Celtic Residential Irish Mortgage Securitisation No 10 Plc	FC	DE	0	(25)
Celtic Residential Irish Mortgage Securitisation No 11 Plc	FC	DE	0	(25)
Celtic Residential Irish Mortgage Securitisation No 14 DAC	FC	DE	0	(31)
Celtic Residential Irish Mortgage Securitisation No 15 DAC	FC	DE	0	(31)
Lombard Corporate Finance (13) Ltd	FC	FC	100	(1)
Lombard Ireland Group Holdings Unlimited	FC	FC	100	(81)
Lombard Ireland Ltd	FC	FC	100	(81)
Lombard Manx Leasing Ltd	FC	FC	100	(27)
Lombard Manx Ltd	FC	FC	100	(27)
Morar ICC Insurance Ltd	FC	DE	100	(68)
NatWest Nominees Ltd	FC	FC	100	(1)
NatWest Capital Finance Ltd	FC	FC	100	(1)
Northern Isles Ferries Ltd	FC	FC	100	(1)
RBSSAF (6) Ltd	FC	FC	100	(1)
RBS Asset Finance Europe Ltd	FC	FC	100	(1)
Redlion Investments Ltd	FC	FC	100	(19)
Redshield Holdings Ltd	FC	FC	100	(19)
Royhaven Secretaries Ltd	FC	FC	100	(19)
RoyScot Financial Services Ltd	FC	FC	100	(1)
Style Financial Services Ltd	FC	FC	100	(3)
UB SIG (ROI) Ltd	FC	FC	100	(25)
West Register Hotels (Holdings) Ltd	FC	FC	100	(3)

12 Related undertakings continued

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(11)
Atlas Nominees Ltd	FC	FC	100	(14)
British Overseas Bank Nominees Ltd	FC	FC	100	(1)
Buchanan Holdings Ltd	FC	FC	100	(1)
Custom House Docks Basement Management No. 2 Ltd	IA	DE	25	(57)
Dixon Vehicle Sales Ltd	FC	FC	100	(1)
Dunfly Trustee Ltd	FC	FC	100	(1)
FIT Nominee 2 Ltd	FC	FC	100	(1)
FIT Nominee Ltd	FC	FC	100	(1)
Freehold Managers (Nominees) Ltd	FC	FC	100	(1)
HPUT A Ltd	NC	DE	100	(1)
HPUT B Ltd	NC	DE	100	(1)
ITB1 Ltd	FC	FC	100	(3)
JCB Finance Pension Ltd	FC	DE	88	(16)
Marigold Nominees Ltd	FC	FC	100	(1)
Mulcaster Street Nominees Ltd	FC	FC	100	(15)
N.C. Head Office Nominees Ltd	FC	FC	100	(3)
National Westminster Bank Nominees (Jersey) Ltd	FC	FC	100	(38)
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)
Nextlinks Ltd	FC	FC	100	(1)
Nordisk Renting A/S	FC	FC	100	(75)
Nordisk Renting HB	FC	FC	100	(2)
Project & Export Finance (Nominees) Ltd	FC	FC	100	(1)
R.B. Leasing (March) Ltd	FC	FC	100	(1)
RBOS Nominees 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	(11)
RoosterMoney UK Limited	FC	FC	100	29
Sixty Seven Nominees Ltd	FC	FC	100	(1)
Strand Nominees Ltd	FC	FC	100	(17)
Syndicate Nominees Ltd	FC	FC	100	(1)
TDS Nominee Company Ltd	FC	FC	100	(3)
Tilba Ltd	BF	FC	100	(40)
The Royal Bank of Scotland (1727) Ltd	FC	FC	100	(3)
The Royal Bank of Scotland Group Ltd	FC	FC	100	(1)
W G T C Nominees Ltd	FC	FC	100	(1)

The following table details overseas branches of NatWest Group

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

12 Related undertakings continued

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)	Care of Nordisk Renting AB, Jakobsbergsgatan 13, 8th Floor, Box 14044, Stockholm, SE-111 44	Sweden
(3)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ	UK
(4)	c/o Epicenter, Mikonkatu 9, 6th Floor, Helsinki, 00100	Finland
(5)	c/o Advokatfirmaet Wiersholm AS, Postboks 1400, 0115 Oslo	Norway
(6)	251, Little Falls Drive, Wilmington, DE, 19808	USA
(7)	Ulster Bank Head Office, Block B Central Park, Leopardstown, Dublin 18, D18 N153	RoI
(8)	Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 31119	Cayman Islands
(9)	44 Esplanade, St Helier, JE4 9WG	Jersey
(10)	c/o Nordisk Renting AB, Jakobsbergsgatan 13, 8 storey, Box 14044, SE-111 44, Stockholm	Sweden
(11)	6-8 George Street, Edinburgh, EH2 2PF	UK
(12)	C/O Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev	Denmark
(13)	Claude Debussylaan 94, Amsterdam, 1082 MD	Netherlands
(14)	Level 54, Hopewell Centre, 183 Queen's Road East	Hong Kong
(15)	Royal Bank House, 71 Bath Street, St Helier, JE4 8PJ	Jersey
(16)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB	UK
(17)	440, Strand, London, WC2R OQS	UK
(18)	C/O Nordisk Renting AB, Box 14044, SE-104 40 Stockholm	Sweden
(19)	Estera Trust (Cayman) Limited,Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108	Cayman Islands
(20)	1 Bartholomew Lane London EC2N 2AX	UK
(21)	1 Princes Street, London, EC2R 8BP	UK
(22)	3rd Floor, Fleming Court, Fleming's Place, Dublin 4, D04 N4X9	RoI
(23)	94, Claude Debussylaan, Amsterdam, 1082 MD	Netherlands
(24)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100, Helsinki	Finland
(25)	One Spencer Dock, Dublin, D01 X9R7	RoI
(26)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW	UK
(27)	2 Athol Street, Douglas, IM1 1JA	Isle Of Man
(28)	36 St Andrew Square, Edinburgh, EH2 2YB	UK
(29)	64 New Cavendish Street, London, W1G 8TB	UK
(30)	Ashurst Australia, South Tower, 80 Collins Street, Melbourne	Australia
(31)	Block A Georges Quay Plaza, Georges Quay, Dublin 2	RoI
(32)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR	UK
(33)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG	UK
(34)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(35)	Ulster Bank Group Centre, George's Quay, Dublin 2	RoI
(36)	114 West 47th Street, New York, 10036	USA
(37)	12/14 Veer Nariman Road, Brady House 4th floor, Fort, Mumbai, 400001	India
(38)	16 Library Place, St. Helier	Jersey
(39)	1st floor, Tower A, Building No. 1, Candor Techspace, IT/ITES SEZ, Sector 21, Gurugram, Haryana, 122016	India
(40)	2 Athol Street, Douglas, IM99 1AN	Isle Of Man
(41)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(42)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(43)	254, 13 Floor, Rua Boa Vista, Sao Paulo, 01014-907	Brazil
(44)	301, Bellevue Parkway, 3rd Floor, Wilmington, DE, 19809	USA
(45)	4 Atlantic Quay, 70 York Street, Glasgow, G2 8JX	UK
(46)	40, Avenue J.F Kennedy, Kirchberg, L1855	Luxembourg
(47)	5 Harbourmaster Place, Dublin 1, D01 E7E8	RoI
(48)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Gurugram, Haryana, 122016	India
(49)	99 Queen Victoria Street, London, EC4V 4EH	UK
(50)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(51)	Boundary Hall, Cricket Square, 171 Elgin Avenue, Grand Cayman, KY1-1104	Cayman Islands
(52)	c/o Denis Crowley & Co Chartered Accountants, Unit 6 Riverside Grove, Riverstick, P43 W221	RoI
(53)	C/o Pinsent Masons Llp, The Soloist, 1 Lanyon Place, Belfast, Co. Antrim, BT1 3LP	UK
(54)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(55)	Cornwall Buildings, 45-51 Newhall Street, Birmingham, West Midlands, B3 3QR	UK
(56)	De entree 99 -197, 1101HE Amsterdam Zuidoost	Netherlands

12 Related undertakings continued

Notes	Registered addresses	Country of incorporation
(57)	First Floor, 1 Exchange Place, Dublin 1, D01 R8W8	RoI
(58)	H. Heyerdahlsgate 1, Postboks 2020 Vika, Oslo, 0125	Norway
(59)	ul. Ilzecka 26, building E, 02-135, Warsaw	Poland
(60)	Inpartnership Ltd, 35 St Paul's Square, Birmingham, West Midlands, B3 1QX	UK
(61)	Lerchenstrasse 18, Zurich, CH 8022	Switzerland
(62)	Liszt Straße 10, Regensburg, D-93053	Germany
(63)	Madison Building, Midtown, Queensway	Gibraltar
(64)	Maples Corporate Services Limited, P.O. Box 309, 121 South Church Street, George Town, Grand Cayman, KY1-1104	Cayman Islands
(65)	Office Block A, Bay Studios Business Park, Fabian Way, Swansea, SA1 8QB	UK
(66)	One Dockland Central, Guild Street, IFSC, Dublin 1	RoI
(67)	PO Box 230, Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH	Guernsey
(68)	PO Box 384, The Albany, South Esplanade, St Peter Port, Guernsey, GY1 4NF	Guernsey
(69)	Regency Court, Glategny Esplanade, St Peter Port, GY1 3AP	Guernsey
(70)	Schuetzengassse 4, CH-8001 Zurich	Switzerland
(71)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ	UK
(72)	Tirolerweg 8, Zug, CH- 6300	Switzerland
(73)	Verlengde Poolseweg 16, Breda, 4818CL	Netherlands
(74)	Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM 10	Bermuda
(75)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(76)	1209, Orange Street, Wilmington, New Castle County, DE, 19801	USA
(77)	Kokermolen 16, Houten, 3994 DH	Netherlands
(78)	46A, Avenue J.F Kennedy,L 1855	Luxembourg
(79)	2nd Floor 120 Old Broad Street, London, EC2N 1AR	UK
(80)	5 Little Portland Street, London W1W 7JD	UK
(81)	13 - 18 City Quay, Dublin Dockland, Dublin 2, D02 ED70	RoI

Non-IFRS financial measures

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

Non-IFRS financial measures

1. Adjustment for notable items

Go-forward group income excluding notable items is calculated as total income excluding Ulster Bank RoI total income and excluding notable items. UK and RBSI retail and commercial businesses total income excluding notable items comprises income in the Retail Banking, Commercial Banking, Private Banking and RBS International operating segments excluding notable items.

The exclusion of notable items aims to remove the impact of one-offs which may distort period-on-period comparisons.

Refer to page 83 for further details.

	2021	2020	2019
Continuing operations			
Total income (1)	**10,512**	10,508	13,987
Less Ulster Bank RoI total income	**(228)**	(222)	(301)
Go-forward group income	**10,284**	10,286	13,686
Less notable items	**(210)**	384	(2,115)
Go-forward group total income excluding notable items	**10,074**	10,670	11,571
Total income			
Retail Banking	**4,445**	4,181	4,866
Private Banking	**816**	763	777
Commercial Banking	**3,875**	3,958	4,318
RBS International	**548**	497	610
UK and RBSI retail and commercial businesses income	**9,684**	9,399	10,571
Less notable items (2)	**(64)**	87	(33)
UK and RBSI retail and commercial businesses income excluding notable items	**9,620**	9,486	10,538

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) For details of UK and RBSI retail and commercial businesses notable items refer to page 84.

2. Adjustment for asset disposals/strategic risk reductions and own credit adjustments

NWM total income excluding asset disposals/strategic risk reductions and own credit adjustments (OCA) is calculated as total income of the NWM business less asset disposals/strategic risk reductions and OCA.

This aims to show underlying income generation in NWM excluding the impact of disposal losses and OCA.

Refer to pages 83 and 92 for further details.

	2021	2020	2019
NWM total income	**415**	1,123	1,342
Less asset disposals/strategic risk reduction	**64**	83	—
Less OCA	**(6)**	24	80
NWM total income excluding asset disposals/ strategic risk reductions and OCA	**473**	1,230	1,422

3. Operating expenses - management view

The management analysis of operating expenses shows strategic costs and litigation and conduct costs in separate lines. Depreciation and amortisation, and other administrative expenses attributable to these costs are included in strategic costs and litigation and conduct costs lines for management analysis. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis.

Other expenses excludes strategic costs and litigation and conduct costs, which are more volatile and may distort comparisons with prior periods.

Refer to page 300 for further details.

Non-statutory analysis

Operating expenses	Year ended 31 December 2021 Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Continuing operations				
Staff expenses	**411**	**—**	**3,265**	**3,676**
Premises and equipment	**103**	**—**	**1,030**	**1,133**
Other administrative expenses	**133**	**466**	**1,427**	**2,026**
Depreciation and amortisation	**140**	**—**	**783**	**923**
Total	**787**	**466**	**6,505**	**7,758**

Operating expenses	31 December 2020 (1) Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Continuing operations				
Staff expenses	462	—	3,416	3,878
Premises and equipment	233	—	989	1,222
Other administrative expenses	197	113	1,535	1,845
Depreciation and amortisation	121	—	792	913
Total	1,013	113	6,732	7,858

Operating expenses	31 December 2019 (1) Strategic costs	Litigation and conduct costs	Other expenses	Statutory operating expenses
Continuing operations				
Staff expenses	451	—	3,525	3,976
Premises and equipment	239	—	1,019	1,258
Other administrative expenses	295	895	1,638	2,828
Depreciation and amortisation	396	—	822	1,218
Total	1,381	895	7,004	9,280

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.

4. Other expenses excluding operating lease depreciation (OLD) and Ulster Bank RoI direct costs

Our cost target for 2021 is based on this measure and we track progress against this.

Refer to page 83 for further details.

	2021	2020 (1)	2019 (1)
Continuing operations			
Total operating expenses	**7,758**	7,858	9,280
Less strategic costs	**(787)**	(1,013)	(1,381)
Less litigation and conduct costs	**(466)**	(113)	(895)
Other expenses	**6,505**	6,732	7,004
Less OLD	**(140)**	(145)	(138)
Other expenses excluding OLD	**6,365**	6,587	6,866
Less Ulster Bank RoI direct costs	**(273)**	(239)	(247)
Other expenses excluding OLD and Ulster Bank RoI direct costs	**6,092**	6,348	6,619

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

5. Cost:income ratio

The cost:income ratio is calculated as total operating expenses less OLD divided by total income less OLD.

This is a common metric used to compare profitability across the banking industry.

Refer to pages 87 to 92 for further details.

	Go-forward group								
Year ended 31 December 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total excluding Ulster Bank RoI £m	Ulster Bank RoI £m	NatWest Group £m
Continuing operations									
Operating expenses	**(2,513)**	**(520)**	**(2,354)**	**(242)**	**(1,161)**	**(486)**	**(7,276)**	**(482)**	**(7,758)**
Operating lease depreciation	**—**	**—**	**140**	**—**	**—**	**—**	**140**	**—**	**140**
Adjusted operating expenses	**(2,513)**	**(520)**	**(2,214)**	**(242)**	**(1,161)**	**(486)**	**(7,136)**	**(482)**	**(7,618)**
Total income	**4,445**	**816**	**3,875**	**548**	**415**	**185**	**10,284**	**228**	**10,512**
Operating lease depreciation	**—**	**—**	**(140)**	**—**	**—**	**—**	**(140)**	**—**	**(140)**
Adjusted total income	**4,445**	**816**	**3,735**	**548**	**415**	**185**	**10,144**	**228**	**10,372**
Cost:income ratio	**56.5%**	**63.7%**	**59.3%**	**44.2%**	**279.8%**	**nm**	**70.3%**	**nm**	**73.4%**
Year ended 31 December 2020 (1)									
Continuing operations									
Operating expenses	(2,540)	(455)	(2,430)	(291)	(1,310)	(391)	(7,417)	(441)	(7,858)
Operating lease depreciation	—	—	145	—	—	—	145	—	145
Adjusted operating expenses	(2,540)	(455)	(2,285)	(291)	(1,310)	(391)	(7,272)	(441)	(7,713)
Total income	4,181	763	3,958	497	1,123	(236)	10,286	222	10,508
Operating lease depreciation	—	—	(145)	—	—	—	(145)	—	(145)
Adjusted total income	4,181	763	3,813	497	1,123	(236)	10,141	222	10,363
Cost:income ratio	60.8%	59.6%	59.9%	58.6%	116.7%	nm	71.7%	nm	74.4%
Year ended 31 December 2019 (1)									
Continuing operations									
Operating expenses	(3,618)	(486)	(2,600)	(264)	(1,418)	(384)	(8,770)	(510)	(9,280)
Operating lease depreciation	—	—	138	—	—	—	138	—	138
Adjusted operating expenses	(3,618)	(486)	(2,462)	(264)	(1,418)	(384)	(8,632)	(510)	(9,142)
Total income	4,866	777	4,318	610	1,342	1,773	13,686	301	13,987
Operating lease depreciation	—	—	(138)	—	—	—	(138)	—	(138)
Adjusted total income	4,866	777	4,180	610	1,342	1,773	13,548	301	13,849
Cost:income ratio	74.4%	62.5%	58.9%	43.3%	105.7%	nm	63.7%	nm	66.0%

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

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6. NatWest Group return on tangible equity

Return on tangible equity comprises annualised profit or loss for the period attributable to ordinary shareholders divided by average tangible equity. Average tangible equity is average total equity excluding non-controlling interests (NCI) less average intangible assets and average other owners' equity.

Go-forward group return on tangible equity is calculated as annualised profit or loss for the period less Ulster Bank RoI loss from continuing operations and less profit from discontinued operations divided by go-forward group total tangible equity.

This measure shows the return NatWest Group generates on tangible equity deployed. It is used to determine relative performance of banks and used widely across the sector.

Refer to pages 83 and 87 for further details.

	Year ended or as at	
	31 December 2021	31 December 2020
NatWest Group return on tangible equity		
Profit/(loss) attributable to ordinary shareholders (£m)	2,950	(753)
Average total equity (£m)	42,727	43,774
Adjustment for other owners equity and intangibles (£m)	(11,395)	(11,872)
Adjusted total tangible equity (£m)	31,332	31,902
Return on tangible equity (%)	9.4%	(2.4%)
Go-forward group return on tangible equity		
Profit/(loss) attributable to ordinary shareholders (£m)	2,950	(753)
Less Ulster Bank RoI loss from continuing operations (£m)	255	495
Less profit from discontinued operations (£m)	(276)	(121)
Go-forward group profit/(loss) attributable to ordinary shareholders (£m)	2,929	(379)
Average total equity (£m)	42,727	43,774
Adjustment for other owners equity and intangibles (£m)	(11,395)	(11,872)
Adjusted total tangible equity (£m)	31,332	31,902
Go-forward group RWAe applying factor (%)	93%	93%
Go-forward group total tangible equity (£m)	29,139	29,669
Return on tangible equity (%)	10.0%	(1.3%)

7. Segmental return on equity

Segmental return on equity comprises segmental operating profit or loss, adjusted for preference share dividends and tax, divided by average notional tangible equity, allocated at an operating segment specific rate of the period average segmental risk-weighted assets, incorporating the effect of capital deductions (RWAes).

This measure shows the return generated by operating segments on equity deployed.

Refer to pages 87 to 92 for further details.

Year ended 31 December 2021	Retail Banking	Private Banking	Commercial Banking	RBS International	NatWest Markets
Operating profit/(loss) (£m)	1,968	350	2,594	358	(711)
Preference share cost allocation (£m)	(79)	(21)	(154)	(20)	(63)
Adjustment for tax (£m)	(529)	(92)	(683)	(59)	217
Adjusted attributable profit/(loss) (£m)	1,360	237	1,757	279	(557)
Average RWAe (£bn)	36.0	11.2	69.5	7.8	28.4
Equity factor	14.5%	12.5%	11.5%	16.0%	15.0%
RWAe applying equity factor (£bn)	5.2	1.4	8.0	1.2	4.3
Return on equity	26.1%	17.0%	22.0%	22.5%	(13.1%)
Year ended 31 December 2020					
Operating profit/(loss) (£m)	849	208	(399)	99	(227)
Preference share cost allocation (£m)	(88)	(22)	(153)	(20)	(68)
Adjustment for tax (£m)	(213)	(52)	155	(11)	83
Adjusted attributable profit/(loss) (£m)	548	134	(397)	68	(212)
Average RWAe (£bn)	37.2	10.4	76.4	7.0	37.3
Equity factor	14.5%	12.5%	11.5%	16.0%	15.0%
RWAe applying equity factor (£bn)	5.4	1.3	8.8	1.1	5.6
Return on equity	10.2%	10.3%	(4.5%)	6.1%	(3.8%)
Year ended 31 December 2019					
Operating profit/(loss) (£m)	855	297	1,327	344	(25)
Adjustment for tax (£m)	(236)	(83)	(372)	(48)	7
Preference share cost allocation (£m)	(74)	(18)	(163)	(11)	(64)
Adjustment for Alawaal bank merger gain (£m)	—	—	—	—	(150)
Adjusted attributable profit/(loss) (£m)	545	196	792	285	(232)
Average RWAe (£bn)	37.7	9.8	78.2	6.9	48.0
Equity factor	15.0%	13.0%	12.0%	16.0%	15.0%
RWAe applying equity factor (£bn)	5.7	1.3	9.4	1.1	7.2
Return on equity	9.6%	15.4%	8.4%	25.7%	(3.2%)

8. Tangible equity

Tangible equity is ordinary shareholders' interest less intangible assets. TNAV per ordinary share is calculated as tangible equity divided by the number of ordinary shares in issue.

This is a measure used by external analysts in valuing the bank and the starting point for calculating regulatory capital.

Refer to page 83 for further details.

	Year ended	
	31 December 2021	31 December 2020
Ordinary shareholders' interests (£m)	37,412	38,367
Less intangible assets (£m)	(6,723)	(6,655)
Tangible equity (£m)	30,689	31,712
Ordinary shares in issue (millions)	11,272	12,129
TNAV per ordinary share (pence)	272p	261p

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9. Net interest margin

Bank net interest margin is defined as net interest income of the banking business of the Go-forward group less NatWest Markets (NWM) element and excluding liquid asset buffer, as a percentage of bank average interest-earning assets. Bank average interest earning assets are the average interest earning assets of the banking business of the Go-forward group less NWM element and excluding liquid asset buffer.

The exclusion of the NWM element aims to eliminate the impact of distorting volatility in NWM. The exclusion of the Ulster Bank RoI from the aims to align the basis of calculation with prior periods.

Liquid asset buffer consists of assets held by NatWest Group, such as cash and balances at central banks and debt securities in issue, that can be used to ensure repayment of financial obligations as they fall due.

The exclusion of liquid asset buffer has been introduced as a way to present net interest margin on a basis more comparable with UK peers and exclude the impact of regulatory driven factors.

Refer to pages 83 and 88 to 91 for further details.

	Year ended 31 December 2021 £m	31 December 2020 £m	31 December 2019 £m
Continuing operations			
NatWest Group net interest income (1)	**7,614**	7,476	7,799
Less NWM net interest income	**(9)**	57	188
Less Ulster Bank RoI net interest income	**(100)**	(122)	(152)
Bank net interest income	**7,505**	7,411	7,835
Average interest earning assets (IEA)	**524,886**	483,719	439,994
Less NWM average IEA	**(32,730)**	(37,929)	(35,444)
Less Ulster Bank RoI average IEA	**(15,854)**	(16,600)	(16,538)
Less liquid asset buffer average IEA (1)	**(162,195)**	(127,945)	(106,925)
Bank average IEA	**314,107**	301,245	281,087
Bank net interest margin	**2.39%**	2.46%	2.79%

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Non-IFRS financial measures continued

10. Net lending

NatWest Group net lending is calculated as total loans to customers less loan impairment provisions.

Go-forward group net lending is calculated as net loans to customers less Ulster Bank RoI net loans to customers.

UK and RBSI retail and commercial businesses net lending excluding UK Government support schemes comprises customer loans in the Retail Banking, Commercial Banking, Private Banking and RBS International operating segments, excluding UK Government support schemes.

This is the basis of our lending target for our key retail and commercial businesses.

Refer to pages 83 for further details.

	As at 31 December 2021 £bn	31 December 2020 £bn
Total loans to customers (amortised cost)	**362.8**	366.5
Less loan impairment provisions	**(3.8)**	(6.0)
Net loans to customers (amortised cost)	**359.0**	360.5
Less Ulster Bank RoI net loans to customers (amortised cost)	**(6.7)**	(18.0)
Go-forward group net lending	**352.3**	342.5
Net loans to customers (amortised cost)		
Retail Banking	**182.2**	172.3
Private Banking	**18.4**	17.0
Commercial Banking	**101.2**	108.2
RBS International	**15.5**	13.3
UK and RBSI retail and commercial businesses net loans to customers (amortised cost)	**317.3**	310.8
Less UK Government support schemes	**(11.6)**	(12.9)
Total UK and RBSI retail and commercial businessesnet lending excluding UK Government support schemes	**305.7**	297.9

11. Customer deposits

Go-forward group customer deposits is calculated as total customer deposits less Ulster Bank RoI customer deposits.

UK and RBSI retail and commercial businesses customer deposits comprises customer deposits in the Retail Banking, Commercial Banking, Private Banking and RBS International operating segments.

This metric is used to show underlying deposit movements across our key retail and commercial businesses.

Refer to pages 83 for further details.

	As at 31 December 2021 £bn	31 December 2020 £bn
Total customer deposits	**479.8**	431.7
Less Ulster Bank RoI customer deposits	**(18.4)**	(19.6)
Go-forward group customer deposits	**461.4**	412.1
Retail Banking	**188.9**	171.8
Private Banking	**39.3**	32.4
Commercial Banking	**177.7**	167.7
RBS International	**37.5**	31.3
Total UK and RBSI retail and commercial businesses customer deposits	**443.4**	403.2

12. Total operating profit before tax including discontinued operations

Given the current progress of the phased withdrawal from the Republic of Ireland, Ulster Bank RoI results are currently presented in both continuing and discontinued operations. Including operating profit before tax from discontinued operations provides a complete view of the NatWest Group operating profit in 2021.

Refer to page 82 for further details.

	2021	2020	2019
Operating profit/(loss) before tax	**4,032**	(481)	3,983
Operating profit before tax from discontinued operations	**279**	130	249
Total operating profit including discontinued operations	**4,311**	(351)	4,232

Performance metrics not defined under IFRS
Metrics based on GAAP measures, included as not defined under IFRS and reported for compliance with ESMA adjusted performance measure rules.

1. Loan:deposit ratio
Loan:deposit ratio is calculated as net customer loans held at amortised cost divided by total customer deposits.

This is a common metric used among peers to assess liquidity.

Refer to page 89 to 90 for further details.

	As at		
	31 December 2021 £m	31 December 2020 £m	31 December 2019 £m
Loans to customers - amortised cost	**358,990**	360,544	326,947
Customer deposits	**479,810**	431,739	369,247
Loan:deposit ratio (%)	**75%**	84%	89%

2. Loan impairment rate
Loan impairment rate is the annualised loan impairment charge divided by gross customer loans.

Refer to pages 83 and 88 to 91 for further details.

3. Funded assets
Funded assets is calculated as total assets less derivative assets.

This measure allows review of balance sheet trends exclusive of the volatility associated with derivative fair values.

Refer to pages 92 and 93 for further details.

4. AUMAs
AUMA comprises both assets under management (AUMs) and assets under administration (AUAs) serviced through the Private Banking franchise. AUMs comprise assets where the investment management is undertaken by Private Banking on behalf of Private Banking, Retail Banking and RBSI customers. AUAs comprise third party assets held on an execution-only basis in custody by Private Banking, Retail Banking and RBSI for their customers accordingly, for which the execution services are supported by Private Banking. Private Banking receives a fee for providing investment management and execution services to Retail Banking and RBSI franchises.

Private Banking is the Centre of Expertise for asset management across NatWest Group, servicing all client segments across Retail, Premier and Private Banking.

Refer to page 89 for further details.

5. Depositary assets
Assets held by RBSI as an independent trustee and in a depositary service capacity.

Depositary assets are a closely monitored KPI for the RBS International business and its inclusion in commentary highlights the services that RBS International provides.

Refer to page 91 for further details.

6. Wholesale funding
Wholesale funding comprises deposits by banks, debt securities in issue and subordinated liabilities.

This is a closely monitored metric used across the banking industry to ensure capital requirements are being met.

Refer to page 83 for further details.

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

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

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

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

Income and profit/(loss) before tax
Income and profit/(loss) totals are reported in Note 4 within the Geographical segments table.

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

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

Corporation tax paid is reported on a cash basis as opposed to an accounting basis and therefore does not necessarily have a direct correlation to the reported profits or losses arising in the year. For example, in certain jurisdictions taxable profits may be reduced as a result of the offset of tax losses brought forward from prior years; or tax payments may be calculated with reference to prior year profits.

Full time equivalent employees (FTEs)
FTEs are allocated to the country in which they are primarily based for the performance of their employment duties. The figures disclosed represent the average number of FTEs, including temporary staff, in each country during the period. The FTEs, including temporary staff, at 31 December 2021, have been added for completeness.

Public subsidies received
No public subsidies were received during the period.

NatWest Group Country-by-Country tax breakdown 2021

				Headcount	
Country	Income (1,7) £m	Profit/(loss) before tax (1,7) £m	Tax paid/ (received) £m	Average FTE including temporary staff	FTE including temporary staff as at the year end 31 December 2021
UK	9,600	3,948	787	40,426	39,692
Guernsey	99	83	8	85	83
Isle of Man	55	22	—	348	337
Jersey	166	90	1	702	676
UK region	9,920	4,143	796	41,561	40,788
Finland	—	—	2	3	3
France	23	(9)	1	40	49
Germany	14	(2)	2	61	70
Gibraltar	29	17	1	58	55
Greece	—	(1)	—	1	1
Republic of Ireland	453	(1)	2	2,000	1,935
Italy	7	(2)	1	14	12
Luxembourg	28	14	2	59	59
Netherlands	86	30	—	106	112
Norway	—	—	1	—	—
Poland (2)	5	2	—	1,280	1,369
Spain	6	(2)	1	13	5
Sweden	37	28	9	35	34
Switzerland (2)	1	5	6	273	274
Turkey	2	1	1	2	2
Europe region	691	80	28	3,945	3,980
USA	100	48	2	291	270
US region	100	48	2	291	270
Hong Kong	9	(2)	—	14	9
India (2)	13	37	12	13,164	13,541
Japan	18	2	—	37	37
Singapore	31	3	—	110	110
Asia Pacific region	71	40	12	13,325	13,697
Saudia Arabia (3)	—	—	18	—	—
Middle East region	—	—	18	—	—
UK region	9,920	4,143	796	41,561	40,788
US region	100	48	2	291	270
Europe region	691	80	28	3,945	3,980
Rest of World region	71	40	30	13,325	13,697
Global total	10,782	4,311	856	59,122	58,735

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

NatWest Group Country-by-Country tax breakdown 2020

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

(1) A full list of NatWest Group subsidiaries' names, nature of activities and geographical locations is available at Note 12 of the parent company accounts.
(2) Income excludes internal service fee income which has been calculated on a cost plus mark-up basis.
(3) Tax paid of £18 million in Saudi Arabia is due to capital gains tax arising on the merger of Alawwal bank with SABB during 2019.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(5) A list of the principal subsidiaries in each jurisdiction and the nature of their activities is available at Note 9 of the parent company accounts.
(6) The amounts shown above are presented to the nearest million and as a result any amounts less than £0.5 million have been rounded to zero.
(7) The information above is presented on a gross reporting basis and includes results from discontinued operations. The results from discontinued operations are included in the Ireland totals, contributing to Income: £269 million; Profit before tax: £279 million; Tax paid: nil; Subsidies received: nil; Headcount: 715.

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NatWest 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 NatWest 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 NatWest Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NatWest Group.

In many countries, including the UK (NatWest 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 NatWest 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 NatWest 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 NatWest Group. Moreover, it is unclear as to how any further measures, such as rising interest rates and inflation, may affect NatWest 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 and planning and forecasting for NatWest Group more complex, and may result in uncertainty impacting the risk profile of NatWest Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NatWest 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 NatWest Group.

NatWest 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 NatWest 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 NatWest Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NatWest Group's customers and their banking needs).

In addition, NatWest 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 NatWest Group, including as a result of the indirect effect on regional or global trade and/or NatWest Group's customers.

NatWest Group faces political uncertainty in Scotland, as a result of a possible second Scottish independence referendum. Independence may adversely impact NatWest Group since NatWest Group plc and other NatWest Group entities (including NWM Plc) 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 structure, independently or in conjunction with other mandatory or strategic structural and organisational changes which, any of which could adversely impact NatWest Group.

The value of NatWest Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of NatWest Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NatWest Group's financial instruments, which may have an adverse effect on NatWest Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NatWest Group's counterparty risk. NatWest Group's risk management and monitoring processes seek to quantify and mitigate NatWest Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and NatWest Group could realise significant losses if extreme market events were to occur.

Any of the above may have a negative effect on NatWest Group.

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NatWest Group's post Brexit EU operating model may continue to adversely affect NatWest 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 NatWest 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 these 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.

The long-term effects of Brexit and the uncertainty regarding NatWest Group's EU operating model may have a negative impact on NatWest Group's business. These may be exacerbated by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NatWest Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the economic impacts of the COVID-19 pandemic 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 NatWest Group and its subsidiaries will operate. This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NatWest 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 NatWest Group's businesses, non-UK operations and/or legal entity structure, including attendant operating, compliance and restructuring costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity, regulatory environment and tax implications and as a result may adversely impact NatWest Group's profitability, competitive position, business model and product offering.

Changes in interest rates have significantly affected and will continue to affect NatWest Group's business and results.

Interest rate risk is significant for NatWest 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 interest rates may support NatWest Group's interest income, sharp rises could have macroeconomic effects that lead to adverse outcomes for the business. 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 NatWest Group operates, all of which could adversely affect the business and performance of NatWest Group. Conversely, decreases in interest rates and/or continued sustained low or negative interest rates would be expected to continue to put further pressure on NatWest 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 NatWest Group's financial position.

Changes in foreign currency exchange rates may affect NatWest 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 NatWest Group's control, may lead to sharp and sudden variations in foreign exchange rates.

Although NatWest Group is principally a UK focused banking group, it is subject to foreign exchange risk from capital deployed in NatWest Group's foreign subsidiaries, branches and joint arrangements and customer transactions denominated in a currency other than the functional currency of NatWest Group. NatWest Group also relies on issuing securities in foreign currencies that assist in meeting NatWest Group's minimum requirements for own funds and eligible liabilities ('MREL') and NWM Plc deals foreign exchange instruments. NatWest Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling rates, can adversely affect the value of assets, liabilities (including the total amount MREL-eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NatWest Group.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and further offers or sales of NatWest Group's shares held by HM Treasury may affect the price of NatWest Group securities.

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 programme 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.

Any offers or sales of a substantial number of ordinary shares by UKGI, market expectations about these sales and any associated directed, on or off market buyback activity by NatWest Group, could affect the prevailing market price for the outstanding ordinary shares of NatWest Group plc.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group will continue to have its own independent board of directors and management team determining its own strategy. However, for as long as HM Treasury remains the 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 capital strategy, dividend policy, remuneration policy or the conduct of NatWest 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 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.

Strategic risk

NatWest Group 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 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 NatWest Group as to how performance is perceived and how NatWest Group conducts its business. These changes are substantial and will take many years to fully embed. These changes may not result in the expected outcome within the timeline and in the manner currently contemplated.

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. Meeting these targets and expectations requires further significant reductions to NatWest Group's cost base. 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 NatWest 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.

NatWest 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 NatWest 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 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 may not fully realise the expected benefits and value from these transactions and initiatives. In particular, NatWest 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, 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 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 NatWest Group's results of operations, financial condition or prospects.

NatWest Group's phased withdrawal from ROI continues to present significant commercial, operational, legal and execution risks. In particular, the phased withdrawal from ROI involves transfers of business, assets and liabilities to third parties, and entails many risks, the most significant of which include: (i) anticipated reductions in net income, total lending and RWAs; (ii) potential trapped or stranded capital; (iii) the diversion of management resources and attention away from day-to-day management; (iv) the recognition of disposal losses as part of the orderly run-down of certain loan portfolios which may be higher than anticipated; (v) execution risks arising from the significant uncertainties of a phased withdrawal, including the additional IT and operational expense and resource required to mitigate manual and limited customer switching and handling processes of Ulster Bank Ireland DAC, potential counterparties and other banks; (vi) customer action or inaction, or the inability to obtain necessary approvals and/or support from governmental authorities, regulators, trade unions and/or other stakeholders resulting in additional cost, resource and delays; (vii) potential loss of customers, resulting in retail and commercial deposit outflows (or a failure to attract deposit inflows) and reduced revenues and liquidity; (viii) increased people risk through the potential loss of key colleagues and institutional knowledge and increased challenges of attracting and retaining colleagues; (ix) regulatory risk, including in relation to prudential, conduct and other regulatory requirements; (x) no or limited access to Euro system funding arrangements; and (xi) brand and reputational risks due to press speculation and stakeholder scrutiny about the phased withdrawal from ROI. Any of these risks and uncertainties may cost more, be more complex or harder to mitigate than currently estimated and may adversely affect NatWest Group's ability to execute a phased withdrawal from ROI, or may affect the financial performance of NatWest Group.

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 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 its 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. 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 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'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.

Changes in the economic, political and regulatory environment in which NatWest Group operates, or regulatory uncertainty and changes, strong market competition and industry disruption or economic volatility may require NatWest 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, its strategy is vulnerable to an economic downturn. NatWest Group's strategy also requires ongoing confidence from customers and the wider market, without which customer activity and related income levels may fall or NatWest 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 NatWest Group's products and services offering, its reputation with customers or business model and adversely impact NatWest Group's ability to deliver its strategy and meet its targets and guidance, each of which could have a negative impact on NatWest Group.

NatWest Group continues to refocus its NWM franchise, which entails material execution, commercial and operational risks and the intended benefits for NatWest Group may not be realised within the timeline and in the manner currently contemplated.

Over the past few years, as part of its purpose-led strategy, NatWest Group has sought to implement a more strategically congruent and economically sustainable model for its NWM franchise. As part of this, NatWest Group has been refocusing the NWM franchise to principally serve NatWest Group's corporate and institutional customer base. This requires NWM Group to simplify its operating model and technology platform, as well as reduce its cost base and capital requirements. NWM Group has also directed resources to emphasising and growing product capability in the areas of importance to NatWest Group's corporate and institutional customers, including the Fixed Income and Capital Markets businesses, and has refocused its Rates business to best serve its core customers.

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 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. As a result, NatWest Group's business, results of operations, financial position and prospects could be adversely affected.

NatWest Group's ability to serve its customers may be diminished by the changed business strategy, as a result of the NWM Refocusing. In addition, customer reactions to the changed nature of NWM Group's business model may be more adverse than expected and previously anticipated revenue and profitability levels may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment (including due to the COVID-19 pandemic, heightened inflation and rising interest rates), continued political and regulatory uncertainty, market volatility and/or strong market competition may also pose significant challenges to the achievement of the anticipated targets and goals of the NWM Refocusing.

The implementation of the NWM Refocusing has been a complex process and although substantial progress has been made, the risk remains that this strategy may not result in the contemplated business outcome and there continue to be material execution, commercial and operational risks in connection with the NWM Refocusing. There may continue to be material execution, commercial and operational risks for NWM Group and NWM Group may continue to be subject to significant structural and other change. There can be no certainty that the NWM Refocusing will be successful or that NWM Group will be a viable, competitive or profitable business. The intended benefits for NatWest Group may not be realised within the timeline and in the manner currently contemplated.

Trends relating to the COVID-19 pandemic may adversely affect NatWest 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 NatWest Group remains uncertain. If trends relating to the COVID-19 pandemic negatively impact the UK and global economy, NatWest Group's may be unable to meet its financial, capital and operational targets and expectations. In addition, the COVID-19 pandemic has, at times, caused significant market volatility, which could cause RWA inflation for NatWest Group. This could impair NatWest Group's ability to timely deliver on certain aspects of its purpose-led strategy, which may have an adverse effect on NatWest Group's business, results of operations and outlook. See also, '*NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'.

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 NatWest 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 NatWest Group's reputation, business, results of operations, outlook and the value of NatWest Group's securities. See also, '*Any failure by NatWest Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NatWest Group's ability to manage climate-related risks*' and '*A failure to adapt NatWest Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NatWest Group, its reputation, business, results of operations and outlook*'.

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 NatWest Group if it is not able to adapt or compete effectively.

Financial resilience risk

NatWest Group may not meet the targets it communicates or be in a position to continue to make discretionary capital distributions (including dividends to shareholders).

As part of NatWest Group's strategy, NatWest Group has set a number of financial, capital and operational targets for NatWest Group including in respect of: CET1 ratio targets, MREL targets, return on tangible equity ('ROTE'), funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets) and customer satisfaction targets and discretionary capital distributions (including dividends to shareholders).

See also, '*NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'.

NatWest Group's ability to meet its targets and to successfully meet its strategy is 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, operational risks and risks relating to NatWest Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues) and litigation, governmental actions, investigations and regulatory matters.

A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact NatWest Group's ability to maintain its CET1 ratio target and make discretionary capital distributions. See also, '*NatWest Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options*'.

There is a risk that NatWest Group may not meet its targets and expectations or be in a position to continue to distribute capital, or that NatWest Group will be a viable, competitive or profitable banking business.

NatWest Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The markets within which NatWest Group operates are highly competitive. NatWest 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, such as 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 NatWest 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 NatWest 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 NatWest Group's operations, additional supervision by NatWest Group's regulators, and loss of investor confidence.

Increasingly many of the products and services offered by NatWest Group are, and will become, more technology intensive. For example, NatWest Group recently invested in a number of fintech ventures, including Mettle, FreeAgent, Tyl, Rapid Cash and Rooster Money. See also, '*NatWest Group continues to implement its purpose-led strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes*'. NatWest 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 NatWest Group's customer business in the UK. There can be no certainty that NatWest 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 NatWest Group to continue to grow such services in the future. Certain of NatWest Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their customers. NatWest 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.

NatWest 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 NatWest Group. Although NatWest 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 NatWest Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NatWest 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 NatWest Group's ability to produce underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NatWest 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, NatWest 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 NatWest 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 NatWest Group.

In addition, the implementation of its purpose-led strategy (including in relation to acquisitions, reorganisations and/or partnerships), delivery on its climate ambition, cost-reduction measures, as well as employee remuneration constraints, may also have an impact on its ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NatWest 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 NatWest 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.

The impact of the COVID-19 pandemic on the credit quality of NatWest Group's counterparties may negatively impact NatWest Group.

The effects of the COVID-19 pandemic have adversely affected the credit quality of some of NatWest 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, NatWest 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, '*NatWest Group has significant exposure to counterparty and borrower risk*' and '*NatWest Group's financial statements are sensitive to the underlying accounting policies, judgments, estimates and assumptions*'.

In line with certain mandated COVID-19 pandemic support schemes, NatWest Group has sought to assist affected customers with a number of initiatives including NatWest Group's participation in BBLS, CBILS and CLBILS products. NatWest 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. NatWest 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 NatWest 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 NatWest Group.

NatWest Group has significant exposure to counterparty and borrower risk.

NatWest 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 NatWest Group's businesses. NatWest 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 NatWest Group's profitability. See also, '*Risk and capital management — Credit Risk*'.

The credit quality of NatWest 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 the legal and regulatory landscape in the UK and countries where NatWest Group is exposed to credit risk and 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 NatWest 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. NatWest 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 NatWest Group's mortgage loan and wholesale property loan portfolios as at 31 December 2021, amounted to £226.5 billion, representing 61% of NatWest Group's total customer loan exposure. If property prices were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, NatWest 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 9 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 NatWest Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NatWest Group interacts on a daily basis. See also, '*NatWest 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 NatWest Group and an inability to engage in routine funding transactions.

NatWest 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, NatWest 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*'. 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 NatWest Group. As government support schemes

reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

NatWest Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Due to NatWest Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out banking activities outside a regulated framework). NatWest Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NatWest Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect the business, results of operations and outlook of NatWest Group.

If NatWest 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.

NatWest Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

NatWest Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources. Adequate capital provides NatWest Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK operations. It also permits NatWest Group plc to make discretionary capital distributions (including dividends to shareholders).

As at 31 December 2021, NatWest Group plc's CET1 ratio was 18.2% and NatWest Group plc currently targets a CET1 ratio of 13-14% by the end of 2023. NatWest Group plc'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 Regulatory Authority's ('PRA') views on appropriate buffers above minimum operating levels.

NatWest Group plc's current capital strategy is based on the expected accumulation of additional capital through the accrual of profits over time, planned capital actions (including issuances, redemptions, and discretionary capital distributions), RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency and ensuring NatWest Group plc meets its medium to long term targets.

A number of factors may impact NatWest Group plc'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;
- changes in prudential regulatory requirements including NatWest Group plc's Total Capital Requirement set by the PRA, including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- reduced dividends from NatWest Group's subsidiaries because of changes in their financial performance and/or the extent to which local capital requirements exceed NatWest Group plc's target ratio; and limitations on the use of double leverage, i.e. NatWest Group plc's use of debt to invest in the equity of its subsidiaries, as a result of the Bank of England's and/or NatWest Group's evolving views on distribution of capital within groups.

A shortage of capital could in turn affect NatWest Group plc's capital ratio, and/or its ability to make capital distributions.

A minimum level of capital adequacy is required to be met by NatWest Group plc for it to be entitled to make certain discretionary payments, and institutions which fail to meet the combined buffer requirement are subject to restricted discretionary payments. The resulting restrictions are scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the profits of the institution since the last distribution of profits or discretionary payment which gives rise to a maximum distributable amount (MDA) (if any) that the financial institution can distribute through discretionary payments. Any breach of the combined buffer requirement, may necessitate for NatWest Group plc reducing or ceasing discretionary payments (including payments of dividends to shareholders) to the extent of the breach.

NatWest Group is required to maintain a set quantum of MREL set as the higher of its RWAs or leverage requirement. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. As a result, NatWest Group plc is the only entity that can externally issue securities that count towards its MREL requirements, the proceeds of which can then be downstreamed to meet the internal MREL issuance requirements of its operating entities and intermediate holding companies.

If NatWest Group plc is unable to raise the requisite amount of regulatory capital or MREL, downstream the proceeds of MREL to subsidiaries as required, or to otherwise meet its regulatory capital, MREL and leverage requirements, it may be exposed to increased regulatory supervision or sanctions, loss of investor confidence, constrained or more expensive funding and be unable to make dividend payments on its ordinary shares or maintain discretionary payments on capital instruments.

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 NatWest 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 NatWest 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 NatWest Group carry out certain capital management actions or, if NatWest Group plc'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 plc, which could result in the dilution of the holdings of NatWest Group plc'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. These actions may, in turn, affect, among other things, NatWest 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 NatWest Group and future growth potential. See also, '*NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities*'.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

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. Such a scenario may have an impact on NatWest Group as, depending on the Bank of England's assessment, potential action may include, but is not limited to, restrictions on NatWest Group's 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, consequently impacting NatWest Group's strategic plans and having an adverse effect on the financial position and/or reputation of NatWest Group or a loss of investor confidence.

NatWest Group may not be able to adequately access sources of liquidity and funding.

NatWest 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, NatWest Group plc held £506.1 billion in deposits. The level of deposits may fluctuate due to factors outside NatWest Group's control, such as a loss of investor confidence (including in individual 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 NatWest Group's deposits could, particularly if accompanied by one of the other factors described above, materially affect NatWest Group's ability to satisfy its liquidity or funding needs. In turn, this could require NatWest Group to adapt its funding plans.

The effects of the COVID-19 pandemic, current economic uncertainties and any significant market volatility could affect NatWest Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NatWest Group and its subsidiaries could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which could have a negative effect on NatWest Group.

As at 31 December 2021, NatWest Group plc's liquidity coverage ratio was 172%. If its liquidity position were to come under stress, and if NatWest Group plc 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. NatWest 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, NatWest 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 NatWest Group's results.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries or any of their respective debt securities could adversely affect the availability of funding for NatWest Group, reduce NatWest Group's liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group 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 NatWest 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 NatWest Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NatWest 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 NatWest 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 or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NatWest Group's financial resilience could significantly affect NatWest 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 NatWest Group's (and, in particular, NatWest Group plc's) cost

of funding and its access to capital markets and could limit the range of counterparties willing to enter into transactions with NatWest Group (and, in particular, with NatWest Group plc). This could in turn adversely impact NatWest Group's competitive position and threaten its prospects in the short to medium-term.

NatWest Group may be adversely affected if it 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.

NatWest Group's results could be adversely affected if an event triggers the recognition of a goodwill impairment. NatWest Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Acquired goodwill is recognised at cost less any accumulated impairment losses. As required by IFRS, NatWest Group tests goodwill for impairment at least annually, or more frequently when events or circumstances indicate that it might be impaired.

An impairment test compares the recoverable amount (the higher of the value in use and fair value less cost to sell) of an individual cash generating unit with its carrying value. At 31 December 2021, NatWest Group plc carried goodwill of £5.5 billion on its balance sheet. The value in use and fair value of NatWest Group's cash-generating units are affected by market conditions, the economies in which NatWest Group operates and may also be affected by the COVID-19 pandemic.

The goodwill held by NatWest Group plc relies on management's assumptions on future profitability. Goodwill is particularly sensitive to changes in assumed future profitability. If actual performance were to fall below management's forecasts, then there is a risk that an impairment of goodwill would become necessary.

Where NatWest Group is required to recognise a goodwill impairment, it is recorded in NatWest Group's income statement, but it has no effect on NatWest Group's regulatory capital position. Changes in such assumptions may result in the carrying balance being impaired, which could have a negative impact on NatWest Group.

NatWest Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of NatWest Group's business, strategy and capital requirements, NatWest 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, NatWest 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')). NatWest 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 NatWest 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 current business model or operations, or for findings of deficiencies by NatWest 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 NatWest Group to regulatory sanction. NatWest 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.

NatWest 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 NatWest 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 NatWest Group are discussed in '*Future accounting developments*'.

Changes in accounting standards may materially impact NatWest 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 NatWest 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 NatWest 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, NatWest 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, NatWest Group's internal valuation models require NatWest Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain.

The value or effectiveness of any credit protection that NatWest Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.

NatWest Group has some remaining credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps (CDSs), and other credit derivatives, each of which are carried at fair value. The fair value of these CDSs, as well as NatWest Group's exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Many market counterparties have been adversely affected by their exposure to residential mortgage-linked and corporate credit products, whether synthetic or otherwise, and their actual and perceived creditworthiness may deteriorate rapidly. If the financial condition of these counterparties or their actual or perceived creditworthiness deteriorates, NatWest Group may record further credit valuation adjustments on the credit protection bought from these counterparties under the CDSs. NatWest Group also recognises any fluctuations in the fair value of other credit derivatives. Any such adjustments or fair value changes may have a negative impact on NatWest Group's results.

NatWest Group may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the cancellation, transfer or dilution of ordinary shares, or the write-down or conversion of certain other of NatWest Group's securities.

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; and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or 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 of NatWest Group, which may depend on factors outside of NatWest 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, any exercise of the resolution regime powers by the Authorities may adversely affect holders of NatWest Group plc's ordinary shares or other NatWest Group securities. This may result in various actions being undertaken in relation to NatWest Group and any securities of NatWest Group, including cancellation, transfer, dilution, write-down or conversion (as applicable). There may also be a corresponding adverse effect on the market price of such securities.

Climate and sustainability-related risks

NatWest Group and its customers face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NatWest 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, NatWest Group may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and conduct liability. See also, '*NatWest 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 NatWest 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 NatWest Group's portfolios. In addition, NatWest Group 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 NatWest 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 NatWest 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 NatWest Group, its customers and value chain face, NatWest 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 of its three areas of focus. This is likely to require material changes to the business and operating model of NatWest 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 of coal for UK and non UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full 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 would 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 NatWest 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 NatWest Group's business, operating model and existing exposures (potentially on accelerated timescales and outside of risk appetite) which may have a material adverse effect on NatWest Group's ability to achieve its financial targets and generate sustainable returns.

NatWest Group's ability to achieve theses ambitions, targets and commitments will depend to a large extent on many factors and uncertainties beyond NatWest 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, 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 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 NatWest 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 in setting, making progress against or meeting NatWest Group's climate-related ambitions, targets and commitments may have a material adverse impact on NatWest Group, its reputation, business, results of operations, outlook, market and competitive position and may increase the climate-related risks NatWest Group faces.

Any failure by NatWest Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NatWest Group's ability to manage climate-related risks.

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, 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 NatWest Group.

Any failure of NatWest 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 NatWest 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 NatWest 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 continue to improve. These data quality challenges, gaps and limitations could have a material impact on NatWest 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 NatWest 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 NatWest 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 NatWest 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 NatWest Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NatWest Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NatWest Group, 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 NatWest 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 accordingly classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest 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 NatWest 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 NatWest 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 NatWest 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 failure 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 NatWest 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 could have a negative impact on NatWest Group's 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 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 by the relevant rating agency; and (v) may depend on many factors some of which

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are beyond NatWest Group's control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group could have a negative impact on NatWest Group's reputation and could influence investors' risk appetite for NatWest Group's and/or its subsidiaries' securities, particularly ESG securities and could affect a customer's willingness to deal with NatWest Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NatWest Group's business and expose NatWest Group to increased costs of compliance, regulatory sanction and reputational damage.

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 standardized 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 NatWest Group and its subsidiaries, especially mortgage lending, and its associated credit, market and financial risk profile. They could also impact NatWest Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NatWest 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 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 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 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 NatWest 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 NatWest Group's regulatory compliance and may result in regulatory sanction, reputational damage and investor disapproval each of which could have an adverse effect on NatWest Group's business, results of operations and outlook.

NatWest 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 NatWest 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 NatWest 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 NatWest 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 NatWest Group.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group's ability to achieve its strategy, including its climate ambition, and they could have an adverse effect on NatWest 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 NatWest 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. NatWest Group operates in a number of countries, offering 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 may now be a risk of greater scrutiny by third parties on NatWest Group's compliance with financial crime requirements; see '*NatWest 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 NatWest Group*'). These risks are also present when NatWest Group relies on third-party suppliers or vendors to provide services to it or its customers, as is increasingly the case as NatWest 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, including NatWest Group's phased withdrawal from ROI, 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 NatWest Group will evolve to best serve its customers. Any of the above may place significant pressure on NatWest Group's ability to maintain effective internal controls and governance frameworks.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although NatWest 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 NatWest Group. Ineffective management of such risks could adversely affect NatWest Group.

NatWest Group is subject to increasingly sophisticated and frequent cyberattacks.

NatWest Group experiences a constant threat from cyberattacks across the entire NatWest Group and against NatWest Group's supply chain, reinforcing the importance of due diligence of and close working relationship with the third parties on which NatWest Group relies. NatWest 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, NatWest Group is required to continue to invest in additional capability designed to defend against the emerging threats. In 2021, NatWest 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 NatWest Group's customers. NatWest 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, NatWest Group's IT systems. NatWest 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, '*NatWest Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NatWest Group*'.

Any failure in NatWest 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 to notification of, or compensation for customers, credit monitoring or card reissuance), result in regulatory investigations or sanctions being imposed or may affect NatWest Group's ability to retain and attract customers. Regulators in the UK, US, Europe and Asia 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 NatWest Group's systems to disclose sensitive information in order to gain access to NatWest Group's data or that of NatWest 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 NatWest Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NatWest Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT 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 NatWest Group. Due to NatWest Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may have a material adverse impact on NatWest 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, NatWest Group is required to ensure it implements timely, appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NatWest Group, its customers and its employees. In order to meet this requirement, NatWest 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 NatWest 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.

NatWest Group operations and strategy are highly dependent on the accuracy and effective use of data.

NatWest 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 result in a failure to deliver NatWest Group's strategy and could place NatWest 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 NatWest 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.

NatWest Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NatWest Group.

NatWest Group's operations are highly 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 payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, is critical to NatWest 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 NatWest 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 NatWest 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, NatWest 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). NatWest 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 NatWest Group's operations, its reputation and ability to retain or grow its customer business or adversely impact its competitive position, thereby negatively impacting NatWest Group.

Remote working may adversely affect NatWest Group's ability to maintain effective internal controls.

From March 2020 to September 2021, many of NatWest Group's employees worked exclusively on a remote basis. Following the lifting of government restrictions, NatWest 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 NatWest 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 NatWest 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 NatWest Group's risk management framework could adversely affect NatWest Group, including its ability to achieve its strategic objectives.*' Moreover, the IT systems that enable remote working interface with third-party systems, and NatWest 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, '*NatWest Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NatWest Group*'.

Sustained periods of remote working may negatively affect workforce morale. Whilst NatWest 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 NatWest Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NatWest Group's ability to serve its customers efficiently and impact productivity across NatWest Group. This could also adversely affect NatWest Group's reputation and competitive position and its ability to grow its business.

NatWest Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.

NatWest 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.

NatWest 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 NatWest 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 NatWest 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 NatWest Group.

Many of NatWest 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 NatWest Group in maintaining good employee relations. Any failure to do so could impact NatWest Group's ability to operate its business effectively.

A failure in NatWest Group's risk management framework could adversely affect NatWest Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NatWest Group's activities and includes the definition and monitoring of NatWest Group's risk appetite and reporting on NatWest Group's risk exposure and the potential impact thereof on NatWest Group's financial condition. Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models.

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 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.

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 NatWest Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

NatWest 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 NatWest Group's regulatory obligations, customers' needs or do not reflect NatWest 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.

NatWest 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 NatWest Group. These risks may be exacerbated as most of NatWest Group's employees continue to work remotely, which places additional pressure on NatWest Group's ability to maintain effective internal controls and governance frameworks.

NatWest 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 NatWest Group from future instances of misconduct and no assurance can be given that NatWest Group's strategy and control framework will be effective. Any failure in NatWest Group's risk management framework could negatively affect NatWest Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its customers, employees and wider stakeholders.

NatWest Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of NatWest 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 NatWest Group, its employees or those with whom NatWest Group is associated. See also '*NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group*'. This includes brand damage, which may be detrimental to NatWest 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 NatWest Group's ability to attract and retain customers. In particular, NatWest 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 NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NatWest 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 NatWest 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, NatWest Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk

NatWest Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NatWest Group.

NatWest 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. NatWest 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, disputes regimes, payment systems, financial crime and fraud 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 NatWest 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 NatWest 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, 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 NatWest 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 NatWest 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 NatWest Group's authorisations and licences, the products and services that NatWest Group may offer, its reputation and the value of its assets, NatWest Group's operations or legal entity structure, and the manner in which NatWest Group conducts its business. Material consequences could arise should NatWest 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 NatWest Group's ability to comply with the applicable body of rules and regulations in the manner and within the time frames 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 NatWest Group to comply with such laws, rules and regulations, may adversely affect NatWest 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 NatWest Group's ability to engage in effective business, risk and capital management planning.

NatWest 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 NatWest Group.

NatWest 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. NatWest 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.

NatWest 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 offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery 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. NatWest Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations include: (a) NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations, as well as approximately US$35 million in fines and restitution, and (b) 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 NatWest 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 could increase the risk of greater regulatory and third party scrutiny and could have material collateral consequences for NatWest Group's business and result in restrictions or limitations on NatWest Group's operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NatWest Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely impact NatWest Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties could adversely impact NatWest Group's reported financial results and condition, capital position or reputation.

Failure to comply with undertakings made by NatWest Group to its regulators, or the conditions of probation resulting from the spoofing-related guilty plea, may result in additional measures or penalties being taken against NatWest 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 NatWest Group's operations, additional supervision by NatWest Group's regulators, and loss of investor confidence.

NatWest 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 rates, 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; 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. Natwest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors until they cease at the end of June 2023.

Natwest 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) 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. Natwest 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 have involved 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 NatWest 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 NatWest 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 NatWest 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 NatWest 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 NatWest Group.

In accordance with the accounting policies set out in *'Critical accounting policies and key sources of estimation uncertainty'*, NatWest 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 £899 million as at 31 December 2021. Changes to the treatment of certain deferred tax assets may impact NatWest Group's capital position. In addition, NatWest 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.

Material contracts

The company and its subsidiaries are party to various contracts in the ordinary course of business. Material contracts include the following:

B Share Acquisition and Contingent Capital Agreement

On 26 November 2009, the company and HM Treasury entered into the Acquisition and Contingent Capital Agreement pursuant to which HM Treasury subscribed for the initial B shares and the Dividend Access Share (the Acquisitions) and agreed the terms of HM Treasury's contingent subscription (the Contingent Subscription) for an additional £8 billion in aggregate in the form of further B shares (the Contingent B shares), to be issued on the same terms as the initial B shares. The Acquisitions were subject to the satisfaction of various conditions, including the company having obtained the approval of its shareholders in relation to the Acquisitions.

On 16 December 2013, the company announced that, having received approval from the PRA, it had terminated the £8 billion Contingent Subscription. The company was able to cancel the Contingent Subscription as a result of the actions announced in the second half of 2013 to further strengthen its capital position.

On 9 October 2015, the company announced that on 8 October 2015, it had received a valid conversion notice from HM Treasury in respect of all outstanding B shares held by HM Treasury. The new ordinary shares issued on conversion of the B shares were admitted to the official list of the UK Listing Authority (UKLA), and to trading on the London Stock Exchange plc, on 14 October 2015. Following such conversion, HM Treasury no longer holds any B shares.

The company gave certain representations and warranties to HM Treasury on the date of the Acquisition and Contingent Capital Agreement, on the date the circular was posted to shareholders, on the first date on which all of the conditions precedent were satisfied, or waived, and on the date of the Acquisitions. The company also agreed to a number of undertakings.

The company agreed to reimburse HM Treasury for its expenses incurred in connection with the Acquisitions.

For as long as it is a substantial shareholder of the company (within the meaning of the UKLA's Listing Rules), HM Treasury has undertaken not to vote on related party transaction resolutions at general meetings and to direct that its affiliates do not so vote.

Directed Buyback Contract

On 7 February 2019, the company and HM Treasury entered into the Directed Buyback Contract to help facilitate the return of the company to full private ownership through the use of any excess capital to buy back the company's ordinary shares held by HM Treasury.

Under the terms of the Directed Buyback Contract, the company may agree with HM Treasury to make off-market purchases from time to time of its ordinary shares held by HM Treasury, including by way of one or more standalone purchases, through a non-discretionary, broker-managed directed trading programme, or in conjunction with any offer or sale by HM Treasury by way of an institutional placing. Neither the company nor HM Treasury would be under an obligation to agree to make such off-market purchases and would only do so subject to regulatory approval at the time.

The aggregate number of ordinary shares which the company may purchase from HM Treasury under the Directed Buyback Contract will not exceed 4.99%. of the company's issued share capital and the aggregate consideration to be paid will not exceed 4.99%. of the company's market capitalisation. The price to be paid for each ordinary share will be the market price at the time of purchase or, if the directed buyback is in conjunction with an institutional placing, the placing price.

Framework and State Aid Deed

As a result of the State Aid granted to the company, it was required to work with HM Treasury to submit a State Aid restructuring plan to the European Commission (EC), which was then approved by the EC under the State Aid rules on 14 December 2009. The company agreed a series of measures which supplemented the measures in the company's strategic plan.

The company entered into a State Aid Commitment Deed with HM Treasury at the time of the initial EC decision and, following the EC's approval of amendments to the restructuring plan in April 2014, the company entered into a revised State Aid Commitment Deed with HM Treasury. In September 2017, the revised State Aid Commitment Deed was amended by a Deed of Variation (as so amended, the "Revised State Aid Commitment Deed") following the EC's approval of an alternative remedies package (the "Alternative Remedies Package") to replace the company's final outstanding commitment under its State Aid obligations (to divest the business previously known as Williams & Glyn).

On 25 April 2018, the Revised State Aid Commitment Deed was replaced by the Framework and State Aid Deed between the company, HM Treasury and an independent body established to facilitate and oversee the delivery of the Alternative Remedies Package (the "Independent Body"). Under the Framework and State Aid Deed, the company agrees to do all acts and things necessary to ensure that HM Treasury is able to comply with its obligations under any EC decision approving State Aid to the company, including under the Alternative Remedies Package.

Pursuant to the Framework and State Aid Deed, the company has committed: (i) £425 million into a fund for eligible bodies in the UK banking and financial technology sectors to develop and improve their capability to compete with the company in the provision of banking services to small and medium-sized enterprises ("SMEs") and develop and improve the financial products and services available to SMEs (the "Capability and Innovation Fund"); and (ii) £275 million to eligible bodies to help them incentivise SME banking customers within the division of the company previously known as Williams & Glyn to switch their business current accounts and loans to the eligible bodies (the "Incentivised Switching Scheme"). The company has also agreed to set aside up to a further £75 million in funding to cover certain costs customers may incur as a result of switching under the Incentivised Switching Scheme. In addition, under the terms of the Alternative Remedies Package, should the uptake within the Incentivised Switching Scheme not be sufficient, the company may be required to make a further contribution, capped at £50 million. The Independent Body will distribute funds from the Capability and Innovation Fund and implement the Incentivised Switching Scheme.

Under the Framework and State Aid Deed, the company also agreed to indemnify the Independent Body and HM Treasury, up to an amount of £320 million collectively to cover liabilities that may be incurred in implementing the Alternative Remedies Package. The provisions of the indemnity to the Independent Body are set out in the Framework and State Aid Deed and the provisions of the indemnity to HM Treasury are set out in a separate agreement between the company and HM Treasury, described under "*Deed of Indemnity*" below.

The Framework and State Aid Deed also provides that if the EC adopts a decision that the UK Government must recover any State Aid (a "Repayment Decision") and the recovery order of the Repayment Decision has not been annulled or suspended by the General Court or the European Court of Justice, then the company must repay HM Treasury any aid ordered to be recovered under the Repayment Decision.

Deed of Indemnity

In the context of the Framework and State Aid Deed, the company entered into a Deed of Indemnity with HM Treasury on 25 April 2018, pursuant to which the company agreed to indemnify HM Treasury to cover liabilities that may be incurred in implementing the Alternative Remedies Package, as described under “Framework and State Aid Deed” above.

Trust Deed

In the context of the Framework and State Aid Deed, the company entered into a Trust Deed with the Independent Body on 25 April 2018, to set up a trust to administer the funds committed by the company under the Framework and State Aid Deed for the Alternative Remedies Package.

State Aid Costs Reimbursement Deed

Under the 2009 State Aid Costs Reimbursement Deed, the company has agreed to reimburse HM Treasury for fees, costs and expenses associated with the State Aid and State Aid approval.

HMT and UKFI Relationship Deed

On 7 November 2014, in order to comply with an amendment to the UK Listing Rules, the company entered into a Relationship Deed with HM Treasury and UK Financial Investments Limited in relation to the company’s obligations under the UK Listing Rules to put in place an agreement with any controlling shareholder (as defined for these purposes in the Listing Rules). The Relationship Deed covers the three independence provisions mandated by the Listing Rules: (i) that contracts between the company and HM Treasury (or any of its subsidiaries) will be arm's length and normal commercial arrangements, (ii) that neither HM Treasury nor any of its associates will take any action that would have the effect of preventing the company from complying with its obligations under the Listing Rules; and (iii) neither HM Treasury nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Memorandum of Understanding Relating to The Royal Bank of Scotland Group Pension Fund

On 16 April 2018 the company entered into a Memorandum of Understanding (the ”MoU”) with the trustee of The Royal Bank of Scotland Group Pension Fund (the ”Group Fund”), which aimed to facilitate both the necessary changes to the Main Section of the Group Fund to align the employing entity structure with the requirements of the UK ring-fencing legislation and acceleration of the settlement framework for the 31 December 2017 triennial valuation of the Main Section of the Group Fund (brought forward from 31 December 2018).

In addition, the MoU also provided clarity on the additional related funding contributions required to be made by the company to the Main Section of the Group Fund as follows: (i) a pre-tax payment of £2 billion that was made in the second half of 2018 and (ii) from 1 January 2020, further pre-tax contributions of up to £1.5 billion in aggregate linked to the making of future distributions to RBS shareholders including ordinary and special dividends and/or share buy backs (subject to an annual cap on contributions of £500 million before tax).

On 28 September 2018, the implementation of the MoU was documented through a Framework Agreement entered into between the company and the trustee of the Group Fund.

Additional information

Shareholder information

Financial calendar
Dividends

Payment dates	
Cumulative preference shares	31 May and 30 December 2022
Non-cumulative preference shares	31 March, 30 June, 30 September and 30 December 2022
Ordinary shares (2021 final)	4 May 2022
Ex-dividend date	
Cumulative preference shares	5 May and 1 December 2022
Ordinary shares (2021 final)	17 March 2022
Record date	
Cumulative preference shares	6 May and 2 December 2022
Ordinary shares (2021 final)	18 March 2022
Annual General Meeting	28 April 2022
Interim results	29 July 2022

Shareholder enquiries

You can check your shareholdings in the company by visiting the Shareholder Hub section of our website at natwestgroup.com and clicking the 'Access your shareholding online' tab. You will need the shareholder reference number printed on your share certificate or dividend confirmation statement to access this information. You can also view any outstanding payments, update bank account and address details and download various forms.

NatWest Group is committed to reducing its impact on the environment. You can choose to receive your shareholder communications electronically via the 'Sign up for e-comms' tab and you will receive an email notification when documents become available to view on our website.

You can also check your shareholding by contacting our Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Fax: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

Braille and audio Strategic report with additional information

Shareholders requiring a Braille or audio version of the Strategic report with additional information should contact the Registrar on +44 (0)370 702 0135.

ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift is a free charity share donation service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

If you are a UK taxpayer, donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes. You may be able to claim UK income tax relief on gifted shares and can do so in various ways. Further information can be obtained from HM Revenue & Customs.

Should you wish to donate your shares to charity please contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation, 4th Floor Rear, 67/68 Jermyn Street, London SW1Y 6NY, Telephone: +44 (0)20 7930 3737, Website: www.sharegift.org

Share and bond scams

Share and bond scams are often run from 'boiler rooms' where fraudsters cold-call investors, offering them worthless, overpriced or even non-existent shares or bonds. They use increasingly sophisticated tactics to approach investors, offering to buy or sell shares, often pressuring investors to make a quick decision or miss out on the deal. Contact can also be in the form of email, post or word of mouth. Scams are sometimes advertised in newspapers, magazines or online as genuine investment opportunities and may offer free gifts or discounts on dealing charges.

Scammers will request money upfront, as a bond or other form of security, but victims are often left out of pocket, sometimes losing their savings or even their family home. Even seasoned investors have been caught out by scams.

Clone firms

A 'clone firm' uses the name, firm registration number (FRN) and address of a firm or individual who is FCA authorised. The scammer may claim that the genuine firm's contact details on the FCA Register (Register) are out of date and then use their own details, or copy the website of an authorised firm, making subtle changes such as the phone number. They may claim to be an overseas firm, which won't always have full contact and website details listed on the Register.

How to protect yourself

Always be wary if you're contacted out of the blue, pressured to invest quickly, or promised returns that sound too good to be true. FCA authorised firms are unlikely to contact you unexpectedly with an offer to buy or sell shares or bonds.

Please do not give any personal details to any caller unless you are certain that they are genuine. Check the Register to ensure the firm contacting you is authorised and also check the FCA's Warning List of firms to avoid at www.fca.org.uk/scamsmart.

Ask for their (FRN) and contact details and then contact them using the telephone number on the Register. Never use a link in an email or website from the firm offering you an investment.

It is strongly advised that you seek independent professional advice before making any investment.

Report a scam

If you suspect that you have been approached by fraudsters, or have any concerns about a potential scam, report this to the FCA by contacting their Consumer Helpline on 0800 111 6768 or by using their reporting form which can be found on their website.

If you have already invested in a scam, fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate, or may be related to the previous scam in the form of an offer to get your money back or buy back the investment on payment of a fee.

Find out more at www.fca.org.uk/consumers

Analysis of ordinary shareholders

At 31 December 2021	Shareholdings	Number of shares - millions	%
Individuals	172,365	96,720,657	0.84
Banks and nominee companies	3,749	5,347,209,748	46.63
Investment trusts	40	335,083	—
Insurance companies	3	487,631	—
Other companies	433	26,797,269	0.24
Pension trusts	20	33,956	—
Other corporate bodies	68	5,996,398,291	52.29
	176,678	11,467,982,635	100.00
Range of shareholdings:			
1 - 1,000	152,553	36,685,708	0.32
1,001 - 10,000	22,253	51,255,478	0.45
10,001 - 100,000	993	30,052,411	0.26
100,001 - 1,000,000	520	185,638,204	1.62
1,000,001 - 10,000,000	272	923,070,585	8.05
10,000,001 and over	87	10,241,280,249	89.30
	176,678	11,467,982,635	100.00

Important addresses

Shareholder enquiries

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Facsimile: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

ADR Depositary Bank
BNY Mellon Shareowner Services
PO Box 505000
Louisville, KY 40233-5000

Direct Mailing for overnight packages:
BNY Mellon Shareowner Services
462 South 4th Street
Suite 1600
Louisville KY 40202

Telephone: 1-888-269-2377 (US callers – toll free)
Telephone: +1 201 680 6825 (International)
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

Corporate, Governance
NatWest Group plc
PO Box 1000, Gogarburn
Edinburgh, EH12 1HQ
Telephone: 0131 556 8555

Investor Relations
250 Bishopsgate, London
EC2M 4AA, England
Telephone: +44 (0)131 556 8555
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Edinburgh, EH12 1HQ
250 Bishopsgate, London
EC2M 4AA, England

National Westminster Bank Plc
250 Bishopsgate, London
EC2M 4AA, England

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

Ulster Bank Ireland DAC
Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin 18, D18 N153

NatWest Markets Group Holdings Corp.
251, Little Falls Drive, Wilmington
Delaware, 19808

Coutts & Company
440 Strand, London
WC2R 0QS, England

The Royal Bank of Scotland International Limited
Royal Bank House, 71 Bath Street
St Helier, JE4 8PJ

Presentation of information

In the Annual Report and Accounts, unless specified otherwise, 'parent company' refers to NatWest Group plc, and 'NatWest Group', 'Group' or 'we' refers to NatWest Group plc and its subsidiaries. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NWM Group' refers to NatWest Markets Plc ('NWM Plc') and its subsidiary and associated undertakings. The term 'NWM N.V.' refers to NatWest Markets N.V. The term 'NWMSI' refers to NatWest Markets Securities, Inc. The term 'RBS plc' refers to The Royal Bank of Scotland plc. The term 'NWB Plc' refers to National Westminster Bank Plc. The term 'UBIDAC' refers to Ulster Bank Ireland DAC. The term 'RBSI Limited' refers to The Royal Bank of Scotland International Limited. 'Go-forward group' excludes Ulster Bank RoI and discontinued operations.

NatWest Group 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 pounds 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.

Forward looking statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. In particular, this document includes forward-looking targets and guidance relating to financial performance measures, such as income growth, operating expense, cost reductions, RoTE, ROE, discretionary capital distribution targets, impairment loss rates, balance sheet reduction, including the reduction of RWAs, CET1 ratio (and key drivers of the CET1 ratio including timing, impact and details), Pillar 2 and other regulatory buffer requirements and MREL and non-financial performance measures, such as climate and ESG-related performance ambitions, targets and metrics, including in relation to initiatives to transition to a net zero economy, Climate and Sustainable Funding and Financing (CSFF) and financed emissions. In addition, this document includes forward-looking statements relating, but not limited to: the COVID-19 pandemic and its impact on NatWest Group; planned cost reductions, disposal losses and strategic costs; implementation of NatWest Group's purpose-led strategy and other strategic priorities (including in relation to: its phased withdrawal from ROI, the NWM Refocusing and investment programmes relating to digital transformation of its operations and services and inorganic opportunities); the timing and outcome of litigation and government and regulatory investigations; direct and on-market buy-backs; funding plans and credit risk profile; managing its capital position; liquidity ratio; portfolios; net interest margin and drivers related thereto; lending and income growth, product share and growth in target segments; impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; NatWest Group's exposure to political risk, economic assumptions and risk, climate, environmental and sustainability risk, operational risk, conduct risk, financial crime risk, cyber, data and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's strategy or operations, which may result in NatWest Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Group plc's Annual Report on Form 20-F and its other filings with the US Securities and Exchange Commission. The principal risks and uncertainties that could adversely NatWest Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: economic and political risk (including in respect of: the impact of the COVID-19 pandemic on NatWest Group and its customers; political and economic risks and uncertainty in the UK and global markets; uncertainty regarding the effects of Brexit; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership of NatWest Group plc); strategic risk (including in respect of the implementation of NatWest Group's purpose-led Strategy; refocusing of its NWM franchise; and the effect of the COVID-19 pandemic on NatWest Group's strategic objectives and targets); financial resilience risk (including in respect of: NatWest Group's ability to meet targets and to make discretionary capital distributions; the competitive environment; impact of the COVID-19 pandemic on the credit quality of NatWest Group's counterparties; counterparty and borrower risk; prudential regulatory requirements for capital and MREL; the adequacy of NatWest Group's resolution plans; liquidity and funding risks; changes in the credit ratings; the requirements of regulatory stress tests; goodwill impairment; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; the value or effectiveness of credit protection; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a net zero economy; the implementation of NatWest Group's climate change strategy and climate change resilient systems, controls and procedures; climate-related data and model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability-related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems (including those that enable remote working); attracting, retaining and developing senior management and skilled personnel; NatWest Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the transition of LIBOR other IBOR rates to alternative risk-free rates; and changes in tax legislation or failure to generate future taxable profits).

Caution about climate and sustainable funding and financing (CSFF) information.

Climate and ESG disclosures in this report use a greater number and level of judgments, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities, than our reporting of historical financial information. These judgments, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, our climate risk analysis and net zero strategy remain under development, and the data underlying our analysis and strategy remain subject to evolution over time. As a result, we expect that certain climate and ESG disclosures made in this report are likely to be amended, updated, recalculated or restated in the future. This forward-looking statement should be read together with the 'Climate-related and other forward-looking statements and metrics' of the NatWest Group 2021 Climate-related Disclosures Report.

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