NatWest Group

2021 Annual Report
and Accounts

NatWest
Holdings Limited

Strategic report

Presentation of information

NatWest Holdings Limited ('NWH Ltd') is a wholly owned subsidiary of NatWest Group plc, or 'the holding company'. The term 'NWH Group' or 'we' refers to NWH Ltd and its subsidiary and associated undertakings. National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Ulster Bank Ireland DAC (UBIDAC) are wholly owned subsidiaries. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

NWH Group publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence where amounts are denominated in pounds sterling ('GBP'). 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.

Ulster Bank RoI

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 plc. (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 performance overview 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.

Description of business

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

Principal activities and operating segments

NWH Group serves customers across the UK with a range of retail and commercial banking products and services. A wide range of personal products are offered including current accounts, credit cards, personal loans, mortgages and wealth management services.

The reportable operating segments are as follows:

Retail Banking serves personal customers in the UK and includes Ulster Bank customers.

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

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

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

Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

Business profile

As at 31 December 2021 the business profile of the NWH Group was as follows:

- Total assets of £541.1 billion.
- A Common Equity Tier 1 (CET1) ratio at 31 December 2021 of 15.9% and total risk-weighted assets (RWAs) of £124.1 billion.
- Customers are served through a UK network of branches and ATM services, and relationship management structures in commercial and private banking.
- The geographic location of customers is predominately the UK.

Performance overview

Financial performance in a challenging environment

Profit from continuing operations was £3,186 million compared with £206 million in 2020, driven by net impairment releases reflecting the continued low levels of realised losses, together with increased income, partly offset by additional operating expenses.

Total income increased by £197 million to £10,099 million compared with £9,902 million in 2020, reflecting strong growth in mortgage balances and margin improvement, combined with a recovery in transactional banking fee income, partly offset by reduced commercial lending volumes.

Operating expenses increased by £318 million to £6,896 million, compared with £6,578 million in 2020, primarily reflecting increased litigation and conduct costs, offset by a reduction in strategic costs. The cost:income ratio increased from 66.4% to 68.3%.

Net impairment releases of £1,191 million reflected the continued low level of realised losses. Total impairment provisions reduced by £2.2 billion to £3.7 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.68% as at 31 December 2020 to 1.06%.

Robust balance sheet with strong capital levels.

Total assets increased by £44.5 billion to £541.1 billion compared with £496.6 billion at 31 December 2020. This was primarily driven by a net increase of £48.7 billion in cash balances, impacted by significant deposit inflows.

Customer deposits increased by £42.2 billion to £440.0 billion as Covid-19 related restrictions resulted in lower customer spend.

Loans to customers decreased by £2.8 billion to £336.1 billion primarily driven by a decrease in commercial lending, offset by growth in retail mortgages.

The CET1 ratio decreased 160 basis points during the year, due to a £4.0 billion decrease in CET1 capital and a £11.3 billion decrease in RWAs. The CET1 capital decrease reflects the attributable profit for the period offset by dividends paid, foreseeable charges and pension contributions and decrease in the IFRS 9 transition adjustment.

Total RWAs decreased by £11.3 billion reflecting a decrease in credit risk RWAs of £10.2 billion and a reduction in operational risk of £0.9 billion following the annual recalculation in the first quarter of 2021.

Stakeholder engagement and s.172(1) statement

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

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2021, they remained customers, colleagues, communities, investors, regulators and suppliers. Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on page 87 (corporate governance statement).

Supporting effective Board discussions and decision-making

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

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

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

Principal decisions

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

This statement describes two examples of principal decisions taken by the Board during 2021. Further information on the Board's principal activities can be found in the corporate governance statement on pages 82 to 88.

Key

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

Case Study 1 – Withdrawing from the Republic of Ireland

Factors considered: A B C D E F

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 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 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 NatWest Group's 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 A 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.

Case Study 2 – Approving capital distributions

Factors considered: A C

What was the decision-making process?

During 2021, the Board approved two interim dividends. The Board received comprehensive papers from management and its decisions were informed by 2021 capital plans as well as regular updates on NWH Ltd's financial and capital positions. The Board Risk Committee also reviewed all capital distributions proposals in advance of Board consideration and recommended them to the Board for approval.

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

In taking decisions, the directors were mindful of their duties under section 172. Each dividend proposal included a stakeholder overview which set out relevant stakeholder impacts and considerations.

How was NatWest Group's purpose considered as part of the decision?

The Board is aware that in taking decisions on capital distributions, it also needs to consider the financial implications of those decisions in terms of continuing to support customers and maintaining financial stability.

Actions and outcomes

The Board approved an interim dividend of £1 billion which was paid on 27 May 2021 and an interim dividend of £2.5 billion which was paid on 30 July 2021 with both interim dividends payable to NatWest Group plc as the sole shareholder.

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

Board of directors and secretary

Approval of Strategic report

The Strategic report for the year ended 31 December 2021 set out on pages 2 to 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 (CEO)
Katie Murray (CFO)

Non-executive directors

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

Board and committees

Chairman
Howard Davies
Nominations (Chairman)

Executive directors
Alison Rose
Katie Murray

Independent non-executive directors
Francesca Barnes
Sustainable Banking

Graham Beale
Senior Independent Director
Audit, Nominations, Risk, Sustainable Banking

Ian Cormack
Audit, Remuneration, Risk

Patrick Flynn
Audit (Chairman), Nominations, Risk

Morten Friis
Risk (Chairman), Audit, Nominations

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

Yasmin Jetha
Sustainable Banking

Mike Rogers
Sustainable Banking (Chairman), Remuneration

Mark Seligman
Audit, Nominations, Remuneration

Lena Wilson
Remuneration, Risk, Sustainable Banking

Chief Governance Officer and Company Secretary
Jan Cargill

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

Coutts & Company
440 Strand
London WC2R 0QS

Lombard North Central PLC
250 Bishopsgate
London EC2M 4AA

NatWest Holdings Limited
Registered in England No. 10142224

Key:

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

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

Financial review

Summary consolidated income statement for the year ended 31 December 2021

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Year ended 31 December 2021 £m	Year ended 31 December 2020 (1) £m	Variance £m	Variance %
Net interest income	**4,136**	**480**	**2,675**	**(13)**	**7,278**	**101**	**7,379**	7,289	*90*	*1*
Non-interest income	**371**	**336**	**1,275**	**611**	**2,593**	**127**	**2,720**	2,613	*107*	*4*
Total income	**4,507**	**816**	**3,950**	**598**	**9,871**	**228**	**10,099**	9,902	*197*	*2*
Operating expenses	**(2,494)**	**(522)**	**(2,380)**	**(1,017)**	**(6,413)**	**(483)**	**(6,896)**	(6,578)	*(318)*	*5*
Profit/(loss) before impairments	**2,013**	**294**	**1,570**	**(419)**	**3,458**	**(255)**	**3,203**	3,324	*(121)*	*(4)*
Impairment releases/(losses)	**37**	**55**	**1,074**	**(3)**	**1,163**	**28**	**1,191**	(2,983)	*4,174*	*(140)*
Operating profit/(loss)	**2,050**	**349**	**2,644**	**(422)**	**4,621**	**(227)**	**4,394**	341	*4,053*	*nm*
Tax charge							**(1,208)**	(135)	*(1,073)*	*795*
Profit from continuing operations							**3,186**	206	*2,980*	*nm*
Profit from discontinuing operations, net of tax							**276**	121	*155*	*128*
Profit for the year							**3,462**	327	*3,135*	*nm*

Key metrics and ratios	2021	2020
Cost:income ratio (%) (1)	**68.3**	66.4
Loan impairment rate (bps) (2)	**(0.35)**	0.90
CET1 ratio (%)	**15.9**	17.5
Leverage ratio (%)	**4.1**	5.3
Risk weighted assets (£bn)	**124.1**	135.3

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

NWH Group reported a profit of £3,186 million compared with £206 million in 2020, driven by a net impairment release of £1,191 million reflecting the continued low levels of realised losses, together with an increase in total income of £197 million, partly offset by additional operating expenses of £318 million.

Total income increased by £197 million, or 2%, to £10,099 million compared with £9,902 million in 2020.

Net interest income increased by £90 million, or 1%, to £7,379 million compared with £7,289 million in 2020, reflecting strong growth in mortgage balances and margin improvement, partially offset by reduced commercial lending volumes.

Non-interest income increased by £107 million, or 4%, to £2,720 million compared with £2,613 million in 2020.

Net fees and commissions increased by £29 million to £1,851 million, primarily reflecting a recovery in transactional banking fee income driven by the UK economy.

Other operating income increased by £78 million to £869 million compared with £791 million in 2020, reflecting:
- £94 million higher income from hedging activities, reflecting interest rate volatility and fair value movements;
- £54 million total consideration on the sale of Adam & Company's investment management business on 1 October 2021;
- non-repeat of a £58 million loss on the acquisition of a mortgage portfolio from Metro Bank plc in 2020;
- an increase of £7 million from bond disposal gains to £120 million in 2021; and
- an additional £35 million of income from the recharging of costs to other NatWest Group entities, principally reflecting the impact of organisational restructure activity.
- Offset by losses of £133 million incurred upon partial redemption of debt instruments and £44 million incurred upon the sale of properties.

Operating expenses increased by £318 million, or 5%, to £6,896 million, compared with £6,578 million in 2020, reflecting:
- a £85 million goodwill impairment;
- a PPI provision release in 2020 of £276 million; and
- overall increase in conduct and litigation charges in 2021.
- Offset by cost reductions in 2021 following planned property exits.

Net impairment releases of £1,191 million reflected the continued low level of realised losses. Total impairment provisions reduced by £2.2 billion to £3.7 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.68% as at 31 December 2020 to 1.06%.

Retail Banking
Operating profit was £2,050 million, compared with £965 million in 2020.

Net interest income increased by £205 million to £4,136 million compared with £3,931 million in 2020, primarily reflecting £9.8 billion balance growth in mortgages and margin improvement.

Non-interest income increased by £58 million to £371 million, compared with £313 million in 2020, primarily driven by the non-repeat of a £58 million loss on acquisition of a mortgage portfolio from Metro Bank plc in 2020. Net fees and commissions remained stable, as higher transactional-related fee income was offset by the annualised impact of regulatory changes on fee income.

Operating expenses increased by £10 million to £2,494 million compared with £2,484 million in 2020, primarily driven by £85 million impairment of goodwill and a PPI provision release in 2020 of £276 million. These were partially offset by an overall reduction of £220 million in conduct provision charges and reduced headcount resulting from continued digitalisation and automation.

An impairment release of £37 million primarily reflects ECL provision releases in the non-default portfolio.

Loans to customers increased by £9.9 billion to £182.2 billion, reflecting strong gross new mortgage lending.

Customer deposits increased by £17.1 billion to £188.9 billion as UK Government schemes combined with Covid-19 related restrictions resulted in lower customer spend.

Private Banking
Operating profit was £349 million compared with £181 million in 2020.

Net interest income remained stable at £480 million, as strong balance growth was offset by reduced deposit returns in a low interest rate environment.

Non-interest income increased by £62 million to £336 million in 2021, primarily reflecting the sale of Adam & Company's investment management business on 1 October 2021 for a total consideration of £54 million. Net fees and commissions income also increased driven by growth in assets.

Operating expenses increased by £57 million to £522 million in 2021, principally due to investment in digital infrastructure and growth propositions, and the non-repeat of a conduct provision release in 2020.

A net impairment release of £55 million in 2021 mainly reflects ECL provision releases in non-default portfolios.

Loans to customers increased by £1.3 billion to £18.4 billion, driven by continued strong mortgage lending growth.

Customer deposits increased by £7.0 billion to £39.3 billion, reflecting strong personal and commercial inflows as UK Government restrictions resulted in clients continuing to build and retain liquidity.

Commercial Banking
Operating profit was £2,644 million, compared with a loss of £300 million in 2020.

Net interest income decreased by £168 million to £2,675 million, compared with £2,843 million in 2020, due to reduced deposit returns in a low interest rate environment and lower lending volumes.

Non-interest income increased by £46 million to £1,275 million, primarily reflecting increased net fees and commissions due to a recovery in transactional banking fee income in the second half of 2021 driven by the UK economy.

Operating expenses decreased by £65 million to £2,380 million, compared with £2,445 million primarily reflecting cost efficiencies and headcount reduction. Litigation and conduct costs increased by £39 million.

An impairment release of £1,074 million primarily reflects ECL provision releases related to the improved economic outlook with Stage 3 defaults remaining at low levels.

Loans to customers decreased by £6.9 billion to £101.2 billion, primarily reflecting net revolving credit facility repayments of £1.8 billion, targeted sector reductions and UK Government support scheme repayments of £1.3 billion. The decreases were partially offset by £1.5 billion reduction in impairment provisions.

Customer deposits increased by £10.0 billion as customers continued to build and retain liquidity.

Ulster Bank RoI
Continuing operations
Ulster Bank RoI continues to make progress on its phased withdrawal from the Republic of Ireland. The amounts shown in the table on page 7 represent the continuing operations of Ulster Bank RoI, including re-presented comparatives, in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Total income increased by £6 million to £228 million compared with £222 million in 2020, reflecting gains arising from 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 Republic of Ireland.

Operating expenses increased by £29 million to £483 million compared with £454 million in 2020 reflecting higher VAT charges and regulatory levies, partially offset by a reduction in headcount, lower advertising spend and back office operational costs.

A net impairment release of £28 million in 2021 reflects improvements in the reducing loan portfolios and economic forecasts.

Loans to customers decreased by £11.3 billion to £6.7 billion, primarily due to the recategorisation of £9.0 billion of loans to the disposal group.

Central items & other
Operating loss was £422 million in 2021 compared with £134 million in 2020.

Total income decreased by £12 million to £598 million in 2021, compared with £610 million in 2020. Losses of £133 million incurred upon the partial redemption of debt instruments and £44 million incurred upon sale of properties, were partially offset by higher treasury related income.

Operating expenses increased by £287 million to £1,017 million, compared with £730 million in 2020, principally reflecting litigation and conduct costs. In 2021, £550 million of the total expenses were recovered through service charges which are presented within non-interest income.

Summary consolidated balance sheet as at 31 December 2021

	2021	2020	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks	143,892	95,187	48,705	51
Derivatives	1,980	3,116	(1,136)	(36)
Loans to banks - amortised cost	5,411	4,707	704	15
Loans to customers - amortised cost	336,077	338,827	(2,750)	(1)
Amounts due from holding company and fellow subsidiaries	603	1,085	(482)	(44)
Other financial assets	31,186	40,733	(9,547)	(23)
Intangible assets	6,395	6,341	54	1
Other assets	6,564	6,587	(23)	—
Assets of disposal groups	9,015	—	9,015	nm
Total assets	541,123	496,583	44,540	9
Liabilities				
Bank deposits	24,205	18,800	5,405	29
Customer deposits	440,015	397,841	42,174	11
Amounts due to holding company and fellow subsidiaries	25,548	20,662	4,886	24
Derivatives	4,052	6,032	(1,980)	(33)
Other financial liabilities	7,252	10,626	(3,374)	(32)
Subordinated liabilities	284	1,316	(1,032)	(78)
Notes in circulation	3,047	2,655	392	15
Other liabilities	4,965	5,385	(420)	(8)
Total liabilities	509,368	463,317	46,051	10
Total equity	31,755	33,266	(1,511)	(5)
Total liabilities and equity	541,123	496,583	44,540	9

Total assets increased by £44.5 billion to £541.1 billion as at 31 December 2021, compared with £496.6 billion as at 31 December 2020.

Cash and balances at central banks increased by £48.7 billion to £143.9 billion, compared with £95.2 billion as at 31 December 2020, driven by a strong deposit growth and £7.0 billion net drawdown on the Term Funding Scheme with additional incentives for SMEs (TFSME). This was offset by a £2.8 billion payment to Metro Bank plc for the acquisition of a loan portfolio.

Loans to banks – amortised cost increased by £0.7 billion to £5.4 billion, compared with £4.7 billion as at 31 December 2020, mainly representing an increase in US dollar balances as part of treasury activities.

Loans to customers decreased by £2.7 billion to £336.1 billion, compared with £338.8 billion as at 31 December 2020, driven by:
- £9.0 billion reclassified as Assets of disposal groups;
- £7.7 billion decrease in commercial lending primarily reflecting net revolving credit facility repayments of £1.8 billion, targeted sector reductions and UK Government support scheme repayments of £1.3 billion; offset by
- £9.5 billion mortgage growth as a result of strong gross new lending;
- £4.3 billion net increase in relation to Treasury repo activity; and
- £2.1 billion overall decrease in impairment provisions.

Amounts due from holding companies and fellow subsidiaries decreased by £0.5 billion to £0.6 billion, compared with £1.1 billion as at 31 December 2020, reflecting a decrease in inter-company balances with entities outside the ring-fenced bank.

Other financial assets decreased by £9.5 billion to £31.2 billion, primarily reflecting bond maturities of £6.9 billion and reduced fair value of the remaining bond portfolio of £2.0 billion due to changes in interest and FX rates.

Bank deposits increased by £5.4 billion to £24.2 billion, driven by a net £7.0 billion drawdown on TFSME and £1.1 billion increase in repo balances, partly offset by a £2.7 billion decrease in other bank deposits.

Customer deposits increased by £42.2 billion to £440.0 billion, reflecting £32.8 billion growth in deposits as customers continued to build and retain liquidity in light of economic uncertainty and £9.4 billion increase in repos facing customers.

Amounts due to holding companies and fellow subsidiaries increased by £4.9 billion to £25.5 billion, compared with £20.7 billion as at 31 December 2020, reflecting debt issuance.

Derivative liabilities decreased by £2.0 billion to £4.1 billion, compared with £6.0 billion as at 31 December 2020, driven by interest rate changes and sterling FX rate appreciation.

Other financial liabilities decreased by £3.4 billion to £7.3 billion, compared with £10.6 billion as at 31 December 2020, driven by settlement of an amount payable to Metro Bank plc for the acquisition of its mortgage book in December 2020.

Subordinated liabilities decreased by £1.0 billion to £0.3 billion, compared with £1.3 billion at 31 December 2020, driven by maturities of debt instruments.

Other liabilities decreased by £0.4 billion to £5.0 billion, compared with £5.4 billion as at 31 December 2020, due to a £0.4 billion reduction in leasing liabilities reflecting surrender of property leasehold.

Total equity decreased by £1.5 billion to £31.8 billion, compared with £33.3 billion as at 31 December 2020. The decrease reflects attributable profit for 2021 of £3.5 billion, offset by dividends paid to NatWest Group plc, combined with decreases in cash flow hedging and foreign exchange reserves.

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 10 to 81) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in NWH Group.

Update on COVID-19
While the immediate disruption diminished during the year, the ongoing impacts of the global pandemic remained a significant focus for risk management in 2021 and uncertainty in the operating environment continued. NWH 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 NWH Group's portfolios for some time. NWH Group anticipates increased default levels in 2022 as a result.

While the direct impact on NWH Group's operational risk profile reduced, NWH 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 NWH 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, NWH Group remains well placed to withstand these aftershocks as well as providing support to customers when they need it most.

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

The framework ensures that NWH 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 NWH Group. It aligns risk management with NWH Group's overall strategic objectives.

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

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

While all NWH 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 NWH 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 NWH Group's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Risk management framework continued
Culture
Risk culture is at the heart of NWH 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 NWH Group's risk appetite.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses.
- Challenge others' attitudes, ideas and actions.
- Report and communicate risks transparently.

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

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

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

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

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

Risk management framework continued
Governance
Committee structure
The diagram shows NWH Ltd risk committee structure in 2021 and the main purposes of each committee.

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

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

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

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

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

Asset & Liability Management Committee[6]
Supports the CFO in overseeing the effective management of the NWH Group legal entities' current and future balance sheets, ensuring they operate within NatWest Group and NWH subsidiary risk appetites, policies and chosen business strategy, and comply with regulatory and legal requirements.

Executive Disclosure Committee[7]
Ensures that NatWest Holdings legal entities and UBIDAC disclosures are accurate, complete and fair. Supports the CRO in reviewing and evaluating all significant expected credit losses and the CFO in reviewing and evaluating related provisions and valuations.

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

(1) The NatWest Group Chief Executive Officer also performs the role of NWH Group Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of NWH Group Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of NWH Group Chief Financial Officer.
(4) The Executive Risk Committee is chaired by the NWH Group Chief Executive Officer and supports her in discharging risk management accountabilities.
(5) The Executive Committee is chaired by the NWH Group Chief Executive Officer and supports her in discharging her individual accountabilities in accordance with the authority delegated to her by the NWH Group Board.
(6) The Asset & Liability Management Committee is chaired by the NWH Group Chief Financial Officer and supports her in discharging her individual accountabilities relating to treasury and balance sheet management.
(7) The Executive Disclosure Committee is chaired by the NWH Group Chief Financial Officer and supports her in discharging her accountabilities relating to the production and integrity of the NatWest Holdings legal entities' financial information and disclosures.

Risk management framework continued

Risk management structure

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

NatWest Group Chief Executive Officer

NWH Group Chief Executive Officer

NatWest Group Chief Risk Officer

NWH Group Chief Risk Officer

Director of Risk, Retail Banking
Design and delivery of Retail Banking risk strategy and service proposition. Oversight of risk management across Retail Banking. Supports the Ringfenced DINEDs(1) through the identification, documentation, resolution and escalation of any potential ring-fencing conflicts of interest relating to decisions made by the Ringfenced and Group Chief Risk Officer.

Director of Risk, Commercial Banking
Design and delivery of Commercial Banking risk strategy and service proposition. Oversight of risk management across Commercial Banking. Design and delivery of Restructuring strategy and service proposition.

Director of Risk, Wealth Businesses and Chief Risk Officer, Coutts & Company
Design and delivery of Wealth Businesses risk strategy and service proposition. Oversight of risk management across Wealth Businesses.

Director of Risk, Ulster Bank Ireland DAC
Design and delivery of Ulster Bank Ireland DAC risk strategy. Oversight of risk management across UBIDAC.

Chief Operating Officer
Centralised support for the risk management function and model risk oversight.

Director of Financial & Strategic Risk
Centralised oversight of financial and strategic risks across NWH Group, specialist advice on top and emerging risks and responsibility for model development.

Director of Non-Financial Risk
Centralised oversight of non-financial risk across NWH Group, including framework design and development. Provides specialist advice on risk culture and risk appetite matters to the Directors of Risk responsible for business oversight.

Director of Compliance & Conduct
Design and delivery of compliance & conduct strategy and service proposition. Provides specialist technical advice to the Directors of Risk responsible for business oversight.

Director, Financial Crime Risk NatWest Holdings
Design and delivery of financial crime strategy and service proposition, oversight of financial crime risk management. Provides specialist technical advice to the Directors of Risk responsible for business oversight.

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

Risk management framework continued

Three lines of defence

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

First line of defence

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

Second line of defence

The second line of defence comprises the Risk function and is independent of the first line. The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NatWest Group engages in permissible and sustainable risk-taking activities. The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements set by NatWest Group and measures set by NWH Group 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 NWH 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 NWH 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 NWH 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 NWH 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 NWH Group is well placed to meet its priorities and long-term targets even in challenging economic environments. This supports NWH Group in remaining resilient and secure as it pursues its strategic business objectives.

NWH 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.

Identification and measurement

Identification and measurement within the risk management process comprise:

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

Risk management framework continued

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

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

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

Stress testing

Stress testing – capital management

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

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

The process for stress testing consists of four broad stages:

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

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

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

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.

Risk management framework continued

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

Stress testing – recovery and resolution planning

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

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

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

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International (Holdings) Limited, Ulster Bank Ireland DAC and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.
Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress event. The results and lessons learnt from the fire drills are used to enhance NatWest Group's approach to recovery planning.

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

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.

Risk management framework continued

Regulatory stress testing

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

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

Credit risk

Definition (audited)

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

Sources of risk (audited)

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

Governance (audited)

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

Governance activities include:

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

Risk appetite

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

Personal

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

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

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

NWH Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NWH Group to a counterparty to be netted against amounts the counterparty owes NWH 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 NWH Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

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

Residential mortgages – NWH Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWH 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. NWH 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

Credit risk continued

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

Commercial real estate valuations – NWH Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWH 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, NWH 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 NWH Group and other lenders). NWH Group then sets its lending rules accordingly, developing different rules for different products.

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

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

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

Wholesale

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

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

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

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

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

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

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

Credit risk continued
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 NWH Group's data, and external using information from credit reference agencies. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

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 NWH 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 NWH 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 NWH 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 NWH 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 NWH 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 NWH Group.

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

Credit risk continued

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 NWH 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 NWH 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, NWH 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.

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

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

Refer to Accounting policies note 12 for further details.

Credit risk continued

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 NWH 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 NWH 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 (audited)

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**	**4**	**6**	**23**	**565**
Other adjustments	**37**	**—**	**2**	**—**	**156**	**—**	**195**
Total	**155**	**196**	**437**	**4**	**162**	**25**	**979**
Of which:							
- Stage 1	***9***	***5***	***13***	***—***	***4***	***1***	***32***
- Stage 2	***126***	***164***	***424***	***4***	***7***	***26***	***751***
- Stage 3	***20***	***27***	***—***	***—***	***151***	***(2)***	***196***
2020							
Deferred model calibrations	25	9	13	—	—	2	49
Economic uncertainty	79	79	526	9	113	63	869
Other adjustments	20	—	19	—	26	—	65
Total	124	88	558	9	139	65	983
Of which:							
- Stage 1	*21*	*8*	*37*	*—*	*15*	*—*	*81*
- Stage 2	*93*	*78*	*521*	*9*	*47*	*65*	*813*
- 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.

Credit risk continued

- While in aggregate the post model adjustments are broadly consistent with 31 December 2020, the shifts across and within categories are more notable. 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.
- 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, NWH 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 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.

Credit risk continued
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). NWH 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 NWH 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.

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.

Credit risk continued

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 NWH 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.

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

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

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

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.

Credit risk continued

Economic loss drivers (audited)

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, NWH Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2021, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios.

These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price falls and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

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

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

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.

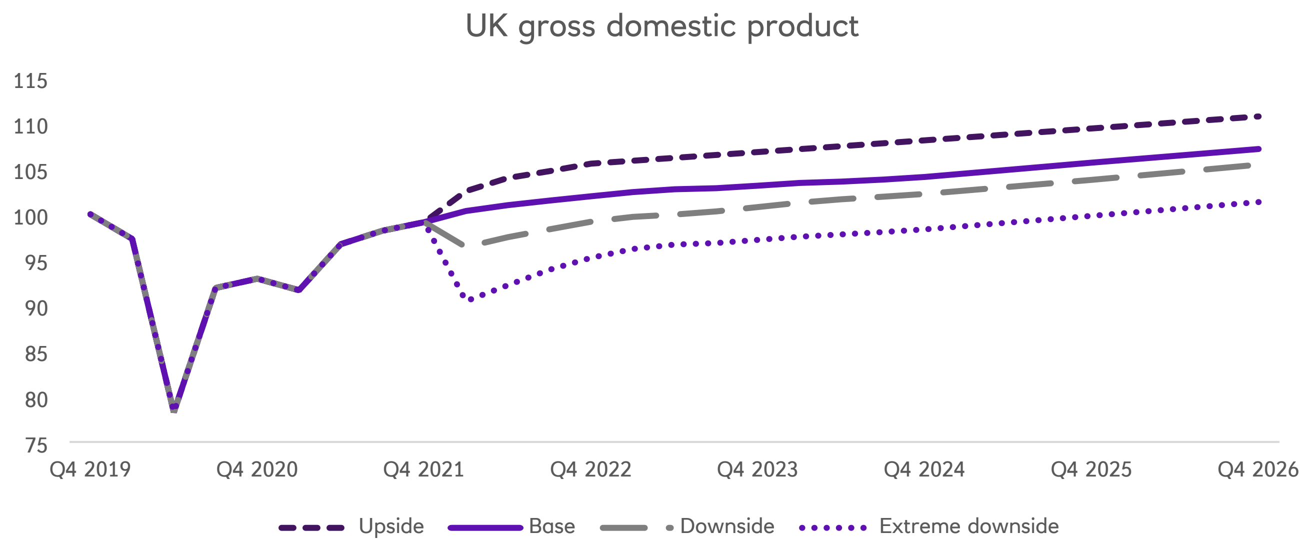
Probability weightings of scenarios

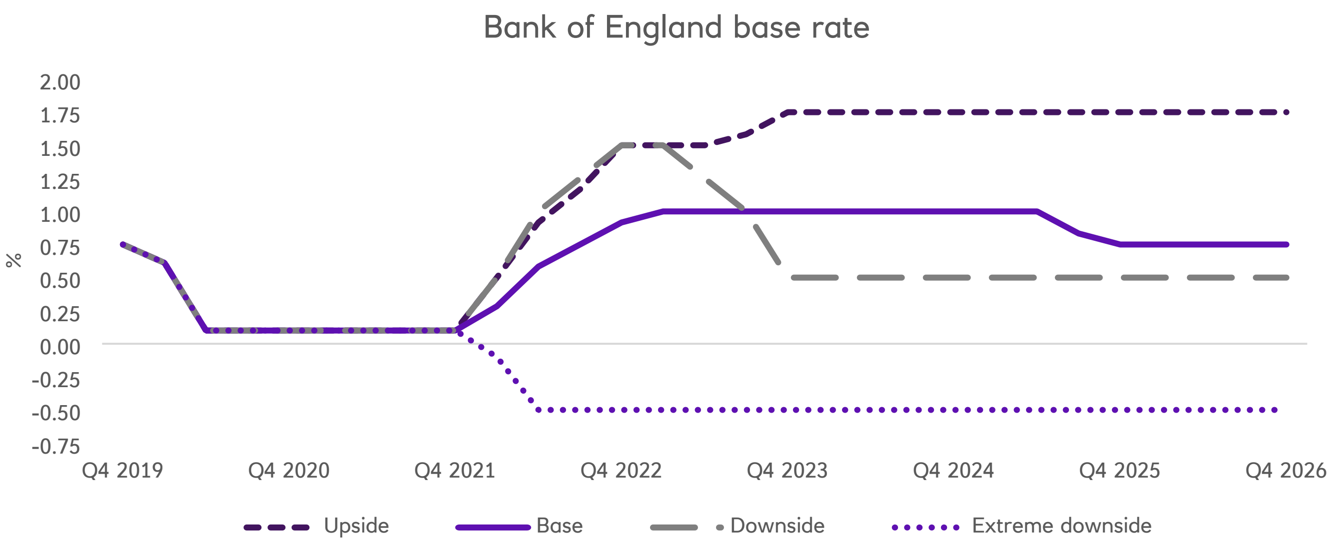
NWH Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWH 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, NWH Group has subjectively applied probability weights, reflecting expert views within NWH 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. NWH 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. NWH 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 %
2021	7.0	7.0	7.0	7.0
2022	8.1	5.0	1.5	(3.6)
2023	2.1	1.6	2.4	4.1
2024	1.2	0.9	1.6	1.2
2025	1.2	1.3	1.4	1.4
2026	1.2	1.5	1.6	1.5

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	15.1	15.1	15.1	15.1
2022	8.9	6.8	2.9	(4.9)
2023	5.8	4.1	3.8	5.3
2024	3.0	3.1	3.3	3.1
2025	2.9	3.1	3.1	3.2
2026	2.8	2.7	2.7	3.1

Unemployment rate - annual average

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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	11.2	11.2	11.2	11.2
2022	4.5	5.5	8.8	13.7
2023	4.1	5.3	7.2	10.2
2024	4.0	5.1	6.3	8.4
2025	4.0	5.0	5.7	7.5
2026	4.0	5.0	5.5	7.0

House price index - four quarter growth

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

Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %
2021	12.9	12.9	12.9	12.9
2022	12.2	5.1	(3.3)	(17.8)
2023	3.4	4.0	2.0	(4.7)
2024	2.6	3.3	4.1	16.1
2025	3.4	3.4	5.9	6.8
2026	3.3	3.0	4.4	4.9

Commercial real estate price - four quarter growth

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

Bank of England base rate - annual average

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

Worst points

	31 December 2021				31 December 2020			
	Downside		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 reaching their worst forecast position the CCIs start to gradually revert to their long-run average of zero.

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

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

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

UK economic uncertainty

Treatment of COVID-19 relief mechanisms

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

For Wholesale customers, NWH 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 NWH 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 NWH Group. It is therefore not automatically considered significant credit deterioration and a Stage 2 trigger. NWH 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%. NWH Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NWH 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**	**1,448**	**3,245**	**2,712**	**383**	**150**
Financial institutions	**39**	**29**	**68**	**41**	**26**	**1**
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**	**5,131**	**12,605**	**9,832**	**2,205**	**568**

* Not within audit scope.

Credit risk continued
Economic loss drivers (audited)

31 December 2020	Gross Carrying Amount BBL £m	Associated debt £m	BBL and associated debt £m	Of which: Stage 1 £m	Stage 2 £m	Stage 3 £m
Wholesale						
Property	1,996	1,797	3,793	2,603	1,146	44
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	5,939	14,237	10,052	4,045	140

(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, NWH 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.

NWH 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	128,674
Retail Banking - unsecured	7,386	7,435	7,675	6,939	5,975
Wholesale - property	26,160	26,244	26,287	26,102	24,384
Wholesale - non-property	87,750	88,223	88,452	87,892	77,533
	278,752	279,705	281,507	273,951	236,566
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	13	12	11	14	22
Retail Banking - unsecured	112	109	107	107	95
Wholesale - property	22	21	25	20	18
Wholesale - non-property	103	104	103	105	90
	250	246	246	246	225
Stage 2 modelled exposure (£m)					
Retail Banking - mortgages	10,728	10,381	9,091	15,166	39,510
Retail Banking - unsecured	2,934	2,885	2,645	3,381	4,345
Wholesale - property	2,879	2,795	2,752	2,937	4,655
Wholesale - non-property	16,605	16,132	15,903	16,463	26,822
	33,146	32,193	30,391	37,947	75,332
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	155	152	135	177	379
Retail Banking - unsecured	435	435	413	475	562
Wholesale - property	91	87	81	92	167
Wholesale - non-property	694	667	660	674	972
	1,375	1,341	1,289	1,418	2,080
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	29,039	29,039	29,039	29,039	29,039
Wholesale - non-property	104,355	104,355	104,355	104,355	104,355
	311,898	311,898	311,898	311,898	311,898
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	113	108	106	112	185
Wholesale - non-property	797	771	763	779	1,062
	1,625	1,587	1,535	1,664	2,305
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	0.39%	0.37%	0.37%	0.39%	0.64%
Wholesale - non-property	0.76%	0.74%	0.73%	0.75%	1.02%
	0.52%	0.51%	0.49%	0.53%	0.74%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,625	1,587	1,535	1,664	2,305
ECL on Ulster Bank RoI modelled exposures	74	74	74	74	74
ECL on non-modelled exposures	42	42	42	42	42
Total Stage 1 and Stage 2 ECL	1,741	1,703	1,651	1,780	2,421
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		(38)	(90)	39	680

(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 Stage1 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 Holdings Limited 2020 Annual Report and Accounts for 2020 comparatives.

Credit risk continued

- 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 27% of total ECL (2020 – 17%). 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 Stage 1 and Stage 2 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.

Single factor sensitivity

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

Measurement uncertainty and ECL adequacy (audited)

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, NWH 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, NWH 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 NWH 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 NWH Group's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Credit risk – Banking activities

Introduction

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

Refer to Accounting policies note 12 and Note 13 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 9 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	ECL	Net	Gross	ECL	Net
	£bn	£bn	£bn	£bn	£bn	£bn
Balance sheet total gross amortised cost and FVOCI	519.9			484.6		
In scope of IFRS 9 ECL framework	517.2			481.5		
% in scope	99%			99%		
Loans to customers - in scope - amortised cost	338.9	3.6	335.3	343.6	5.9	337.7
Loans to customers - in scope - FVOCI	0.2	—	0.2	—	—	—
Loans to banks - in scope - amortised cost	5.4	—	5.4	4.7	—	4.7
Total loans - in scope	344.5	3.6	340.9	348.3	5.9	342.4
Stage 1	306.3	0.3	306.0	267.2	0.5	266.7
Stage 2	33.4	1.4	32.0	75.1	3.0	72.1
Stage 3	4.8	1.9	2.9	6.0	2.4	3.6
Other financial assets - in scope - amortised cost	144.7	—	144.7	96.7	—	96.7
Other financial assets - in scope - FVOCI	28.0	—	28.0	36.5	—	36.5
Total other financial assets - in scope	172.7	—	172.7	133.2	—	133.2
Stage 1	172.5	—	172.5	132.2	—	132.2
Stage 2	0.2	—	0.2	1.0	—	1.0
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	2.7	na	2.7	3.1	na	3.1
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	—	na	—	—	na	—
Other financial assets - out of scope - amortised cost	1.9	na	1.9	2.1	na	2.1
Other financial assets - out of scope - FVOCI	—	na	—	—	na	—

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £1.6 billion (2020 – £1.6 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £0.7 billion (2020 – £1.1 billion).
- NWH Group originated securitisations, where ECL was captured on the underlying loans of £0.4 billion (2020 – £0.4 billion).

In scope assets also include an additional £0.1 billion (2020 – £0.5 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the consolidated financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by £0.7 billion (2020 – nil) 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 £106.5 billion (2020 – £110.7 billion) comprised Stage 1 £98.6 billion (2020 – £88 billion); Stage 2 £7.3 billion (2020 – £21.8 billion); and Stage 3 £0.6 billion (2020 – £0.9 billion).

The ECL relating to contingent liabilities was nil (2020 – £0.2 billion). The total ECL in the remainder of the credit risk section of £3.7 billion included ECL for both balance sheet exposure and contingent liabilities.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Loans - amortised cost and FVOCI							
Stage 1	168,013	17,600	82,887	32,284	300,784	5,560	306,344
Stage 2	13,594	967	17,852	91	32,504	853	33,357
Stage 3	1,884	270	1,820	—	3,974	787	4,761
Inter-Group				111	111		111
Subtotal excluding disposal group loans	*183,491*	*18,837*	*102,559*	*32,486*	*337,373*	*7,200*	*344,573*
Disposal group loans						*9,084*	*9,084*
Total						16,284	353,657
ECL provisions							
Stage 1	134	12	116	17	279	10	289
Stage 2	590	29	758	11	1,388	64	1,452
Stage 3	850	37	651	—	1,538	388	1,926
Inter-Group				—	—		—
Subtotal excluding ECL provisions on disposal group loans	*1,574*	*78*	*1,525*	*28*	*3,205*	*462*	*3,667*
ECL on disposal group loans						*109*	*109*
Total						571	3,776
ECL provisions coverage (1)							
Stage 1 (%)	0.08	0.07	0.14	0.05	0.09	0.18	0.09
Stage 2 (%)	4.34	3.00	4.25	12.09	4.27	7.50	4.35
Stage 3 (%)	45.12	13.70	35.77	—	38.70	49.30	40.45
Inter-Group (%)				—	—		—
ECL provisions coverage excluding disposal group loans	*0.86*	*0.41*	*1.49*	*0.09*	*0.95*	*6.42*	*1.06*
ECL provisions coverage on disposal group loans						*1.20*	*1.20*
Total						3.51	1.07
Impairment (releases)/losses							
ECL (release)/charge - third party	(36)	(54)	(1,073)	—	(1,163)	(28)	(1,191)
Continuing operations	*(36)*	*(54)*	*(1,073)*	—	*(1,163)*	*(28)*	*(1,191)*
Discontinued operations						*(57)*	*(57)*
Total						(85)	(1,248)
Amounts written-off	220	6	467	—	693	88	781

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

2020	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Loans - amortised cost and FVOCI							
Stage 1	139,956	15,321	70,685	26,843	252,805	14,380	267,185
Stage 2	32,414	1,939	37,344	110	71,807	3,302	75,109
Stage 3	1,891	298	2,551	—	4,740	1,236	5,976
Inter-Group				463	463		463
	174,261	17,558	110,580	27,416	329,815	18,918	348,733
ECL provisions							
Stage 1	134	31	270	13	448	45	493
Stage 2	897	68	1,713	15	2,693	265	2,958
Stage 3	806	39	1,069	—	1,914	492	2,406
Inter-Group				1	1		1
	1,837	138	3,052	29	5,056	802	5,858
ECL provisions coverage (1)							
Stage 1 (%)	0.10	0.20	0.38	0.05	0.18	0.31	0.18
Stage 2 (%)	2.77	3.51	4.59	13.64	3.75	8.03	3.94
Stage 3 (%)	42.62	13.09	41.91	—	40.38	39.81	40.26
Inter-Group (%)				0.22	0.22		0.22
	1.05	0.79	2.76	0.11	1.53	4.24	1.68
Impairment (releases)/losses							
ECL (release)/charge - third party (2)	792	101	1,926	24	2,843	139	2,982
Discontinued operations						111	111
Total						250	3,093
Amounts written-off	378	5	321	—	704	219	923

(1) 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.
(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) 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 £142.5 billion (2020 – £93.4 billion) and debt securities of £30.3 billion (2020 – £39.8 billion).
(4) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

- 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	**82,887**	**16,791**	**437**	**624**	**17,852**	**1,820**	**102,559**	**116**	**724**	**23**	**11**	**758**	**651**	**1,525**
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	**32,284**	**91**	**—**	**—**	**91**	**—**	**32,375**	**17**	**11**	**—**	**—**	**11**	**—**	**28**
Total loans	**306,344**	**30,806**	**1,385**	**1,166**	**33,357**	**4,761**	**344,462**	**289**	**1,338**	**64**	**50**	**1,452**	**1,926**	**3,667**
Of which:														
Personal	***187,528***	***12,922***	***939***	***513***	***14,374***	***2,725***	***204,627***	***147***	***533***	***41***	***39***	***613***	***1,169***	***1,929***
Wholesale	***118,816***	***17,884***	***446***	***653***	***18,983***	***2,036***	***139,835***	***142***	***805***	***23***	***11***	***839***	***757***	***1,738***
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
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	26,843	110	—	—	110	—	26,953	13	15	—	—	15	—	28
Total loans	267,185	72,147	1,830	1,132	75,109	5,976	348,270	493	2,719	129	110	2,958	2,406	5,857
Of which:														
Personal	*163,872*	*32,330*	*1,212*	*761*	*34,303*	*3,218*	*201,393*	*168*	*838*	*79*	*78*	*995*	*1,217*	*2,380*
Wholesale	*103,313*	*39,817*	*618*	*371*	*40,806*	*2,758*	*146,877*	*325*	*1,881*	*50*	*32*	*1,963*	*1,189*	*3,477*

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)							
2021	Stage 1 %	Not past due %	1-30 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total (release) / charge (3) £m	Amounts written-off £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**
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**	**12.09**	**—**	**—**	**12.09**	**—**	**0.09**	**—**	**—**
Total loans	**0.09**	**4.34**	**4.62**	**4.29**	**4.35**	**40.45**	**1.06**	**(1,191)**	**781**
Of which:									
Personal	***0.08***	***4.12***	***4.37***	***7.60***	***4.26***	***42.90***	***0.94***	***(42)***	***299***
Wholesale	***0.12***	***4.50***	***5.16***	***1.68***	***4.42***	***37.18***	***1.24***	***(1,149)***	***482***
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	101	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*	*106*	*4*
Commercial Banking	0.38	4.52	7.47	6.91	4.59	41.91	2.76	1,926	321
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	24	—
Total loans	0.18	3.77	7.05	9.72	3.94	40.26	1.68	2,982	923
Of which:									
Personal	*0.10*	*2.59*	*6.52*	*10.25*	*2.90*	*37.82*	*1.18*	*885*	*591*
Wholesale	*0.31*	*4.72*	*8.09*	*8.63*	*4.81*	*43.11*	*2.37*	*2,097*	*332*

(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

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

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

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

	Personal				Wholesale					
2021	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,835	344,462
- UK	*185,443*	*3,877*	*8,926*	*198,246*	*29,395*	*62,338*	*29,617*	*4,131*	*125,481*	*323,727*
- RoI	*6,164*	*70*	*147*	*6,381*	*108*	*1,220*	*116*	*4*	*1,448*	*7,829*
- Other Europe	—	—	—	—	*316*	*3,385*	*1,041*	*543*	*5,285*	*5,285*
- RoW	—	—	—	—	*374*	*2,662*	*4,009*	*576*	*7,621*	*7,621*
Loans by stage and asset quality (2)	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,835	344,462
Stage 1	178,114	2,924	6,490	187,528	26,716	52,848	34,125	5,127	118,816	306,344
- AQ1	*3,305*	—	*377*	*3,682*	*1,097*	*862*	*2,508*	*2,598*	*7,065*	*10,747*
- AQ2	*45*	—	—	*45*	*3,249*	*772*	*25,150*	*401*	*29,572*	*29,617*
- AQ3	*2,046*	—	—	*2,046*	*3,753*	*5,190*	*681*	*1,944*	*11,568*	*13,614*
- AQ4	*92,230*	*44*	*404*	*92,678*	*4,284*	*10,933*	*4,436*	*69*	*19,722*	*112,400*
- AQ5	*73,089*	*873*	*1,273*	*75,235*	*6,448*	*15,909*	*698*	—	*23,055*	*98,290*
- AQ6	*3,498*	*976*	*2,787*	*7,261*	*5,491*	*12,229*	*446*	*17*	*18,183*	*25,444*
- AQ7	*3,380*	*929*	*1,170*	*5,479*	*2,048*	*6,148*	*145*	*91*	*8,432*	*13,911*
- AQ8	*223*	*96*	*427*	*746*	*322*	*731*	*57*	*7*	*1,117*	*1,863*
- AQ9	*298*	*6*	*52*	*356*	*24*	*74*	*4*	—	*102*	*458*
Stage 2	11,498	933	1,943	14,374	2,846	15,401	615	121	18,983	33,357
- AQ1	*16*	—	—	*16*	*56*	*46*	—	—	*102*	*118*
- AQ2	—	—	—	—	*113*	*15*	—	—	*128*	*128*
- AQ3	*16*	—	—	*16*	—	*130*	—	—	*130*	*146*
- AQ4	*3,351*	*1*	*88*	*3,440*	*48*	*835*	*15*	*34*	*932*	*4,372*
- AQ5	*4,277*	*67*	*170*	*4,514*	*477*	*3,069*	*290*	—	*3,836*	*8,350*
- AQ6	*1,159*	*220*	*805*	*2,184*	*748*	*4,242*	*179*	*84*	*5,253*	*7,437*
- AQ7	*710*	*484*	*367*	*1,561*	*967*	*4,521*	*60*	*2*	*5,550*	*7,111*
- AQ8	*1,309*	*124*	*378*	*1,811*	*301*	*1,935*	*69*	*1*	*2,306*	*4,117*
- AQ9	*660*	*37*	*135*	*832*	*136*	*608*	*2*	—	*746*	*1,578*
Stage 3	1,995	90	640	2,725	631	1,356	43	6	2,036	4,761
- AQ10	*1,995*	*90*	*640*	*2,725*	*631*	*1,356*	*43*	*6*	*2,036*	*4,761*
Loans - past due analysis (3,4)	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,835	344,462
- Not past due	*188,511*	*3,834*	*8,273*	*200,618*	*29,084*	*67,392*	*34,737*	*5,251*	*136,464*	*337,082*
- Past due 1-30 days	*1,200*	*29*	*122*	*1,351*	*518*	*1,080*	*39*	*2*	*1,639*	*2,990*
- Past due 31-89 days	*579*	*25*	*73*	*677*	*241*	*446*	*2*	*1*	*690*	*1,367*
- Past due 90-180 days	*342*	*21*	*62*	*425*	*91*	*214*	*1*	—	*306*	*731*
- Past due >180 days	*975*	*38*	*543*	*1,556*	*259*	*473*	*4*	—	*736*	*2,292*
Loans - Stage 2	11,498	933	1,943	14,374	2,846	15,401	615	121	18,983	33,357
- Not past due	*10,241*	*898*	*1,783*	*12,922*	*2,486*	*14,668*	*610*	*120*	*17,884*	*30,806*
- Past due 1-30 days	*827*	*17*	*95*	*939*	*125*	*317*	*4*	—	*446*	*1,385*
- Past due 31-89 days	*430*	*18*	*65*	*513*	*235*	*416*	*1*	*1*	*653*	*1,166*
Weighted average life*										
- ECL measurement (years)	8	2	5	5	5	6	3	1	6	6
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.17	4.84	2.75	0.37	0.77	1.85	0.17	0.16	1.12	0.69
- Basel (%)	0.73	3.31	3.26	0.89	1.20	1.73	0.15	0.18	1.16	1.00
ECL provisions by geography	755	263	911	1,929	335	1,338	47	18	1,738	3,667
- UK	*438*	*261*	*901*	*1,600*	*295*	*1,108*	*42*	*15*	*1,460*	*3,060*
- RoI	*317*	*2*	*10*	*329*	*19*	*107*	*3*	*1*	*130*	*459*
- Other Europe	—	—	—	—	*17*	*71*	*1*	*1*	*90*	*90*
- RoW	—	—	—	—	*4*	*52*	*1*	*1*	*58*	*58*
ECL provisions by stage	755	263	911	1,929	335	1,338	47	18	1,738	3,667
- Stage 1	*31*	*59*	*57*	*147*	*23*	*95*	*7*	*17*	*142*	*289*
- Stage 2	*174*	*144*	*295*	*613*	*94*	*707*	*37*	*1*	*839*	*1,452*
- Stage 3	*550*	*60*	*559*	*1,169*	*218*	*536*	*3*	—	*757*	*1,926*
ECL provisions coverage (%)	0.39	6.66	10.04	0.94	1.11	1.92	0.14	0.34	1.24	1.06
- Stage 1 (%)	*0.02*	*2.02*	*0.88*	*0.08*	*0.09*	*0.18*	*0.02*	*0.33*	*0.12*	*0.09*
- Stage 2 (%)	*1.51*	*15.43*	*15.18*	*4.26*	*3.30*	*4.59*	*6.02*	*0.83*	*4.42*	*4.35*
- Stage 3 (%)	*27.57*	*66.67*	*87.34*	*42.90*	*34.55*	*39.53*	*6.98*	—	*37.18*	*40.45*
ECL (release)/charge - Third party	(58)	(14)	30	(42)	(436)	(709)	(7)	3	(1,149)	(1,191)
Amounts written-off	84	74	141	299	246	230	6	—	482	781

*Not within audit scope.

For the notes to this table refer to page 45.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
2021	**Mortgages (1) £m**	**Credit cards £m**	**Other personal £m**	**Total £m**	**Property £m**	**Corporate £m**	**FI £m**	**Sovereign £m**	**Total £m**	**Total £m**
Other financial assets by asset quality (2)	—	—	—	—	—	9	7,581	165,174	172,764	172,764
- AQ1-AQ4	—	—	—	—	—	*9*	*7,421*	*165,172*	*172,602*	*172,602*
- AQ5-AQ8	—	—	—	—	—	—	*160*	*2*	*162*	*162*
Off-balance sheet	16,663	15,354	8,178	40,195	14,822	46,668	4,020	833	66,343	106,538
- Loan commitments	*16,663*	*15,354*	*8,118*	*40,135*	*14,385*	*43,983*	*3,871*	*833*	*63,072*	*103,207*
- Financial guarantees	—	—	*60*	*60*	*437*	*2,685*	*149*	—	*3,271*	*3,331*
Off-balance sheet by asset quality (2)	16,663	15,354	8,178	40,195	14,822	46,668	4,020	833	66,343	106,538
- AQ1-AQ4	*14,793*	*248*	*6,589*	*21,630*	*11,297*	*26,116*	*2,990*	*685*	*41,088*	*62,718*
- AQ5-AQ8	*1,863*	*14,804*	*1,575*	*18,242*	*3,493*	*20,213*	*1,030*	*148*	*24,884*	*43,126*
- AQ9	—	*9*	*3*	*12*	*6*	*48*	—	—	*54*	*66*
- AQ10	*7*	*293*	*11*	*311*	*26*	*291*	—	—	*317*	*628*

For the notes to this table refer to page 45.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
2020	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
- UK	*174,390*	*3,816*	*9,261*	*187,467*	*33,400*	*65,442*	*25,653*	*3,377*	*127,872*	*315,339*
- RoI	*13,650*	*79*	*197*	*13,926*	*1,226*	*4,021*	*326*	*30*	*5,603*	*19,529*
- Other Europe	—	—	—	—	*497*	*3,590*	*1,014*	*434*	*5,535*	*5,535*
- RoW	—	—	—	—	*423*	*3,141*	*3,758*	*545*	*7,867*	*7,867*
Loans by stage and asset quality (2)	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
Stage 1	156,025	2,411	5,436	163,872	22,681	47,227	29,158	4,247	103,313	267,185
- AQ1	*3,039*	—	*642*	*3,681*	*1,799*	*1,145*	*426*	*1,868*	*5,238*	*8,919*
- AQ2	*6,207*	—	—	*6,207*	*3,134*	*369*	*23,007*	*864*	*27,374*	*33,581*
- AQ3	*267*	—	—	*267*	*3,038*	*5,132*	*271*	*1,286*	*9,727*	*9,994*
- AQ4	*107,603*	*24*	*592*	*108,219*	*3,999*	*10,586*	*4,159*	*210*	*18,954*	*127,173*
- AQ5	*31,562*	*866*	*1,118*	*33,546*	*4,562*	*11,466*	*695*	*2*	*16,725*	*50,271*
- AQ6	*1,743*	*785*	*2,173*	*4,701*	*2,951*	*7,069*	*275*	*2*	*10,297*	*14,998*
- AQ7	*5,206*	*681*	*667*	*6,554*	*1,374*	*5,561*	*273*	*3*	*7,211*	*13,765*
- AQ8	*150*	*51*	*191*	*392*	*1,570*	*4,971*	*47*	*10*	*6,598*	*6,990*
- AQ9	*248*	*4*	*53*	*305*	*254*	*928*	*5*	*2*	*1,189*	*1,494*
Stage 2	29,526	1,375	3,402	34,303	11,691	27,398	1,580	137	40,806	75,109
- AQ1	*15*	—	*7*	*22*	*54*	*46*	—	—	*100*	*122*
- AQ2	*56*	—	—	*56*	—	—	—	—	—	*56*
- AQ3	*13*	—	—	*13*	*104*	*240*	*1*	—	*345*	*358*
- AQ4	*7,329*	*4*	*49*	*7,382*	*1,448*	*2,429*	*414*	*39*	*4,330*	*11,712*
- AQ5	*16,868*	*130*	*355*	*17,353*	*3,838*	*7,721*	*551*	—	*12,110*	*29,463*
- AQ6	*1,899*	*307*	*1,540*	*3,746*	*3,548*	*7,340*	*317*	*96*	*11,301*	*15,047*
- AQ7	*717*	*694*	*584*	*1,995*	*2,190*	*7,085*	*243*	*1*	*9,519*	*11,514*
- AQ8	*1,284*	*198*	*538*	*2,020*	*346*	*2,020*	*51*	*1*	*2,418*	*4,438*
- AQ9	*1,345*	*42*	*329*	*1,716*	*163*	*517*	*3*	—	*683*	*2,399*
Stage 3	2,489	109	620	3,218	1,174	1,569	13	2	2,758	5,976
- AQ10	*2,489*	*109*	*620*	*3,218*	*1,174*	*1,569*	*13*	*2*	*2,758*	*5,976*
Loans - past due analysis (3,4)	188,040	3,895	9,458	201,393	35,546	76,194	30,751	4,386	146,877	348,270
- Not past due	*184,211*	*3,770*	*8,584*	*196,565*	*34,305*	*74,381*	*30,717*	*4,116*	*143,519*	*340,084*
- Past due 1-30 days	*1,465*	*29*	*173*	*1,667*	*342*	*988*	*23*	*270*	*1,623*	*3,290*
- Past due 31-89 days	*849*	*26*	*122*	*997*	*254*	*251*	*4*	—	*509*	*1,506*
- Past due 90-180 days	*425*	*20*	*65*	*510*	*160*	*47*	—	—	*207*	*717*
- Past due >180 days	*1,090*	*50*	*514*	*1,654*	*485*	*527*	*7*	—	*1,019*	*2,673*
Loans - Stage 2	29,526	1,375	3,402	34,303	11,691	27,398	1,580	137	40,806	75,109
- Not past due	*27,875*	*1,340*	*3,115*	*32,330*	*11,385*	*26,721*	*1,574*	*137*	*39,817*	*72,147*
- Past due 1-30 days	*1,024*	*18*	*170*	*1,212*	*159*	*455*	*4*	—	*618*	*1,830*
- Past due 31-89 days	*627*	*17*	*117*	*761*	*147*	*222*	*2*	—	*371*	*1,132*
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	4.98	1.03	3.96	3.71	0.38	0.10	2.94	1.84
- Basel (%)	0.83	3.40	3.87	1.01	1.71	2.52	0.20	0.17	1.75	1.32
ECL provisions by geography	993	354	1,033	2,380	1,066	2,339	59	13	3,477	5,857
- UK	*494*	*351*	*1,021*	*1,866*	*979*	*1,887*	*49*	*10*	*2,925*	*4,791*
- RoI	*499*	*3*	*12*	*514*	*41*	*245*	*3*	*1*	*290*	*804*
- Other Europe	—	—	—	—	*34*	*95*	*2*	*1*	*132*	*132*
- RoW	—	—	—	—	*12*	*112*	*5*	*1*	*130*	*130*
ECL provisions by stage	993	354	1,033	2,380	1,066	2,339	59	13	3,477	5,857
- Stage 1	*49*	*53*	*66*	*168*	*115*	*185*	*12*	*13*	*325*	*493*
- Stage 2	*319*	*224*	*452*	*995*	*450*	*1,471*	*42*	—	*1,963*	*2,958*
- Stage 3	*625*	*77*	*515*	*1,217*	*501*	*683*	*5*	—	*1,189*	*2,406*
ECL provisions coverage (%)	0.53	9.09	10.92	1.18	3.00	3.07	0.19	0.30	2.37	1.68
- Stage 1 (%)	*0.03*	*2.20*	*1.21*	*0.10*	*0.51*	*0.39*	*0.04*	*0.31*	*0.31*	*0.18*
- Stage 2 (%)	*1.08*	*16.29*	*13.29*	*2.90*	*3.85*	*5.37*	*2.66*	—	*4.81*	*3.94*
- Stage 3 (%)	*25.11*	*70.64*	*83.06*	*37.82*	*42.67*	*43.53*	*38.46*	—	*43.11*	*40.26*
ECL (release)/charge - Third party (5)	273	191	421	885	644	1,400	47	6	2,097	2,982
Amounts written-off	218	95	278	591	52	279	1	—	332	923

*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 (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
Other financial assets by asset quality (2)	—	—	—	—	—	10	7,857	125,345	133,212	133,212
- AQ1-AQ4	*—*	*—*	*—*	*—*	*—*	*10*	*7,756*	*125,340*	*133,106*	*133,106*
- AQ5-AQ8	*—*	*—*	*—*	*—*	*—*	*—*	*101*	*5*	*106*	*106*
Off-balance sheet	14,367	14,262	9,851	38,480	15,496	51,979	3,662	1,117	72,254	110,734
- Loan commitments	*14,364*	*14,262*	*9,809*	*38,435*	*14,967*	*48,990*	*3,498*	*1,115*	*68,570*	*107,005*
- Financial guarantees	*3*	*—*	*42*	*45*	*529*	*2,989*	*164*	*2*	*3,684*	*3,729*
Off-balance sheet by asset quality (2)	14,367	14,262	9,851	38,480	15,496	51,979	3,662	1,117	72,254	110,734
- AQ1-AQ4	*13,610*	*148*	*8,008*	*21,766*	*11,368*	*28,549*	*2,734*	*934*	*43,585*	*65,351*
- AQ5-AQ8	*747*	*13,809*	*1,816*	*16,372*	*4,030*	*22,835*	*927*	*183*	*27,975*	*44,347*
- AQ9	*1*	*8*	*10*	*19*	*12*	*75*	*1*	*—*	*88*	*107*
- AQ10	*9*	*297*	*17*	*323*	*86*	*520*	*—*	*—*	*606*	*929*

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.
(2) AQ bandings are based on Basel PDs and mapping is as follows:

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

AQ bandings are based on Basel PDs and mapping is as follows:
£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.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for the Personal portfolios and key sectors of the Wholesale portfolios, that continue to be affected by COVID-19.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**187,528**	**14,374**	**2,725**	**204,627**	**40,135**	**60**	**147**	**613**	**1,169**	**1,929**
Mortgages	**178,114**	**11,498**	**1,995**	**191,607**	**16,663**	**—**	**31**	**174**	**550**	**755**
Credit cards	**2,924**	**933**	**90**	**3,947**	**15,354**	**—**	**59**	**144**	**60**	**263**
Other personal	**6,490**	**1,943**	**640**	**9,073**	**8,118**	**60**	**57**	**295**	**559**	**911**
Wholesale	**118,816**	**18,983**	**2,036**	**139,835**	**63,072**	**3,271**	**142**	**839**	**757**	**1,738**
Property	**26,716**	**2,846**	**631**	**30,193**	**14,385**	**437**	**23**	**94**	**218**	**335**
Financial institutions	**34,125**	**615**	**43**	**34,783**	**3,871**	**149**	**7**	**37**	**3**	**47**
Sovereign	**5,127**	**121**	**6**	**5,254**	**833**	**—**	**17**	**1**	**—**	**18**
Corporate	**52,848**	**15,401**	**1,356**	**69,605**	**43,983**	**2,685**	**95**	**707**	**536**	**1,338**
Of which:										
Airlines and aerospace	***738***	***668***	***37***	***1,443***	***1,363***	***176***	***1***	***39***	***8***	***48***
Automotive	***5,122***	***1,263***	***38***	***6,423***	***2,821***	***65***	***9***	***31***	***10***	***50***
Health	***3,777***	***1,230***	***131***	***5,138***	***647***	***6***	***9***	***58***	***46***	***113***
Land transport and logistics	***3,640***	***831***	***39***	***4,510***	***2,823***	***185***	***4***	***53***	***12***	***69***
Leisure	***3,683***	***4,009***	***340***	***8,032***	***1,548***	***106***	***10***	***246***	***132***	***388***
Oil and gas	***1,230***	***141***	***35***	***1,406***	***1,086***	***449***	***1***	***14***	***24***	***39***
Retail	***6,241***	***1,297***	***181***	***7,719***	***4,573***	***404***	***9***	***29***	***66***	***104***
Total	**306,344**	**33,357**	**4,761**	**344,462**	**103,207**	**3,331**	**289**	**1,452**	**1,926**	**3,667**
2020										
Personal	163,872	34,303	3,218	201,393	38,435	45	168	995	1,217	2,380
Mortgages	156,025	29,526	2,489	188,040	14,364	3	49	319	625	993
Credit cards	2,411	1,375	109	3,895	14,262	—	53	224	77	354
Other personal	5,436	3,402	620	9,458	9,809	42	66	452	515	1,033
Wholesale	103,313	40,806	2,758	146,877	68,570	3,684	325	1,963	1,189	3,477
Property	22,681	11,691	1,174	35,546	14,967	529	115	450	501	1,066
Financial institutions	29,158	1,580	13	30,751	3,498	164	12	42	5	59
Sovereign	4,247	137	2	4,386	1,115	2	13	—	—	13
Corporate	47,227	27,398	1,569	76,194	48,990	2,989	185	1,471	683	2,339
Of which:										
Airlines and aerospace	*753*	*1,191*	*31*	*1,975*	*1,576*	*171*	*2*	*41*	*17*	*60*
Automotive	*4,371*	*1,719*	*161*	*6,251*	*3,341*	*102*	*16*	*63*	*17*	*96*
Health	*2,661*	*2,975*	*128*	*5,764*	*614*	*9*	*13*	*163*	*47*	*223*
Land transport and logistics	*2,783*	*1,820*	*110*	*4,713*	*3,311*	*189*	*8*	*98*	*32*	*138*
Leisure	*3,289*	*6,037*	*384*	*9,710*	*1,701*	*124*	*21*	*434*	*204*	*659*
Oil and gas	*1,167*	*297*	*33*	*1,497*	*1,850*	*341*	*4*	*19*	*24*	*47*
Retail	*6,600*	*2,264*	*177*	*9,041*	*5,508*	*505*	*17*	*112*	*90*	*219*
Total	267,185	75,109	5,976	348,270	107,005	3,729	493	2,958	2,406	5,857

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

	Property	FI	Other corporate	Total
2021	£m	£m	£m	£m
Forbearance (flow)	**655**	**26**	**3,813**	**4,493**
Forbearance (stock)	**893**	**34**	**5,581**	**6,508**
Heightened Monitoring and Risk of Credit Loss	**1,069**	**68**	**4,469**	**5,606**
2020				
Forbearance (flow)	1,424	68	4,152	5,644
Forbearance (stock)	1,507	69	4,929	6,505
Heightened Monitoring and Risk of Credit Loss	1,417	132	5,459	7,008

Credit risk – Banking activities continued

- 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 asset quality (based on Basel II PD) – In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within mortgages. Overall, Personal asset quality improved slightly, with migration in assets from AQ4 to AQ5 in mortgages offset by migration from AQ9 into better quality bands. As expected, mortgage exposures had a higher proportion in AQ1-AQ4 than unsecured borrowing. In other Personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision, for up to six years after default. Across the Wholesale portfolio, the asset quality band distribution differed, reflecting the diverse nature of the sectors. Asset quality improvement was observed across most sectors as the economy recovered from the effects of COVID-19. The reduction in AQ10 exposure in property was largely due to a portfolio sale of commercial real estate exposure.
- Loans by stage – In both Wholesale and Personal, the improved economic outlook resulted in reduced IFRS 9 PDs compared to 2020. This, alongside continued benign credit performance of the portfolio, resulted in a smaller proportion of accounts exhibiting a SICR and thereby an associated migration of exposures from Stage 2 into Stage 1. In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne and did not result in an automatic trigger into Stage 2. However, a subset of Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high, continued to be collectively migrated into Stage 2. In Wholesale, BBLS customers granted PAYG options, including the extension of lending terms, periods of reduced repayments and six month payment holidays, were not automatically considered significantly credit deteriorated. PAYG options are a feature of BBLS rather than a concession granted by NWH Group.
- Loans – Past due analysis – The various COVID-19 related customer support schemes (capital repayment holidays, government job retention scheme, government supported lending schemes) are mitigating actual portfolio deterioration in the short-term, although there have been some small increases in past due exposures.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs improved slightly during 2021. The forward-looking IFRS 9 PDs reduced significantly during 2021 reflecting the improved economics. PD reductions were most evident in Personal mortgages due to benign arrears performance (catalysed by COVID-19 support schemes) combined with the improved economic outlook, which is connected to the need for collective SICR migration and judgmental post model adjustments. In Wholesale, the Basel II PDs were based on a through-the-cycle approach and decreased less than the forward-looking IFRS 9 PDs which reduced, reflecting the improved economic outlook.
- ECL provision by geography – In line with the point relating to loans by geography above, the vast majority of ECL related to exposures in the UK 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	142.5	—	142.5	—	—	—	—	—	—	142.5	—
Loans - amortised cost (3)	344.4	3.6	340.8	2.9	39.7	228.4	23.4	291.5	2.6	49.3	0.3
Personal (4)	*204.6*	*1.9*	*202.7*	*1.6*	*1.0*	*190.2*	—	*191.2*	*1.4*	*11.5*	*0.2*
Wholesale (5)	*139.8*	*1.7*	*138.1*	*1.3*	*38.7*	*38.2*	*23.4*	*100.3*	*1.2*	*37.8*	*0.1*
Debt securities	30.3	—	30.3	—	—	—	—	—	—	30.3	—
Total financial assets	517.2	3.6	513.6	2.9	39.7	228.4	23.4	291.5	2.6	222.1	0.3
Contingent liabilities and commitments											
Personal (6,7)	40.2	—	40.2	0.3	0.5	5.0	—	5.5	—	34.7	0.3
Wholesale	66.3	—	66.3	0.3	1.5	7.5	3.8	12.8	0.1	53.5	0.2
Total off-balance sheet	106.5	—	106.5	0.6	2.0	12.5	3.8	18.3	0.1	88.2	0.5
Total exposure	623.7	3.6	620.1	3.5	41.7	240.9	27.2	309.8	2.7	310.3	0.8
2020											
Financial assets											
Cash and balances at central banks	93.4	—	93.4	—	—	—	—	—	—	93.4	—
Loans - amortised cost (3)	348.3	5.7	342.6	3.6	36.2	228.0	23.7	288.0	3.2	54.6	0.4
Personal (4)	*201.4*	*2.4*	*199.0*	*2.0*	*0.3*	*187.0*	—	*187.4*	*1.9*	*11.6*	*0.1*
Wholesale (5)	*146.9*	*3.3*	*143.6*	*1.6*	*35.9*	*41.0*	*23.7*	*100.6*	*1.3*	*43.0*	*0.3*
Debt securities	39.8	—	39.8	—	—	—	—	—	—	39.8	—
Total financial assets	481.5	5.7	475.8	3.6	36.2	228.0	23.7	288.0	3.2	187.8	0.4
Contingent liabilities and commitments											
Personal (6,7)	38.5	—	38.5	0.3	—	4.1	—	4.1	—	34.4	0.3
Wholesale	72.2	0.2	72.0	0.6	1.3	7.2	4.3	12.8	0.1	59.2	0.5
Total off-balance sheet	110.7	0.2	110.5	0.9	1.3	11.3	4.3	16.9	0.1	93.6	0.8
Total exposure	592.2	5.9	586.3	4.5	37.5	239.3	28.0	304.9	3.3	281.4	1.2

(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 NWH Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NWH 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. NWH 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).

Personal lending	2021 Retail Banking £m	2021 Private Banking £m	2021 Ulster Bank RoI £m	2021 Total £m	2020 Retail Banking £m	2020 Private Banking £m	2020 Ulster Bank RoI £m	2020 Total £m
Mortgages	172,707	12,781	6,164	191,652	163,107	10,910	13,678	187,695
Of which:								
Owner occupied	158,059	11,219	5,563	174,841	148,614	9,601	12,781	170,996
Buy-to-let	14,648	1,562	601	16,811	14,493	1,309	897	16,699
Interest only - variable	4,348	4,889	120	9,357	5,135	4,375	159	9,669
Interest only - fixed	14,255	5,957	3	20,215	13,776	4,758	10	18,544
Mixed (1)	8,616	1	34	8,651	7,321	1	56	7,378
Impairment provisions (2)	429	7	318	754	483	5	499	987
Other personal lending (3)	10,829	1,974	218	13,021	11,116	1,613	276	13,005
Impairment provisions (2)	1,140	19	11	1,170	1,348	20	15	1,383
Total personal lending	183,536	14,755	6,382	204,673	174,223	12,523	13,954	200,700
Mortgage LTV ratios								
- Total portfolio	54%	59%	50%	54%	56%	58%	59%	57%
- Stage 1	*54%*	*59%*	*48%*	*54%*	*55%*	*58%*	*57%*	*55%*
- Stage 2	*52%*	*59%*	*57%*	*52%*	*66%*	*61%*	*65%*	*66%*
- Stage 3	*49%*	*64%*	*56%*	*53%*	*53%*	*64%*	*67%*	*60%*
- Buy-to-let	50%	57%	52%	51%	52%	56%	59%	53%
- Stage 1	*50%*	*58%*	*51%*	*51%*	*51%*	*56%*	*55%*	*52%*
- Stage 2	*52%*	*55%*	*56%*	*52%*	*60%*	*59%*	*69%*	*61%*
- Stage 3	*51%*	*53%*	*66%*	*55%*	*56%*	*54%*	*74%*	*62%*
Gross new mortgage lending (4)	35,290	2,874	41	38,205	30,551	2,148	910	33,609
Of which:								
Owner occupied	33,630	2,583	41	36,254	29,608	1,922	908	32,438
Weighted average LTV	66%	65%	57%	66%	69%	66%	74%	69%
Buy-to-let	1,660	292	—	1,952	943	227	2	1,172
Weighted average LTV	62%	65%	53%	63%	62%	62%	54%	62%
Interest only - variable rate	25	832	—	857	81	1,082	—	1,163
Interest only - fixed rate	2,388	1,563	—	3,951	1,501	695	—	2,196
Mixed (1)	2,256	—	—	2,256	1,630	—	—	1,630
Mortgage forbearance								
Forbearance flow	316	19	50	385	550	50	127	727
Forbearance stock	1,156	3	944	2,103	1,293	18	1,627	2,938
Current	*727*	—	*616*	*1,343*	*648*	*13*	*1,069*	*1,730*
1-3 months in arrears	*146*	*2*	*58*	*206*	*360*	*3*	*105*	*468*
>3 months in arrears	*283*	*1*	*270*	*554*	*285*	*2*	*452*	*739*

(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 LTV 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	Stage 1	Stage 2	Stage 3	Not within IFRS 9 ECL scope	Total	Of which: gross new lending	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	£m	%	%	%	%
≤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	—	0.8	19.4	0.3
>50% and ≤70%	55,263	7,416	488	35	63,202	9,083	7	66	81	154	—	0.9	16.5	0.2
>70% and ≤80%	19,994	9,555	141	8	29,698	11,060	7	56	26	89	—	0.6	18.5	0.3
>80% and ≤90%	8,029	5,552	52	6	13,639	5,175	3	52	11	66	—	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	—	6.1	25.0	6.5
Total with LTVs	133,872	27,768	1,268	177	163,085	30,390	21	228	233	482	—	0.8	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	—	0.8	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**	**7**
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**	**53**	**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.

By sub-sector	2021 £m	2020 £m
Investment		
Residential (1)	**4,666**	4,613
Office (2)	**2,823**	3,178
Retail (3)	**3,342**	4,273
Industrial (4)	**2,223**	2,451
Mixed/other (5)	**1,187**	2,445
	14,241	16,960
Development		
Residential (1)	**1,792**	2,818
Office (2)	**112**	149
Retail (3)	**43**	117
Industrial (4)	**56**	109
Mixed/other (5)	**22**	26
	2,025	3,219
Total (6)	**16,266**	20,179

*Not within audit scope

(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 94% (2020 – 99%) of the total exposure relates to the UK.

Credit risk – Banking activities continued
Commercial real estate (audited)
CRE LTV distribution by stage

The table below shows CRE current exposure and related ECL by LTV band.

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	**5,721**	**367**	**34**	**268**	**6,390**	**3**	**7**	**9**	**19**	**0.1**	**1.9**	**26.5**	**0.3**
>50% and ≤70%	**3,923**	**360**	**46**	**469**	**4,798**	**3**	**5**	**20**	**28**	**0.1**	**1.4**	**43.5**	**0.6**
>70% and ≤100%	**291**	**99**	**76**	**9**	**475**	**—**	**1**	**21**	**22**	**—**	**1.0**	**27.6**	**4.6**
>100%	**214**	**7**	**37**	**4**	**262**	**—**	**2**	**26**	**28**	**—**	**28.6**	**70.3**	**10.7**
Total with LTVs	**10,149**	**833**	**193**	**750**	**11,925**	**6**	**15**	**76**	**97**	**0.1**	**1.8**	**39.4**	**0.8**
Total portfolio average LTV %	**49%**	**54%**	**81%**	**1**	**50%**								
Other (5)	**1,977**	**283**	**53**	**2**	**2,315**	**3**	**12**	**23**	**38**	**0.2**	**4.2**	**43.4**	**1.6**
Development (6)	**1,672**	**218**	**60**	**76**	**2,026**	**3**	**6**	**32**	**41**	**0.2**	**2.8**	**53.3**	**2.0**
Total	**13,798**	**1,334**	**306**	**828**	**16,266**	**12**	**33**	**131**	**176**	**0.1**	**2.5**	**42.8**	**1.1**
2020													
≤50%	4,339	3,792	138	—	8,269	42	119	24	185	1.0	3.1	17.4	2.2
>50% and ≤70%	2,690	2,973	211	—	5,874	31	101	61	193	1.2	3.4	28.9	3.3
>70% and ≤100%	132	174	116	—	422	2	13	50	65	1.5	7.5	43.1	15.4
>100%	51	62	182	—	295	—	6	86	92	—	9.7	47.3	31.2
Total with LTVs	7,212	7,001	647	—	14,860	75	239	221	535	1.0	3.4	34.2	3.6
Total portfolio average LTV %	46%	47%	86%	—	48%								
Other (5)	1,538	383	150	29	2,100	5	32	89	126	0.3	8.4	59.3	6.1
Development (6)	1,337	1,717	159	6	3,219	14	55	69	138	1.0	3.2	43.4	4.3
Total	10,087	9,101	956	35	20,179	94	326	379	799	0.9	3.6	39.6	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 NWH 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 – NWH 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. NWH 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
NWH Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2021	383,902	493	77,922	2,958	6,144	2,406	467,968	5,857
Currency translation and other adjustments	(2,666)	(1)	(206)	(6)	51	(77)	(2,821)	(84)
Inter-Group transfers	105	—	—	—	—	—	105	—
Transfers from Stage 1 to Stage 2	(33,541)	(156)	33,541	156	—	—	—	—
Transfers from Stage 2 to Stage 1	58,607	1,280	(58,607)	(1,280)	—	—	—	—
Transfers to Stage 3	(364)	(2)	(2,554)	(280)	2,918	282	—	—
Transfers from Stage 3	213	20	1,299	186	(1,512)	(206)	—	—
Net re-measurement of ECL on stage transfer		(1,081)		863		306		88
Changes in risk parameters		(321)		(545)		245		(621)
Other changes in net exposure	74,992	80	(15,080)	(480)	(1,686)	(146)	58,226	(546)
Other (P&L only items)		(1)		2		(113)		(112)
Income statement (releases)/charges		(1,323)		(160)		292		(1,191)
Transfers to disposal groups	(7,954)	(24)	(1,511)	(120)	(113)	(22)	(9,578)	(166)
Amounts written-off	—	—	(1)	(1)	(780)	(780)	(781)	(781)
Unwinding of discount		—		—		(80)		(80)
At 31 December 2021	473,294	288	34,803	1,451	5,022	1,928	513,119	3,667
Net carrying amount	473,006		33,352		3,094		509,452	
At 1 January 2020	362,086	308	27,794	742	6,817	2,565	396,697	3,615
2020 movements	21,816	185	50,128	2,216	(673)	(159)	71,271	2,242
At 31 December 2020	383,902	493	77,922	2,958	6,144	2,406	467,968	5,857
Net carrying amount	383,409		74,964		3,738		462,111	

Credit risk – Banking activities continued

Flow statements (audited)

Retail Banking - 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	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)

Retail Banking - credit cards	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2021	2,250	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 consistent with the 2020 year end. In line with industry trends in the UK, credit card balances decreased during the first half of the year but then increased as lockdown restrictions eased and borrowing demand increased.
- With various customer support schemes available and the improved economic outlook, Stage 3 inflows remained subdued and therefore Stage 3 ECL movement was minimal.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

Retail Banking - other personal unsecured	Stage 1 Financial assets £m	Stage 1 ECL £m	Stage 2 Financial assets £m	Stage 2 ECL £m	Stage 3 Financial assets £m	Stage 3 ECL £m	Total Financial assets £m	Total ECL £m
At 1 January 2021	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.

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	427	28,767	881
Currency translation and other adjustments	(10)	1	(2)	(1)	(1)	(25)	(13)	(25)
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	25,555	31	2,217	28	895	305	28,667	364
2020 movements	(8,286)	59	8,163	336	223	122	100	517
At 31 December 2020	17,269	90	10,380	364	1,118	427	28,767	881
Net carrying amount	17,179		10,016		691		27,886	

- 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
- 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)

Commercial Banking - other	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	39,279	139	25,982	1,204	1,249	469	66,510	1,812
Currency translation and other adjustments	(262)	—	(71)	—	77	20	(256)	20
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	53,723	93	8,789	143	1,387	518	63,899	754
2020 movements	(14,444)	46	17,193	1,061	(138)	(49)	2,611	1,058
At 31 December 2020	39,279	139	25,982	1,204	1,249	469	66,510	1,812
Net carrying amount	39,140		24,778		780		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)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Ulster Bank RoI - mortgages	£m	£m	£m	£m	£m	£m	£m	£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.

	UK mortgages		RoI mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal										
Currently >30 DPD	**371**	**9**	**38**	**3**	**11**	**6**	**48**	**13**	**468**	**31**
Currently <=30 DPD	**10,574**	**148**	**515**	**14**	**922**	**138**	**1,895**	**282**	**13,906**	**582**
- PD deterioration	***2,399***	***56***	***58***	***4***	***549***	***99***	***970***	***170***	***3,976***	***329***
- PD persistence	***3,088***	***38***	***21***	***1***	***270***	***23***	***770***	***91***	***4,149***	***153***
- Other driver (adverse credit, forbearance etc)	***5,087***	***54***	***436***	***9***	***103***	***16***	***155***	***21***	***5,781***	***100***
Total Stage 2	**10,945**	**157**	**553**	**17**	**933**	**144**	**1,943**	**295**	**14,374**	**613**
2020										
Personal										
Currently >30 DPD	399	18	109	11	10	5	73	27	591	61
Currently <=30 DPD	27,459	210	1,559	80	1,365	219	3,329	425	33,712	934
- PD deterioration	*13,135*	*163*	*664*	*42*	*901*	*167*	*2,242*	*351*	*16,942*	*723*
- PD persistence	*9,977*	*23*	*46*	*2*	*350*	*32*	*966*	*57*	*11,339*	*114*
- Other driver (adverse credit, forbearance etc)	*4,347*	*24*	*849*	*36*	*114*	*20*	*121*	*17*	*5,431*	*97*
Total Stage 2	27,858	228	1,668	91	1,375	224	3,402	452	34,303	995

- 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.

	Property		Corporate		Financial institutions		Sovereign		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently >30 DPD	**223**	**3**	**388**	**8**	**1**	**—**	**—**	**—**	**612**	**11**
Currently <=30 DPD	**2,623**	**91**	**15,013**	**699**	**614**	**37**	**121**	**1**	**18,371**	**828**
- PD deterioration	***796***	***49***	***10,262***	***545***	***529***	***35***	***84***	***1***	***11,671***	***630***
- PD persistence	***138***	***8***	***552***	***32***	***6***	***—***	***1***	***—***	***697***	***40***
- Other driver (forbearance, RoCL etc)	***1,689***	***34***	***4,199***	***122***	***79***	***2***	***36***	***—***	***6,003***	***158***
Total Stage 2	**2,846**	**94**	**15,401**	**707**	**615**	**37**	**121**	**1**	**18,983**	**839**
2020										
Wholesale										
Currently >30 DPD	131	5	214	27	1	—	—	—	346	32
Currently <=30 DPD	11,560	445	27,184	1,444	1,579	42	137	—	40,460	1,931
- PD deterioration	*10,489*	*394*	*22,981*	*1,216*	*1,465*	*39*	*98*	—	*35,033*	*1,649*
- PD persistence	*162*	*5*	*623*	*20*	*7*	—	—	—	*792*	*25*
- Other driver (forbearance, RoCL etc)	*909*	*46*	*3,580*	*208*	*107*	*3*	*39*	—	*4,635*	*257*
Total Stage 2	11,691	450	27,398	1,471	1,580	42	137	—	40,806	1,963

- 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.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		RoI mortgages		Credit cards		Other		Total	
2021	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Personal trigger (1)										
PD movement	**2,707**	**24.7**	**83**	**15.0**	**560**	**60.0**	**1,008**	**51.9**	**4,358**	**30.3**
PD persistence	**3,103**	**28.4**	**21**	**3.8**	**270**	**28.9**	**771**	**39.7**	**4,165**	**29.0**
Adverse credit bureau recorded with credit reference agency	**3,657**	**33.4**	**—**	**—**	**60**	**6.4**	**73**	**3.8**	**3,790**	**26.4**
Forbearance support provided	**173**	**1.6**	**6**	**1.1**	**2**	**0.2**	**27**	**1.4**	**208**	**1.5**
Customers in collections	**82**	**0.7**	**33**	**6.0**	**3**	**0.3**	**15**	**0.8**	**133**	**0.9**
Collective SICR and other reasons (2)	**1,181**	**10.8**	**409**	**74.0**	**38**	**4.1**	**45**	**2.3**	**1,673**	**11.6**
Days past due >30	**42**	**0.4**	**1**	**0.2**	**—**	**—**	**4**	**0.2**	**47**	**0.3**
	10,945	**100**	**553**	**100**	**933**	**100**	**1,943**	**100**	**14,374**	**100**
2020										
Personal trigger (1)										
PD movement	13,520	48.6	752	45.1	911	66.2	2,310	67.9	17,493	51.1
PD persistence	9,977	35.8	46	2.8	350	25.5	968	28.5	11,341	33.1
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	135	0.5	7	0.4	1	0.1	8	0.2	151	0.4
Customers in collections	130	0.5	30	1.8	2	0.1	14	0.4	176	0.5
Collective SICR and other reasons (2)	1,151	4.1	831	49.8	60	4.4	55	1.6	2,097	6.1
Days past due >30	9	—	2	0.1	—	—	1	—	12	—
	27,858	100	1,668	100	1,375	100	3,402	100	34,303	100

- The improved economic outlook, including a more optimistic forecast for unemployment, resulted in decreased account level IFRS 9 PDs. Consequently, compared to 2020, a smaller proportion of accounts exhibited significant PD deterioration at 31 December 2021.
- Since the 2020 year end, large populations of Stage 2 were migrated into Stage 1 reflecting continued reductions in PDs as a result of the improved economic outlook alongside stable portfolio performance during the year.
- However, a subset of customers who had accessed payment holiday support, and where their risk profile was identified as relatively high risk, were collectively migrated into Stage 2. In Retail Banking (primarily mortgages), approximately £0.8 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.

	Property		Corporate		Financial institutions		Sovereign		Total	
2021	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Wholesale trigger (1)										
PD movement	**842**	**29.6**	**10,423**	**67.7**	**529**	**86.0**	**84**	**69.4**	**11,878**	**62.6**
PD persistence	**139**	**4.9**	**553**	**3.6**	**6**	**1.0**	**1**	**0.8**	**699**	**3.7**
Risk of Credit Loss	**915**	**32.2**	**2,615**	**17.0**	**56**	**9.1**	**34**	**28.1**	**3,620**	**19.1**
Forbearance support provided	**98**	**3.4**	**477**	**3.1**	**5**	**0.8**	**—**	**—**	**580**	**3.1**
Customers in collections	**27**	**1.0**	**88**	**0.6**	**1**	**0.2**	**—**	**—**	**116**	**0.6**
Collective SICR and other reasons (2)	**673**	**23.7**	**1,140**	**7.4**	**18**	**2.9**	**2**	**1.7**	**1,833**	**9.7**
Days past due >30	**152**	**5.3**	**105**	**0.7**	**—**	**—**	**—**	**—**	**257**	**1.4**
	2,846	**100**	**15,401**	**100**	**615**	**100**	**121**	**100**	**18,983**	**100**
2020										
Wholesale trigger (1)										
PD movement	10,567	90.3	23,115	84.2	1,466	92.8	97	70.8	35,245	86.4
PD persistence	162	1.4	624	2.3	7	0.4	—	—	793	1.9
Risk of Credit Loss	357	3.1	2,098	7.7	54	3.4	40	29.2	2,549	6.2
Forbearance support provided	72	0.6	126	0.5	3	0.2	—	—	201	0.5
Customers in collections	30	0.3	115	0.4	1	0.1	—	—	146	0.4
Collective SICR and other reasons (2)	453	3.9	1,247	4.6	49	3.1	—	—	1,749	4.3
Days past due >30	50	0.4	73	0.3	—	—	—	—	123	0.3
	11,691	100	27,398	100	1,580	100	137	100	40,806	100

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

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

Capital, liquidity and funding risk

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

Definitions (audited)

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

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

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

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base. Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:
- Maturity profile;
- Composition of sources and uses of funding;
- The quality and size of the liquidity portfolio;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Sources of risk (audited)

Capital

The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses on either a going or gone concern basis, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:
- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 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 NWH Ltd to NatWest Group plc may be used to cover certain gone concern capital requirements which, is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWH Group has failed, or is likely to fail.

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

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

Funding

NWH Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NWH 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, refer to the NWH Group Pillar 3 Report 2021 on page 8. For MREL refer to page 10.

Managing capital requirements: regulated entities

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

Capital, liquidity and funding risk continued

Capital management

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

Capital management is critical in supporting NWH Group, and is enacted through an end to end framework across the consolidated NWH Group. The individual banking subsidiaries of NWH Group are subject to the same principles, processes and management as NWH 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 NWH Group's wider annual budgeting process and is assessed and updated at least monthly. These 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 14 and 15.

Produce capital plans	– Capital plans are produced for NWH 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 NWH 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 NWH Group including from businesses.
Inform capital actions	– Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions. – Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. – As part of capital planning, NatWest Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

NWH Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses. The principal levels at which liquidity risk is managed are:

- NatWest Holdings Group
- UK DoLSub
- UBIDAC

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

NWH Group 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 NWH Group's liquidity risk appetite. NWH 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.

UBIDAC holds 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

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

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

Capital, liquidity and funding risk continued

Key points

CET1 Ratio

2021	15.9%
2020	17.5%

The CET1 ratio decreased 160 basis points over the period, due to a £4.0 billion decrease in CET1 capital and a £11.3 billion decrease in RWAs. The CET1 capital decrease reflects the attributable profit in the period of £3.2 billion, offset by the following items:

- dividends paid of £3.5 billion;
- foreseeable charges and pension contributions of £2.2 billion;
- a decrease in the IFRS 9 transition adjustment of £1.1 billion; and
- other reserve movements.

RWA

2021	£124.1bn
2020	£135.3bn

Total RWAs decreased by £11.3 billion reflecting a decrease in credit risk RWAs of £10.2 billion and a reduction in operational risk of £0.9 billion following the annual recalculation in Q1 2021. The credit risk decrease mainly reflects:

- repayments and expired facilities in Commercial Banking in addition to improved risk metrics within Commercial Banking and Ulster RoI franchises.
- additional decreases within Ulster Bank RoI due to repayments and facility maturities.
- a £0.8 billion reduction as a result of the CRR COVID-19 amendment for the infrastructure supporting factor.

Leverage

2021	4.1%
2020	5.3%

CRR leverage ratio decreased by c.120 basis points driven by a £4.1 billion decrease in Tier 1 capital.

Liquidity portfolio

2021	£242.0bn
2020	£218.3bn

The liquidity portfolio increased to £242.0 billion, with primary liquidity increasing by £37.9 billion to £164.4 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 decrease in secondary liquidity is due to a reduction in the pre-positioned collateral at the Bank of England following TFSME drawdown during the year.

Liquidity Coverage Ratio

2021	171%
2020	153%

The Liquidity Coverage Ratio (LCR) increased to 171% 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 which outstripped growth in customer lending during the year.

NSFR

2021	155%
2020	145%

The net stable funding ratio (NSFR) for FY 2021 was 155% compared to 145% in prior year. The increase is mainly due to deposits growth.

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

NWH Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the consolidated Group is expected to meet. Different minimum capital requirements may apply to individual legal entities or sub-groups.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirement	4.5%	6.0%	8.0%
Pillar 2A requirement (1)	1.7%	2.2%	3.0%
Minimum Capital Requirement	6.2%	8.2%	11.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical buffer (2)	—	—	—
O-SII buffer	1.5%	1.5%	1.5%
Total (excluding PRA buffer) (3)	10.2%	12.2%	15.0%

(1) Additional capital requirements under Pillar 2A 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.
(2) In response to COVID-19, many countries announced reductions in 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.
(3) NWH Group may be subject to a non-disclosable PRA buffer requirement as set by the PRA. The PRA buffer consists of four components:
  (a) A risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements. The scalar could extend up to 40%.
  (b) A buffer to cover stress risks informed by the results of the BoE concurrent stress testing results.
  (c) Any buffer applicable on an entity established outside the UK that exceeds that entity's share of the buffer applicable at the consolidated group level to cover the same risk.
  (d) The temporary PRA buffer applied following the reduction of the UK CCyB rate to 0%. Expectation is that this will be removed once the UK CCyB is reinstated.

Leverage ratios

The table below summarises the minimum ratios of capital to leverage exposure under the binding PRA UK leverage framework applicable for NatWest Holdings.

Type	CET1	Total Tier 1
Minimum capital requirements	2.4375%	3.2500%
Countercyclical leverage ratio buffer (1)	—	—
O-SII Additional leverage ratio buffer (2)	0.5250%	0.5250%
Total	2.9625%	3.7750%

(1) The countercyclical leverage ratio buffer is set at 35% of NWH Group's CCyB. Footnote 1 of the Capital adequacy ratio table above provides more information on the CcyB.
(2) The PRA minimum leverage ratio requirement is supplemented with a O-SII additional leverage ratio buffer of 0.525%.
(3) Following the publication of the new UK leverage framework 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 NSFR minimum requirement of 100% will be effective from January 2022.

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

The table below sets out the key capital and leverage ratios on a PRA transitional basis. Refer to Note 25 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

Capital (1)	2021 £m	2020 £m
CET1	**19,715**	23,743
Tier 1	**23,397**	27,477
Total	**28,541**	32,750
RWAs		
Credit risk	**105,233**	115,398
Counterparty credit risk	**705**	961
Market risk	**203**	106
Operational risk	**17,935**	18,866
Total RWAs	**124,076**	135,331
Capital adequacy ratios	**%**	%
CET1	**15.9**	17.5
Tier 1	**18.9**	20.3
Total	**23.0**	24.2
Leverage		
Tier 1 capital (£m)	**23,397**	27,477
Leverage exposure (£m)	**566,064**	521,600
Leverage ratio (%) (1)	**4.1**	5.3

(1) Includes an IFRS 9 transitional adjustment of £0.6 billion (2020 - £1.7 billion). Excluding this adjustment, the CET1 ratio would be 15.4% (2020 – 16.3%) and the leverage ratio would be 4.0% (2020 – 5.0%). The amended article for the prudential treatment of software assets was implemented in December 2020. Excluding this adjustment, the CET1 ratio would be 15.6% (2020 – 17.3%) and the leverage ratio would be 4.1% (2020 – 5.2%).

Liquidity key metrics

The table below sets out the key liquidity and related metrics monitored by NWH Group.

	NWH Group	
	2021	2020
Liquidity coverage ratio (1)	**171%**	153%
Stressed outflow coverage (2)	**198%**	180%
Net stable funding ratio (3)	**155%**	145%

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

Capital, liquidity and funding risk continued

Leverage exposure

The leverage exposure is based on the CRR delegated act.

Leverage	2021 £m	2020 £m
Cash and balances at central banks	143,892	95,187
Derivatives	1,980	3,116
Financial assets	373,277	385,352
Other assets	12,959	12,928
Assets of disposal groups	9,015	—
Total assets	541,123	496,583
Derivatives		
- netting and variation margin	(3,017)	(4,109)
- potential future exposures	1,169	1,112
Securities financing transactions gross up	146	191
Undrawn commitments	32,914	33,670
Regulatory deductions and other adjustments	(6,271)	(5,847)
Exclusion of core UK-group exposure	—	—
Leverage exposure	566,064	521,600

Liquidity portfolio (audited)

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

	2021		2020	
	UK DoLSub (1) £m	NWH Group (2) £m	UK DoLSub £m	NWH Group £m
Cash and balances at central banks (3)	136,154	140,562	86,575	86,575
AAA to AA- rated governments	21,123	21,710	35,875	37,086
A+ and lower rated governments	—	—	—	—
Government guaranteed issuers, PSEs and GSEs	174	295	141	272
International organisations and MDBs	1,466	1,807	2,154	2,579
Level 1 bonds	22,763	23,812	38,170	39,937
LCR level 1 eligible assets	158,917	164,374	124,745	126,512
LCR level 2 eligible assets	—	—	—	—
Non-LCR eligible assets	—	—	—	—
Primary liquidity	158,917	164,374	124,745	126,512
Secondary liquidity (4)	76,573	77,660	88,774	91,761
Total liquidity value	235,490	242,034	213,519	218,273

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

Capital, liquidity and funding risk continued

Funding sources (audited)

	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	7,390	—	7,390	6,270	—	6,270
Other bank deposits	4,815	12,000	16,815	4,753	7,777	12,530
	12,205	12,000	24,205	11,023	7,777	18,800
Customer deposits						
Repos	14,541	—	14,541	5,167	—	5,167
Personal	223,343	828	224,171	200,879	1,182	202,061
Corporate	164,622	20	164,642	156,158	62	156,220
Non-bank financial institutions	36,610	51	36,661	34,277	116	34,393
	439,116	899	440,015	396,481	1,360	397,841
Other financial liabilities (1)						
Debt securities in issue						
Commercial papers and certificates of deposit	3,399	—	3,399	3,291	—	3,291
Covered bonds	53	2,833	2,886	53	2,967	3,020
Securitisations	—	867	867	—	1,015	1,015
	3,452	3,700	7,152	3,344	3,982	7,326
Subordinated liabilities	89	195	284	322	994	1,316
Amounts due to holding company and fellow subsidiaries (2)						
Bank and customer deposits	9,503	—	9,503	6,742	—	6,742
CRR-compliant internal MREL	427	10,903	11,330	84	8,886	8,970
Subordinated liabilities	19	4,609	4,628	24	4,925	4,949
	9,949	15,512	25,461	6,850	13,811	20,661
Total funding	464,811	32,306	497,117	418,020	27,924	445,944
Of which: available in resolution (3)			*16,030*			*14,886*

(1) Excludes settlement balances of £1 million (2020 – £3,297 million) and derivative cash collateral of £99 million (2020 – £3 million).
(2) Amounts due to holding companies and fellow subsidiaries relate to non-financial instruments of £87 million (2020 – £1 million) have been excluded from the table.
(3) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in June 2018.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										
2021	Less than 1 month £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	MFVTPL and HFT £m	Total £m
Cash and balances at central banks	143,892	—	—	—	143,892	—	—	—	143,892	—	143,892
Derivatives	3	21	52	61	137	108	60	19	324	1,656	1,980
Loans to banks - amortised cost	3,599	183	1,614	6	5,402	9	—	—	5,411	—	5,411
Loans to customers - amortised cost (1)	43,442	21,286	15,119	16,822	96,669	46,059	34,953	161,957	339,638	—	339,638
Personal	4,241	2,400	3,383	6,416	16,440	23,383	21,348	143,157	204,328	—	204,328
Corporate	28,355	9,955	4,949	6,499	49,758	22,320	13,195	18,402	103,675	—	103,675
NBFI	10,846	8,931	6,787	3,907	30,471	356	410	398	31,635	—	31,635
Other financial assets	824	1,128	560	2,424	4,936	6,005	6,434	13,523	30,898	288	31,186
Total financial assets	191,760	22,618	17,345	19,313	251,036	52,181	41,447	175,499	520,163	1,944	522,107
2020											
Total financial assets	130,777	17,934	18,118	21,354	188,183	62,745	49,274	185,103	485,305	2,943	488,248
2021											
Bank deposits excluding repos	4,721	94	—	—	4,815	—	12,000	—	16,815	—	16,815
Bank repos	5,929	1,461	—	—	7,390	—	—	—	7,390	—	7,390
Customer repos	3,532	11,009	—	—	14,541	—	—	—	14,541	—	14,541
Customer deposits excluding repos	414,440	5,917	2,293	1,925	424,575	879	4	16	425,474	—	425,474
Personal	219,155	1,315	1,652	1,221	223,343	828	—	—	224,171	—	224,171
Corporate	159,978	3,498	577	569	164,622	—	4	16	164,642	—	164,642
NBFI	35,307	1,104	64	135	36,610	51	—	—	36,661	—	36,661
Derivatives	1	(1)	(5)	6	1	34	14	13	62	3,990	4,052
Other financial liabilities	841	1,442	1,019	151	3,453	2,833	289	578	7,153	99	7,252
CPs and CDs	790	1,442	1,016	151	3,399	—	—	—	3,399	—	3,399
Covered bonds	50	—	3	—	53	2,833	—	—	2,886	—	2,886
Securitisations	—	—	—	—	—	—	289	578	867	—	867
Bank deposits	—	—	—	—	—	—	—	—	—	66	66
Customer deposits	—	—	—	—	—	—	—	—	—	33	33
Settlement balances	1	—	—	—	1	—	—	—	1	—	1
Subordinated liabilities	—	—	2	87	89	—	—	195	284	—	284
Notes in circulation	3,047	—	—	—	3,047	—	—	—	3,047	—	3,047
Lease liabilities	25	45	67	83	220	199	151	602	1,172	—	1,172
Total financial liabilities	432,536	19,967	3,376	2,252	458,131	3,945	12,458	1,404	475,938	4,089	480,027
2020											
Total financial liabilities	399,423	8,844	5,802	3,226	417,295	5,210	7,762	2,611	432,878	5,981	438,859

(1) Loans to customers excludes £3,561 million (2020 – £5,678 million) of impairment provision.

Capital, liquidity and funding risk continued

Encumbrance (audited)

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

NWH 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 requirement, where NWH Group has in place an operational continuity in resolution (OCIR) investment mandate wherein 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, NWH Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned & encumbered	Collateral ring - fenced	Unencumbered assets not pre-positioned with central banks				
2021	Covered bonds and securitisations (1) £bn	SFT, derivatives & similar (2) £bn	Total (3) £bn	assets held at central banks (4) £bn	to meet reg requirement (5) £bn	Readily available (6) £bn	Other available (7) £bn	Cannot be used (8) £bn	Total £bn	Total third party (9) £bn
Cash and balances at central banks	—	5.1	5.1	—	—	138.8	—	—	138.8	143.9
Derivatives	—	—	—	—	—	—	—	2.0	2.0	2.0
Loans to banks - amortised cost	—	0.1	0.1	—	—	4.9	0.2	0.2	5.3	5.4
Loans to customers - amortised cost	9.5	1.8	11.3	122.4	—	57.2	97.2	48.0	202.4	336.1
- residential mortgages										
- UK	8.3	—	8.3	119.7	—	44.4	11.8	—	56.2	184.2
- 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	—	—	—	—	—	4.9	2.4	1.4	8.7	8.7
- other	—	1.8	1.8	—	—	2.4	82.6	46.6	131.6	133.4
Other financial assets	—	13.5	13.5	—	2.0	15.0	0.3	0.4	15.7	31.2
Intangible assets	—	—	—	—	—	—	—	6.4	6.4	6.4
Other assets	—	—	—	—	—	—	1.9	4.6	6.5	6.5
Assets of disposal groups	0.1	—	0.1	3.8	—	1.9	3.2	—	5.1	9.0
Total assets	9.6	20.5	30.1	126.2	2.0	217.8	102.8	61.6	382.2	540.5
Amounts due from holding company and fellow subsidiaries										0.6
										541.1
2020										
Total assets	12.0	19.1	31.1	134.0	2.1	159.9	106.5	61.8	328.2	495.4
Amounts due from holding company and fellow subsidiaries										1.1
										496.5

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

Non-traded market risk

Definition (audited)

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

Sources of risk (audited)

The key sources of non-traded market risk are: interest rate risk; credit spread risk; foreign exchange risk; and accounting volatility risk. Equity risk at NWH Group level is not material. Each of these risk types are largely managed separately.

Governance, appetite and controls

For general information on risk governance, appetite and controls in NWH Group, refer to pages 12 to 15. Further information specific to non-traded market risk management, including key developments in 2021, can be found in the Non-traded market risk section of the NatWest Group Annual Report and Accounts.

Measurement (audited)

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

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

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. For further information on non-traded VaR metrics, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

	2021				2020			
	Average £m	Maximum £m	Minimum £m	Period-end £m	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	7.7	10.0	5.0	6.9	9.6	14.4	5.8	6.7
Credit spread	81.0	90.1	74.6	79.8	96.0	113.7	60.7	94.4
Structural foreign exchange rate	14.3	16.2	12.3	15.0	14.1	16.5	8.4	15.0
Equity	0.9	1.1	0.5	1.1	—	—	—	—
Pipeline risk (1)	0.5	1.2	0.3	1.2	0.5	0.7	0.3	0.3
Diversification (2)	(3.9)			(30.6)	(0.2)			3.7
Total	100.5	118.6	73.4	73.4	120.0	139.6	64.9	120.1

(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) NWH Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

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

Non-traded market risk continued

Interest rate risk

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

NTIRR comprises three primary risk types: gap risk, basis risk and option risk. For further information on the types and sources of non-traded interest rate risk as well as on the purpose and methodology of the structural hedging carried out, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

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

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. NWH Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach. Further detail on these measurement approaches can also be found in the non-traded market risk section of the NatWest Group Annual Report and Accounts.

Structural hedging

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

At 31 December 2021, NWH Group's structural hedge had a notional of £198 billion with an average life of approximately three years.

Over 90% of the £1.4 billion income allocated to structural hedges at NatWest Group level was allocated to NWH Group.

Sensitivity of net interest earnings

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

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

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

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

	2021			2020		
	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m	+25 basis points £m	-25 basis points with floor at 0% £m	+100 basis points £m
Shifts in yield curve	269	(263)	1,013	333	(50)	1,119

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

Non-traded market risk continued

Sensitivity of fair value through other comprehensive income (FVOCI) and cash flow hedging reserves to interest rate movements

NWH 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 main driver of NWH Group's cash flow hedge reserve sensitivity is the interest rate swaps that form part of the structural hedge.

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. For further information on the assumptions and methodology relating to this table, refer to the corresponding table in the NatWest Group Annual Report and Accounts.

	2021				2020			
	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	**(37)**	**36**	**(152)**	**139**	(42)	40	(175)	149
Cash flow hedge reserves	**(148)**	**151**	**(577)**	**619**	(63)	65	(244)	270
Total	**(185)**	**187**	**(729)**	**758**	(105)	105	(419)	419

- The main driver of the increase in NWH 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.

Credit spread VaR is presented in the non-traded VaR table above. For further information on the nature of this risk and how it is managed, refer to the NatWest Group Annual Report and Accounts.

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 – NWH Group hedges forward some forecast foreign currency expenses.

For further information on the nature of these risks and how they are managed, refer to the NatWest Group Annual Report and Accounts.

Foreign exchange risk (audited)

The table below shows structural foreign currency exposures.

	2021			2020		
	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m
Euro	3,749	(1,721)	2,028	4,069	(593)	3,476
Other non-sterling	449	(160)	289	437	(129)	308
Total	4,198	(1,881)	2,317	4,506	(722)	3,784

(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 significantly reflected sterling strengthening against the euro.
- The increase in net investment hedges was mainly due to increased hedging of UBIDAC and NatWest Bank Plc's investment in its Frankfurt branch.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.1 billion in equity respectively.

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement. For further information on how this risk is managed, refer to the NatWest Group Annual Report and Accounts.

Pension risk

Definition

Pension risk is the risk to NWH 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 NWH 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

NWH Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc (a subsidiary of NWH Group) is the principal employer to the Main section with £52.0 billion of assets and £42.0 billion of liabilities at 31 December 2021 (2020 – £51.3 billion of assets and £43.9 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NWH 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. NWH 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, NWH 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 NWH Group's exposure to pension risk during the year, and the overall position of the main defined benefit schemes that NWH 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.
- NWH 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 NWH 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 NWH Group's overall exposure to the Scheme.
- As part of the transition of framework components to align to the requirements of the NatWest Group enterprise-wide risk management framework, an updated pension risk policy and risk appetite statement were developed in 2021.

Governance

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

For further information on governance, refer to page 12.

Risk appetite

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

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

Monitoring and measurement

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

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

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

NatWest Bank Plc (a subsidiary of NWH 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.

Key developments in 2021

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

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

Key developments in 2021

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

Governance

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

Financial crime risk continued

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. NWH 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.

NWH 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 the 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 NWH 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. NWH 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. NWH 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 NWH Group's competitiveness, profitability, or reputation damage.

Key developments in 2021

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

Governance

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

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

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

Risk appetite

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

Climate risk continued

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

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

Monitoring and measurement

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

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

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

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

Operational risk
Definition

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

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Systems failure, theft of NWH 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 NWH Group is willing to accept.
- Oversight of NWH 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 NWH Group and its supply chain continue to be closely monitored. During 2021, there was further investment in NWH 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 NWH Group data strategy, designed to identify and implement enhancements to the effective use of data across NWH Group.

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the Board approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes. Aligned to this, a strong operational risk management function is vital to support NWH 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 NWH Group is willing to accept to achieve its strategic objectives and business plans. NWH Group's operational risk appetite statement encompasses the full range of operational risks faced by its legal entities, businesses and functions.

Mitigation

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

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

Operational risk continued

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

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

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to NWH 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.

NWH 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 NWH Group's Pillar 2A capital requirement.

Scenario analysis is used to assess how severe but plausible operational risks will affect NWH 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

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

Event and loss data management

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

All financial impacts associated with an operational risk event are reported against the date they were recorded in NWH 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. NWH Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences arising from inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. NWH 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

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

Key developments in 2021

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

Governance

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

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

Risk appetite

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

Model risk continued

Risk controls

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

Risk monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWH 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 NWH Group's values and the public agenda; and contagion (when NWH Group's reputation is damaged by failures in the wider financial sector).

Key developments in 2021

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

Governance

A reputational risk policy supports reputational risk management across NWH 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 NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

NWH Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWH 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 NWH Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

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

Mitigation

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

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

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 26 to the consolidated financial statements for details of material matters currently affecting NatWest Group.

Report of the directors

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

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

NWH Group structure

NatWest Holdings Limited ('NWH Ltd') is a wholly owned subsidiary of NatWest Group plc. The term NWH Group refers to NWH Ltd and its subsidiary and associated undertakings. National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Ulster Bank Ireland DAC (UBIDAC) are wholly owned subsidiaries. The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc is incorporated in the UK and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWH Ltd's principal subsidiary undertakings and their activities are shown in Note 8 of the parent company accounts. A full list of related undertakings of NWH Ltd is shown in Note 11 of the parent company accounts.

The financial statements of NWH Ltd can be obtained from Legal, Governance and Regulatory Affairs, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies, or natwestgroup.com.

Activities

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

Results and dividends

The profit attributable to the ordinary shareholders of NWH Group for the year ended 31 December 2021 was £3,244 million compared with a profit of £46 million for the year ended 31 December 2020, as set out in the consolidated income statement on page 102.

No ordinary shares were issued during 2021 or 2020.

NWH Ltd paid an ordinary dividend of £3.5 billion NatWest Group plc (2020 – nil).

Employees

At 31 December 2021, NWH Group employed 54,800 people (excluding temporary staff). Details of related costs are included in Note 3 to the consolidated accounts.

NWB Plc employs the majority of NWH Group's UK customer-facing staff, with costs recharged. NWB Plc also provides the majority of shared services (including technology) and operational processes under intra-group agreements.

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

Corporate Governance statement

For the financial year ended 31 December 2021 NWH Ltd has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website (the Wates Principles). The disclosures below explain how NWH Ltd has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

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

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

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

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

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

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

- a presentation on the Banking Standards Board (now the Financial Services Culture Board) 2020 Survey Annual Report and its review of the embedding of purpose in NatWest Group;
- Colleague Advisory Panel reports which provided feedback on topics discussed in meetings. These included wellbeing support for colleagues, Retail Banking strategy, purpose, remuneration and the wider workforce, climate and ways of working;
- One Bank Transformation Programme spotlights on Organisation, Skills & Culture which covered new ways of working, colleague journeys, colleague experience, career development, skills and capability, learning, wellbeing and inclusion;
- Insights from the colleague opinion surveys conducted in April and September 2021. Key measures included culture, purpose, building capability, inclusion, engagement and leadership;

- a Culture Spotlight which provided an update on work to refresh the NatWest Group's values as well as an overview of cultural strengths, behavioural weaknesses, operating model and future culture;
- Culture measurement reports which included insights and metrics to allow the Board to assess culture and understand future priorities. The reports used the Blueprint for Better Business framework to report progress highlighting both positive trends and areas for improvement; and
- Board Business Insights Packs which included metrics on culture, purpose and inclusion

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

2. Board composition

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

The names of the current directors and secretary are shown on page 6.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments.

The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting NWH Ltd's position as a subsidiary within NatWest Group.

Evaluation

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

Progress following the 2020 evaluation

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

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

2021 Performance evaluation

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

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

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

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

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

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

3. Director responsibilities

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

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

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

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

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

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

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

The Board

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

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

At each scheduled Board meeting the directors receive reports from the Chairman, Board Committee Chairmen, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supports succession planning. The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

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

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

Board Committees

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

The Audit Committee comprises at least three independent non-executive directors, two of whom are DINEDs. The Committee assists the Board in discharging its responsibilities in relation to the disclosure of financial affairs. It also reviews accounting and financial reporting and regulatory compliance practices of NWH Ltd, NWH Ltd's system of standards of internal controls, and monitors NWH Ltd's processes for internal audit and external audit.

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

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

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

The Sustainable Banking Committee comprises at least three independent non-executive directors, one of whom is a DINED. It provides support to the Board in overseeing, supporting and challenging actions being taken by management to run NWH Group as a sustainable business, capable of generating long term value for its stakeholders.

Executive Committee

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

4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of NWH Ltd.

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

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

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

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

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

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

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

Further information on the NWH Ltd risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the risk and capital management section of this report (pages 10 to 81).

5. Remuneration

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

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

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area. Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

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

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

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

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

6. Stakeholder relationships and engagement

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

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

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages 4 to 5 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group 2021 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues

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

A total of 46.700 colleagues (81%) participated in the September 2021 'Our View' survey. The results show that colleague sentiment remains strong, despite the pandemic. Lead measures in culture, purpose, inclusion and building capability showed continued and sustained year-on-year improvement (+1 percentage point each). Across all 15 measured categories, NatWest Group sits an average of 11 percentage points above the Global Financial Services Norm (GFSN) and five percentage points above the Global High Performance Norm (GHPN).

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

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

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

Disability Smart

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

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

Internal control over financial reporting

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

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

Directors' interests

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

Directors' indemnities

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

Going concern
NWH 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. NWH 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 63 to 71. This section also describes NWH Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

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

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

Directors' disclosure to auditors
Each of the directors at the date of approval of this report confirms that:
(a) so far as the director is aware, there is no relevant audit information of which NWH Ltd'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 NWH Ltd'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 NWH Ltd's auditors and have indicated their willingness to continue in office.

By order of the Board

Jan Cargill
Chief Governance Officer and Company Secretary
17 February 2022

NatWest Holdings Limited
is registered in England No.10142224

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 91 to 101.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by the Companies Act 2006 to prepare company financial statements, for each financial year in accordance with UK adopted International Accounting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NWH Group and NWH Ltd. 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 NWH 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 NWH Ltd and NWH Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

17 February 2022

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

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

Financial statements

Independent auditors' report to the members of NatWest Holdings Limited

Opinion

In our opinion:

- the financial statements of NatWest Holdings Limited (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;
- 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; 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; – Risk and capital management section of the Strategic report identified as 'audited'.	– Balance sheet as at 31 December 2021; – Statement of changes in equity for the year then ended; – Cash flow statement for the year then ended; – Related Notes 1 to 11 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 and as regards to 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 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.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and 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.

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 four reporting components of the Group, we selected three components based on size and risk, which represent the principal reporting legal entities within the Group.

Component	Scope	Key locations
National Westminster Bank (NWB)	Full	United Kingdom
RBS plc	Full	United Kingdom
UBIDAC	Specific	Republic of Ireland

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	96%	4%	-	100%
Total equity	90%	10%	-	100%
Total income	99%	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 component may not have included testing of all significant accounts within the component. However, the testing will have contributed to the total coverage of significant accounts tested for the overall Group.

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

Involvement with component teams

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

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

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 £345 billion (2020: £349 billion) and £3.7 billion of expected credit losses (ECL) (2020: £5.9 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 27% 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 NatWest Holdings Limited (NWH) Group Audit Committee (1)

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

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

Relevant references in the Annual Report and Accounts

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

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

Risk	Our response to the risk
Impairment of goodwill and, in the Parent Company's accounts, investments in group undertakings	
At 31 December 2021, NatWest Holdings Ltd had reported goodwill of £5.2 billion (2020: £5.3 billion), with no goodwill held by NWB plc. The Parent Company has reported investments in group undertakings of £39.3 billion (2020: £35.3 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, etc.) including assumptions regarding the economic consequences of COVID - 19 and other political developments over an extended period; and – Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.	Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, and the significant assumptions (such as discount rate and long-term growth rate) inputs, calculations, methodologies and judgments used in the value-in-use model. This included testing controls over the selection of macroeconomic assumptions in addition to controls over the preparation and review of the revenue and cost projections. In evaluating the governance processes we reviewed the Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value-in-use model and outcomes were discussed and approved. Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions, including the continued impact of COVID-19 as at 31 December 2021, used in the Group's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were developed using peer practice, external market data and calculations performed by our valuation specialists. We also assessed changes to valuation methodology and benchmarked this against industry practice with the assistance of our valuation specialists. Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the Group's strategy including their consideration of the impact of climate change, and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We also tested the reasonableness of key performance indicators against peers with the help of our valuation specialists to assess the reasonableness of the Group's cost forecast. Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate, long-term growth rate and other key performance indicators on both the detailed forecasts and on an overall basis. Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness of assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgments and assumptions supporting 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 NWH Group Audit Committee:

– There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of COVID-19, the achievement of new strategic objectives, execution risk in the planned cost reductions, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period.
– 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 NWH's investment in RBS plc and UBIDAC, in addition they recognised a reversal in accumulated impairments in NWB 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 15 to the Group financial statements and Note 8 to the Parent Company's financial statements

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td colspan="2">Provisions for customer redress, litigation and other regulatory matters</td></tr>
<tr><td>At 31 December 2021, the Group has reported £0.9 billion (2020: £1.4 billion) of provisions for liabilities and charges, including £0.5 billion (2020: £0.7 billion) for customer redress, litigation and other regulatory matters as detailed in Note 20 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.</td><td>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.</td></tr>
</table>

Key observations communicated to the NWH Group Audit Committee

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

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

Relevant references in the Annual Report and Accounts

Accounting policies
Note 20 and 26 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 £51 million (2020: £222 million) comprising £99 million of schemes in surplus and £48 million of schemes in deficit (2020: £279 million and £57 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 NWH Group Audit Committee

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

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

Relevant references in the Annual Report and Accounts

Accounting policies
Note 5 to the financial statements

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

Key observations communicated to the NWH Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the NWH 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 £153 million (2020: £160 million), which is 5% (2020: 5%) of the profit before tax of the Group of £4,394 million (2020: profit before tax of the Group including discontinued operations of £471 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 £153 million (2020: £160 million) which is 0.4% (2020: 0.5%) 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 £115 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 £74 million to £103 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 NWH 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, Report of the directors, and Statement of directors' responsibilities, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and 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 are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

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

In preparing the financial statements, the directors are responsible for assessing the Group and 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); and Companies Act 2006.
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, the impact of remote working, implementation of new government supported lending products, and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 25 April 2019 to audit the financial statements of the Group for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering periods from our appointment through 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

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

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
Interest receivable		**8,565**	8,948
Interest payable		**(1,186)**	(1,659)
Net interest income	1	**7,379**	7,289
Fees and commissions receivable		**2,330**	2,201
Fees and commissions payable		**(479)**	(379)
Other operating income		**869**	791
Non-interest income	2	**2,720**	2,613
Total income		**10,099**	9,902
Staff costs		**(3,060)**	(3,071)
Premises and equipment		**(998)**	(1,079)
Other administrative expenses		**(1,937)**	(1,554)
Depreciation and amortisation		**(901)**	(874)
Operating expenses	3	**(6,896)**	(6,578)
Profit before impairment releases/(losses)		**3,203**	3,324
Impairment releases/(losses)	13	**1,191**	(2,983)
Operating profit before tax		**4,394**	341
Tax charge	7	**(1,208)**	(135)
Profit from continuing operations		**3,186**	206
Profit from discontinued operations, net of tax (2)		**276**	121
Profit for the year		**3,462**	327
Attributable to:			
Ordinary shareholders		**3,244**	46
Paid-in equity holders		**213**	277
Non-controlling interests		**5**	4
		3,462	327

(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 114 to 164, the accounting policies on pages 108 to 113 and the audited sections of the Financial review and Risk and capital management on pages 7 to 81 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2021

	2021 £m	2020 £m
Profit for the year	**3,462**	327
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	**(723)**	(3)
FVOCI financial assets	**—**	2
Tax	**181**	27
	(542)	26
Items that do qualify for reclassification		
FVOCI financial assets	**(105)**	56
Cash flow hedges	**(603)**	249
Currency translation	**(227)**	205
Tax	**168**	(77)
	(767)	433
Other comprehensive (loss)/income after tax	**(1,309)**	459
Total comprehensive income for the year	**2,153**	786
Attributable to:		
Ordinary shareholders	**1,935**	505
Paid-in equity holders	**213**	277
Non-controlling interests	**5**	4
	2,153	786

The accompanying notes on pages 114 to 164, the accounting policies on pages 108 to 113 and the audited sections of the Financial review and Risk and capital management on pages 7 to 81 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	9	**143,892**	95,187
Derivatives	12	**1,980**	3,116
Loans to banks - amortised cost	9	**5,411**	4,707
Loans to customers - amortised cost	9	**336,077**	338,827
Amounts due from holding company and fellow subsidiaries	9	**603**	1,085
Securities subject to repurchase agreements		**11,069**	11,438
Other financial assets excluding securities subject to repurchase agreements		**20,117**	29,295
Other financial assets	14	**31,186**	40,733
Intangible assets	15	**6,395**	6,341
Other assets	16	**6,564**	6,587
Assets of disposal groups		**9,015**	—
Total assets		**541,123**	496,583
Liabilities			
Bank deposits	9	**24,205**	18,800
Customer deposits	9	**440,015**	397,841
Amounts due to holding company and fellow subsidiaries	9	**25,548**	20,662
Derivatives	12	**4,052**	6,032
Other financial liabilities	18	**7,252**	10,626
Subordinated liabilities	19	**284**	1,316
Notes in circulation		**3,047**	2,655
Other liabilities	20	**4,965**	5,385
Total liabilities		**509,368**	463,317
Owners' equity	21	**31,745**	33,256
Non-controlling interests		**10**	10
Total equity		**31,755**	33,266
Total liabilities and equity		**541,123**	496,583

The accompanying notes on pages 114 to 164, the accounting policies on pages 108 to 113 and the audited sections of the Financial review and Risk and capital management on pages 7 to 81 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 17 February 2022 and signed on its behalf by:

Howard Davies Chairman	Alison Rose-Slade Chief Executive Officer	Katie Murray Chief Financial Officer	NatWest Holdings Limited Registration No. 10142224

Consolidated statement of changes in equity for the year ended 31 December 2021

	2021 £m	2020 £m
Called-up share capital - at 1 January and 31 December	**3,263**	3,263
Paid-in equity - at 1 January	**3,676**	3,676
Redemption	**(935)**	—
Securities issued during the year	**941**	—
At 31 December	**3,682**	3,676
Merger reserve - at 1 January	**(11,028)**	(10,799)
Addition	**—**	(34)
Amortisation	**(46)**	(195)
At 31 December	**(11,074)**	(11,028)
FVOCI reserve - at 1 January	**292**	253
Unrealised gains	**17**	168
Realised gains	**(123)**	(113)
Tax	**8**	(16)
At 31 December	**194**	292
Cash flow hedging reserve - at 1 January	**55**	(130)
Amount recognised in equity	**(454)**	310
Amount transferred from equity to earnings	**(149)**	(61)
Tax	**166**	(64)
At 31 December	**(382)**	55
Foreign exchange reserve - at 1 January	**24**	(185)
Retranslation of net assets	**(280)**	227
Foreign currency gains/(losses) on hedges of net assets	**53**	(21)
Tax	**(6)**	4
Recycled to profit or loss on disposal businesses	**—**	(1)
At 31 December	**(209)**	24
Capital redemtpion reserve - at 1 January	**—**	—
Redemption of preference shares	**24**	—
At 31 December	**24**	—
Retained earnings - at 1 January	**36,974**	36,673
Profit attributable to ordinary shareholders		
- continuing operations	**3,181**	202
- discontinued operations	**276**	121
Realised gains in period on FVOCI equity shares		
- gross	**1**	3
- tax	**—**	—
Ordinary dividends paid	**(3,500)**	—
Paid-in equity dividends paid	**(213)**	(277)
Remeasurement of retirement benefit schemes		
- gross	**(723)**	(3)
- tax	**181**	26
Redemption of preference share	**(24)**	—
Redemption of paid-in equity (1)	**34**	—
Shares issued under employee share schemes	**10**	(11)
Share based payments (2)	**4**	45
Amortisation of merger reserve	**46**	195
At 31 December	**36,247**	36,974
Owners' equity at 31 December	**31,745**	33,256

Consolidated statement of changes in equity for the year ended 31 December 2021 continued

	2021 £m	2020 £m
Non-controlling interests - at 1 January	**10**	6
Profit attributable to non-controlling interests	**5**	4
Dividends paid	**(5)**	—
At 31 December	**10**	10
Total equity at 31 December	**31,755**	33,266
Attributable to:		
Ordinary shareholders	**28,063**	29,580
Paid-in-equity holders	**3,682**	3,676
Non-controlling interests	**10**	10
	31,755	33,266

(1) The redemption of paid-in equity includes a tax credit of £12 million.
(2) Share based payments includes a tax credit of £7 million.

The accompanying notes on pages 114 to 164, the accounting policies on pages 108 to 113 and the audited sections of the Financial review and Risk and capital management on pages 7 to 81 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Operating profit before tax from continuing operations (1)		**4,394**	341
Operating profit before tax from discontinued operations (1)		**279**	130
Adjustments for:			
Impairment (releases)/losses		**(1,248)**	3,094
Amortisation of discounts and premiums of other financial assets		**186**	236
Depreciation and amortisation		**901**	875
Change in fair value taken to profit or loss of other financial assets		**1,595**	(1,434)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**(714)**	462
Elimination of foreign exchange differences		**2,427**	(1,069)
Other non-cash items		**(91)**	35
Income receivable on other financial assets		**(412)**	(276)
Profit on sale of other financial assets		**(123)**	(113)
Profit on sale of subsidiaries and associates		**(46)**	(4)
Profit on sale of other assets and net assets/liabilities		**(7)**	(21)
Interest payable on MRELs and subordinated liabilities		**608**	667
Loss on sale of MRELs and subordinated liabilities		**133**	—
Charges and releases on provisions		**493**	174
Defined benefit pension schemes		**202**	199
Net cash flows from trading activities		**8,577**	3,296
Decrease in derivative assets		**682**	93
Increase in loans to banks		**(132)**	(417)
Decrease/(increase) in loans to customers		**3,899**	(34,389)
(Increase)/decrease in amounts due from holding company and fellow subsidiaries		**(72)**	126
(Increase)/decrease in other financial assets		**(92)**	108
Increase in other assets		**(27)**	(31)
Increase in assets of disposal groups		**(9,015)**	—
Increase in bank deposits		**5,405**	409
Increase in customer deposits		**42,174**	62,434
Increase/(decrease) in amounts due to holding company and fellow subsidiaries		**2,847**	(62)
(Decrease)/increase in derivative liabilities		**(1,980)**	1,379
Decrease in other financial liabilities		**(248)**	(1,323)
Increase in notes in circulation		**392**	546
Decrease in other liabilities		**(1,434)**	(1,191)
Changes in operating assets and liabilities		**42,399**	27,682
Income taxes paid		**(940)**	(88)
Net cash flows from operating activities (2)		**50,036**	30,890
Cash flows from investing activities			
Sale and maturity of other financial assets		**10,759**	13,154
Purchase of securities of other financial assets		**(3,298)**	(8,704)
Income received on other financial assets		**412**	276
Net movement in business interests and intangible assets	27	**(3,501)**	(380)
Sale of property, plant and equipment		**79**	343
Purchase of property, plant and equipment		**(882)**	(356)
Net cash flows from investing activities		**3,569**	4,333
Cash flows from financing activities			
Movement in MRELs		**2,439**	953
Movement in subordinated liabilities		**(2,477)**	180
Dividends paid		**(3,713)**	(277)
Issue of paid-in equity		**941**	—
Redemption of paid-in equity		**(935)**	—
Net cash flows from financing activities		**(3,745)**	856
Effects of exchange rate changes on cash and cash equivalents		**(1,317)**	833
Net increase in cash and cash equivalents		**48,543**	36,912
Cash and cash equivalents at 1 January		**99,554**	62,642
Cash and cash equivalents at 31 December	29	**148,097**	99,554

(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 £8,752 million (2020 - £9,136 million) and interest paid of £1,130 million (2020 - £1,743 million).

The accompanying notes on pages 114 to 164, the accounting policies on pages 108 to 113 and the audited sections of the Financial review and Risk and capital management on pages 7 to 81 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

NatWest Holdings Limited (NWH Ltd) is incorporated in the UK and registered in England and Wales the financial statements are presented in the functional currency, pounds sterling.

NWH Ltd consolidated financial statements incorporate the results of NWH Ltd and the entities it controls. Control arises when NHW Ltd has the power to direct the activities of an entity so as to affect the return from the entity. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights. The consolidated financial statements are prepared under consistent accounting policies.

On the acquisition of a business from a NatWest Group company, the assets, liabilities and IFRS reserves, such as the cash flow hedging reserve, are recognised at their inherited values taken from the consolidated financial statements of NatWest Group plc and include the accounting history since initial recognition. The acquirer recognises, in merger reserve, any difference between the consideration paid and the net items recognised at inherited values.

Transactions and balances between Group companies are eliminated in the consolidated financial statements to show only those transactions and balances external to the NWH Group.

The audited financial statements are set out on pages 102 to 164 and the audited sections of Risk and capital management on pages 10 to 81. 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 82) and in accordance with UK adopted International Accounting Standards (IAS). The significant accounting policies and related judgments are set out below.

Except for certain financial instruments as described in Accounting policies 11 and 16 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 NWH Group's financial statements is immaterial.

2. Revenue recognition

Interest income and expense are recognised in the income statement using the effective interest rate method: for all financial instruments measured at amortised cost, debt instruments measured as fair value through other comprehensive income and the effective part of any related accounting hedging instruments. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment on the lease. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

3. 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 on 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 re-presented 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 NWH 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 (which NWH Group employees are eligible to) under which it grants awards of NatWest Group plc shares and share options to its employees. Such awards are subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to the income statement on a straight-line basis over the period during which services are provided, taking account of forfeiture and clawback criteria. The value of employee services received in exchange for NatWest Group plc shares and share options is recognised as an expense over the vesting period, subject to deferral. clawback and forfeiture criteria with a corresponding increase in equity. The fair value of the instruments granted is based on market prices at the grant date.

Defined contribution pension scheme

A scheme where NWH 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 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.

NWH 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 NWH Group 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 NWH 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, NWH Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, NWH 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 NWH 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. Property, plant and equipment & investment property

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

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

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

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

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

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease in Other operating income. Lease incentives granted are recognised as an integral part of the total rental income.

8. 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.

9. Provisions and contingent liabilities

NWH 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 NWH Group has a constructive obligation. An obligation exists when NWH 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.

NWH 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 NWH 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.

10. Tax

Tax encompassing current tax and deferred tax is recognised the income statement except when taxable items are recognised in other comprehensive income or equity . Tax consequences arising from servicing financial instruments classified as equity are recognised in the income statement in line with IAS 12.

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

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

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where NWH 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 NWH Group company or on NWH 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. NWH 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.

11. 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 NWH 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.

12. Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of financial assets measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment (other than those classified as held for trading) is assessed for impairment. Any change in impairment is reported in the income statement. Loss allowances are forward-looking, based on 12-month ECL where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. Following a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

Judgment is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios, mainly in Private Banking, and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- Multiple economic scenarios (MES) – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- Significant increase in credit risk - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring where a financial asset is not derecognised, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where NWH Group's acquired interest is in equity shares, relevant polices for control, associates and joint ventures apply.

Impaired financial assets are written off and therefore derecognised from the balance sheet when NWH 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 NWH 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.

13. 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 NWH 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.

14. Netting

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

15. Capital instruments

NWH 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 NWH Group after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

16. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value.

NWH Group uses derivatives to manage its own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions. Not all derivatives used to manage risk are in hedge accounting relationships (an IFRS method to reduce accounting mismatch from changes in fair value of the derivatives reported in the income statement.

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships and derivatives that are managed together with financial instruments designated at fair value are included in Other operating income.

Hedge accounting

NWH 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.

17. Investment in Group undertakings

NWH Ltd’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 NWH Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting standards used in the preparation of the financial statements (see presentation of financial statements above) require the directors, in preparing NWH 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 an 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 NWH 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 NWH 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.

Changes in judgments and assumptions could result in a material adjustment to those estimates in the next reporting periods. Consideration of this source of estimation uncertainty has been set out in the notes below (as applicable).

Critical accounting policy	Note
Deferred tax	7
Fair value - financial instruments	10
Loan impairment provisions	13
Goodwill	15
Provisions for liabilities and charges	20

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).

NWH 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

	2021 £m	2020 (1) £m
Continuing operations		
Balances at central banks	**99**	90
Loans to banks - amortised cost	**295**	180
Loans to customers - amortised cost	**8,039**	8,402
Other financial assets	**132**	276
Interest receivable	**8,565**	8,948
Bank deposits	**107**	88
Customer deposits	**532**	867
Amounts due to holding company and fellow subsidiaries	**344**	435
Other financial liabilities	**175**	231
Subordinated liabilities	**28**	38
Interest payable	**1,186**	1,659
Net interest income	**7,379**	7,289

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

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Included in interest receivable is finance lease income which is recognised at a constant periodic rate of return before tax on the net investment.

For accounting policy information see Accounting policies note 2.

2 Non-interest income

	2021 £m	2020 (1) £m
Continuing operations		
Net fees and commissions (2)	**1,851**	1,822
Other operating income		
Loss on redemption of own debt	**(133)**	—
Operating lease and other rental income	**231**	240
Changes in fair value of other financial assets fair value through profit or loss (3)	**5**	7
Hedge ineffectiveness	**18**	12
(Loss)/profit on disposal of amortised cost assets	**(26)**	(16)
Profit/(loss) on disposal of fair value through other comprehensive income assets	**120**	113
(Loss)/profit on sale of property, plant and equipment (4)	**(30)**	13
Cost of economic hedging	**100**	15
Profit/(loss) on disposal of subsidiaries and associates	**46**	(4)
Other income (5,6)	**538**	411
	869	791
	2,720	2,613

(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) Includes instruments that have failed Solely for payment of principle and interest testing under IFRS 9.
(4) Includes £44 million loss on the purchase of freeholds for properties where the Group was the primary leaseholder.
(5) Includes income from recharging shared services to other NatWest Group subsidiaries outside NWH Group and income from activities other than banking.
(6) 2020 includes £58 million loss on acquisition of a £3.0 billion prime UK mortgages portfolio from Metro Bank plc.

For accounting policy information see Accounting policies note 2.

3. Operating expenses

	2021 £m	2020 (1) £m
Continuing operations		
Wages, salaries and other staff costs	**2,268**	2,296
Temporary and contract costs	**213**	220
Social security costs	**257**	255
Pension costs	**322**	300
- defined benefit schemes (see Note 5)	**202**	199
- defined contribution schemes	**120**	101
Staff costs	**3,060**	3,071
Premises and equipment (2)	**998**	1,079
Depreciation and amortisation (3,4)	**901**	874
Other administrative expenses (5)	**1,937**	1,554
Administrative expenses (5)	**3,836**	3,507
	6,896	6,578

(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) in relation to the planned reduction of the property portfolio (2021 – freehold £3 million; leasehold £30 million; 2020 - freehold £1 million; leasehold £143 million).
(3) 2021 includes a £58 million charge relating to the reduction in property portfolio, leasehold £48 million and freehold £10 million (2020 - £101 million charge, leasehold £81 million and freehold £20 million).
(4) Includes impairment of goodwill of £85 million. Refer to Note 15.
(5) Includes litigation and conduct costs. Further details are provided in Note 20.

For accounting policy information see Accounting policies note 4.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff, was 55,900 (2020 – 56,300).

The number of people employed at 31 December 2021, excluding temporary staff was as follows:

Continuing operations	2021	2020
Retail Banking	**15,800**	17,200
Ulster Bank RoI (1)	**1,700**	1,900
Commercial banking	**8,400**	9,700
Private Banking	**1,900**	2,200
Central and items & other	**27,000**	24,600
Total	**54,800**	55,600
UK	**38,400**	39,900
India	**13,500**	13,100
Poland	**1,400**	900
Republic of Ireland	**1,200**	1,400
Rest of the World	**300**	300
Total	**54,800**	55,600

During the year a number of roles transferred from Private Banking into centralised functions. Comparatives have been re-stated.

(1) Total number of persons employed in Ulster Bank RoI of 2,400 (2020 – 2,600) includes 700 people employed in discontinued operations at 31 December 2021 (2020 – 700).

Bonus awards

The following tables analyse NWH Group's bonus awards.

	2021 £m	2020 £m	Change %
Non-deferred cash awards (1)	**34**	28	21%
Deferred cash awards	**158**	70	126%
Deferred share awards	**25**	15	67%
Total deferred bonus awards	**183**	85	115%
Total bonus awards (2)	**217**	113	92%

Reconciliation of bonus awards to income statement charge

	2021 £m	2020 £m
Bonus awarded	**217**	113
Less: deferral of charge for amounts awarded for current year	**(67)**	(38)
Income statement charge for amounts awarded in current year	**150**	75
Add: current year charge for amounts deferred from prior years	**42**	66
Less: forfeiture of amounts deferred from prior years	**(4)**	(7)
Income statement charge for amounts deferred from prior years	**38**	59
Income statement charge for bonus award (2)	**188**	134

(1) Non-deferred cash awards are limited to £2,000 for all employees.
(2) Excludes other performance related compensation.

4 Segmental analysis

Reportable operating segments
The reportable operating segments are as follows:

Retail Banking serves personal customers in the UK and includes Ulster Bank customers.

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

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

Central items & other includes corporate functions, such as treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc, NWH Ltd's largest subsidiary is the main service provider of shared services and treasury activities for the NatWest Group. The services are mainly provided to the NWH Group, however, in certain instances where permitted, services are also provided to the wider NatWest Group including the non-fenced business. Balances in relation to legacy litigation issues and the business are included in Central items in the relevant period.

Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Continuing operations							
Net interest income	**4,136**	**480**	**2,675**	**(13)**	**7,278**	**101**	**7,379**
Net fees and commissions	**377**	**258**	**1,158**	**(7)**	**1,786**	**65**	**1,851**
Other operating income	**(6)**	**78**	**117**	**618**	**807**	**62**	**869**
Total income	**4,507**	**816**	**3,950**	**598**	**9,871**	**228**	**10,099**
Depreciation and amortisation	**(85)**	**—**	**(146)**	**(670)**	**(901)**	**—**	**(901)**
Other operating expenses	**(2,409)**	**(522)**	**(2,234)**	**(347)**	**(5,512)**	**(483)**	**(5,995)**
Impairment releases/(losses)	**37**	**55**	**1,074**	**(3)**	**1,163**	**28**	**1,191**
Operating profit/(loss)	**2,050**	**349**	**2,644**	**(422)**	**4,621**	**(227)**	**4,394**
2020 (1)							
Continuing operations							
Net interest income	3,931	480	2,843	(87)	7,167	122	7,289
Net fees and commissions	379	257	1,110	(1)	1,745	77	1,822
Other operating income	(66)	17	119	698	768	23	791
Total income	4,244	754	4,072	610	9,680	222	9,902
Depreciation and amortisation	—	(8)	(149)	(717)	(874)	—	(874)
Other operating expenses	(2,484)	(457)	(2,296)	(13)	(5,250)	(454)	(5,704)
Impairment losses	(795)	(108)	(1,927)	(14)	(2,844)	(139)	(2,983)
Operating profit/(loss)	965	181	(300)	(134)	712	(371)	341

	Total revenue (2)						
Year ended 31 December 2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & Other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Continuing operations							
External	**5,419**	**792**	**3,749**	**1,506**	**11,466**	**298**	**11,764**
Inter-segmental	**35**	**166**	**114**	**(315)**	**—**	**—**	**—**
Total	**5,454**	**958**	**3,863**	**1,191**	**11,466**	**298**	**11,764**
Year ended 31 December 2020 (1)							
Continuing operations							
External	5,387	702	3,760	1,809	11,658	282	11,940
Inter-segmental	90	203	68	(361)	—	—	—
Total	5,477	905	3,828	1,448	11,658	282	11,940

(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 and other operating income.

4 Segmental analysis continued

	Total income						
Year ended 31 December 2021	**Retail Banking £m**	**Private Banking £m**	**Commercial Banking £m**	**Central items & Other £m**	**Total exc. Ulster Bank RoI £m**	**Ulster Bank RoI £m**	**Total £m**
Continuing operations							
External	**4,474**	**757**	**3,986**	**646**	**9,863**	**236**	**10,099**
Inter-segmental	**33**	**59**	**(36)**	**(48)**	**8**	**(8)**	**—**
Total	**4,507**	**816**	**3,950**	**598**	**9,871**	**228**	**10,099**
Year ended 31 December 2020 (1)							
Continuing operations							
External	4,168	652	4,175	680	9,675	227	9,902
Inter-segmental	76	102	(103)	(70)	5	(5)	—
Total	4,244	754	4,072	610	9,680	222	9,902

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

Analysis of net fees and commissions

2021	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total exc. Ulster Bank RoI £m	Ulster Bank RoI £m	Total £m
Continuing operations							
Fees and commissions receivable							
- Payment services	**307**	**35**	**538**	**—**	**880**	**53**	**933**
- Credit and debit card fees	**343**	**10**	**147**	**—**	**500**	**19**	**519**
- Lending and financing	**13**	**10**	**515**	**—**	**538**	**4**	**542**
- Brokerage	**48**	**6**	**—**	**—**	**54**	**—**	**54**
- Investment management, trustee and fiduciary services	**3**	**230**	**—**	**—**	**233**	**2**	**235**
- Other	**—**	**35**	**105**	**(93)**	**47**	**—**	**47**
Total fees and commissions receivable	**714**	**326**	**1,305**	**(93)**	**2,252**	**78**	**2,330**
Fees and commissions payable	**(337)**	**(68)**	**(147)**	**86**	**(466)**	**(13)**	**(479)**
Net fees and commissions	**377**	**258**	**1,158**	**(7)**	**1,786**	**65**	**1,851**
2020 (1)							
Continuing operations							
Fees and commissions receivable							
- Payment services	264	27	508	—	799	57	856
- Credit and debit card fees	299	9	129	—	437	21	458
- Lending and financing	42	7	505	—	554	4	558
- Brokerage	54	7	—	—	61	1	62
- Investment management, trustee and fiduciary services	3	225	1	—	229	2	231
- Other	1	26	81	(72)	36	—	36
Total fees and commissions receivable	663	301	1,224	(72)	2,116	85	2,201
Fees and commissions payable	(284)	(44)	(114)	71	(371)	(8)	(379)
Net fees and commissions	379	257	1,110	(1)	1,745	77	1,822

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

Year ended 31 December 2021	**Retail Banking £m**	**Private Banking £m**	**Commercial Banking £m**	**Central items & Other £m**	**Total exc. Ulster Bank RoI £m**	**Ulster Bank RoI £m**	**Total £m**
Continuing operations							
Assets	**191,705**	**19,072**	**108,111**	**199,398**	**518,286**	**22,837**	**541,123**
Liabilities	**192,754**	**39,417**	**185,743**	**72,419**	**490,333**	**19,035**	**509,368**
Year ended 31 December 2020							
Continuing operations							
Assets	181,958	17,768	114,743	155,490	469,959	26,624	496,583
Liabilities	178,663	32,470	174,974	54,204	440,311	23,006	463,317

Segmental analysis of goodwill

There was an £85 million impairment of goodwill in Retail banking during 2021. The total carrying value was £5,221 million, comprised of Retail Banking £2,606 million; Commercial Banking £2,606 million; and Private Banking £9 million. (2020 - Retail Banking £2,692 million; Commercial Banking £2,606 million; and Private Banking £9 million). Refer Note 15.

4 Segmental analysis continued

Geographical segments

The geographical analysis in the tables below has been compiled on the basis of location of office where the transactions are recorded.

2021 Continuing operations	UK £m	RoW £m	Total £m
Total revenue	**11,400**	**364**	**11,764**
Interest receivable	**8,342**	**223**	**8,565**
Interest payable	**(1,057)**	**(129)**	**(1,186)**
Net fees and commissions	**1,786**	**65**	**1,851**
Other operating income	**806**	**63**	**869**
Total income	**9,877**	**222**	**10,099**
Operating profit/(loss) before tax	**4,624**	**(230)**	**4,394**
Total assets	**503,825**	**37,298**	**541,123**
Total liabilities	**489,303**	**20,065**	**509,368**
Contingent liabilities and commitments	**100,482**	**2,674**	**103,156**
Cost to acquire property, plant and equipment and intangible assets	**1,317**	**169**	**1,486**

2020 (1) Continuing operations			
Total revenue	11,604	336	11,940
Interest receivable	8,765	183	8,948
Interest payable	(1,592)	(67)	(1,659)
Net fees and commissions	1,745	77	1,822
Other operating income	723	68	791
Total income	9,641	261	9,902
Operating profit/(loss) before tax	892	(551)	341
Total assets	455,773	40,810	496,583
Total liabilities	440,061	23,256	463,317
Contingent liabilities and commitments	101,521	3,666	105,187
Cost to acquire property, plant and equipment and intangible assets	765	38	803

(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

Defined contribution schemes

NWH Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NWH 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 the 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 NWH 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 NWH Group's other pension schemes.

For accounting policy information see Accounting policies note 4.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 94% of all plan assets at 31 December 2021 (2020 - 94%) 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.

	2021			2020		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	3.7	4.7	8.4	3.9	4.6	8.5
Index linked bonds	46.7	—	46.7	49.4	—	49.4
Government bonds	9.8	—	9.8	6.2	—	6.2
Corporate and other bonds	10.7	4.4	15.1	11.8	5.0	16.8
Real estate	—	4.4	4.4	—	4.2	4.2
Derivatives	—	8.8	8.8	—	10.0	10.0
Cash and other assets	—	6.8	6.8	—	4.9	4.9
	70.9	29.1	100.0	71.3	28.7	100.0

The Main section's holdings of derivative instruments are summarised in the table below:

	2021			2020		
	Notional	Fair value		Notional	Fair value	
	amounts £bn	Assets £m	Liabilities £m	amounts £bn	Assets £m	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 NWH Group but can have exposure to NWH Group. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWH Group do not exceed the regulatory limit of 5% of plan assets.

5 Pensions continued

Changes in value of net pension (asset)/liability	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/liability £m
At 1 January 2020	49,539	42,217	7,179	(143)
Currency translation and other adjustments	91	83	—	(8)
Income statement	989	1,042	146	199
Statement of comprehensive income	5,767	5,435	335	3
Contributions by employer	276	—	—	(276)
Contributions by plan participants and other scheme members	14	14	—	—
Liabilities extinguished upon settlement	(2)	(3)	—	(1)
Benefits paid	(2,011)	(2,011)	—	—
Transfer to/from fellow subsidiaries	—	4	—	4
At 1 January 2021	**54,663**	**46,781**	**7,660**	**(222)**
Currency translation and other adjustments	**(119)**	**(103)**	**(3)**	**13**
Income statement				
Net interest expense	**756**	**642**	**107**	**(7)**
Current service cost	**—**	**200**	**—**	**200**
Past service cost	**—**	**9**	**—**	**9**
	756	**851**	**107**	**202**
Statement of comprehensive income				
Return on plan assets excluding recognised interest income	**832**	**—**	**—**	**(832)**
Experience gains and losses	**—**	**(240)**	**—**	**(240)**
Effect of changes in actuarial financial assumptions	**—**	**(1,196)**	**—**	**(1,196)**
Effect of changes in actuarial demographic assumptions	**—**	**369**	**—**	**369**
Asset ceiling/minimum funding adjustments	**—**	**—**	**2,622**	**2,622**
	832	**(1,067)**	**2,622**	**723**
Contributions by employer	**766**	**—**	**—**	**(766)**
Contributions by plan participants and other scheme members	**13**	**13**	**—**	**—**
Benefits paid	**(1,670)**	**(1,670)**	**—**	**—**
Liabilities extinguished upon settlement	**—**	**—**	**—**	**—**
Transfer to/from fellow subsidiaries	**—**	**(1)**	**—**	**(1)**
At 31 December 2021	**55,241**	**44,804**	**10,386**	**(51)**

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) NWH 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 NWH Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the current surplus is not recognised as the trustees may have control over the use of the surplus. Other NWH Group schemes that this applies to include the Ulster Bank Pension Scheme (NI)
(3) NWH 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.

Amounts recognised on the balance sheet	2021 £m	2020 £m
Fund assets at fair value	**55,241**	54,663
Present value of fund liabilities	**44,804**	46,781
Funded status	**10,437**	7,882
Asset ceiling/minimum funding	**10,386**	7,660
Retirement benefit asset	**51**	222

Net pension asset/(liability) comprises	2021 £m	2020 £m
Net assets of schemes in surplus (included in Other assets, Note 16)	**99**	279
Net liabilities of schemes in deficit (included in Other liabilities, Note 20)	**(48)**	(57)
	51	222

The income statement charge comprises(1):

The income statement charge comprises	2021 £m	2020 £m
Continuing operations	**183**	179
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.

5 Pensions continued

Funding and contributions by NWH 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 NWH 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 NWH Group's defined benefit pension schemes' liabilities requires NWH 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.

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

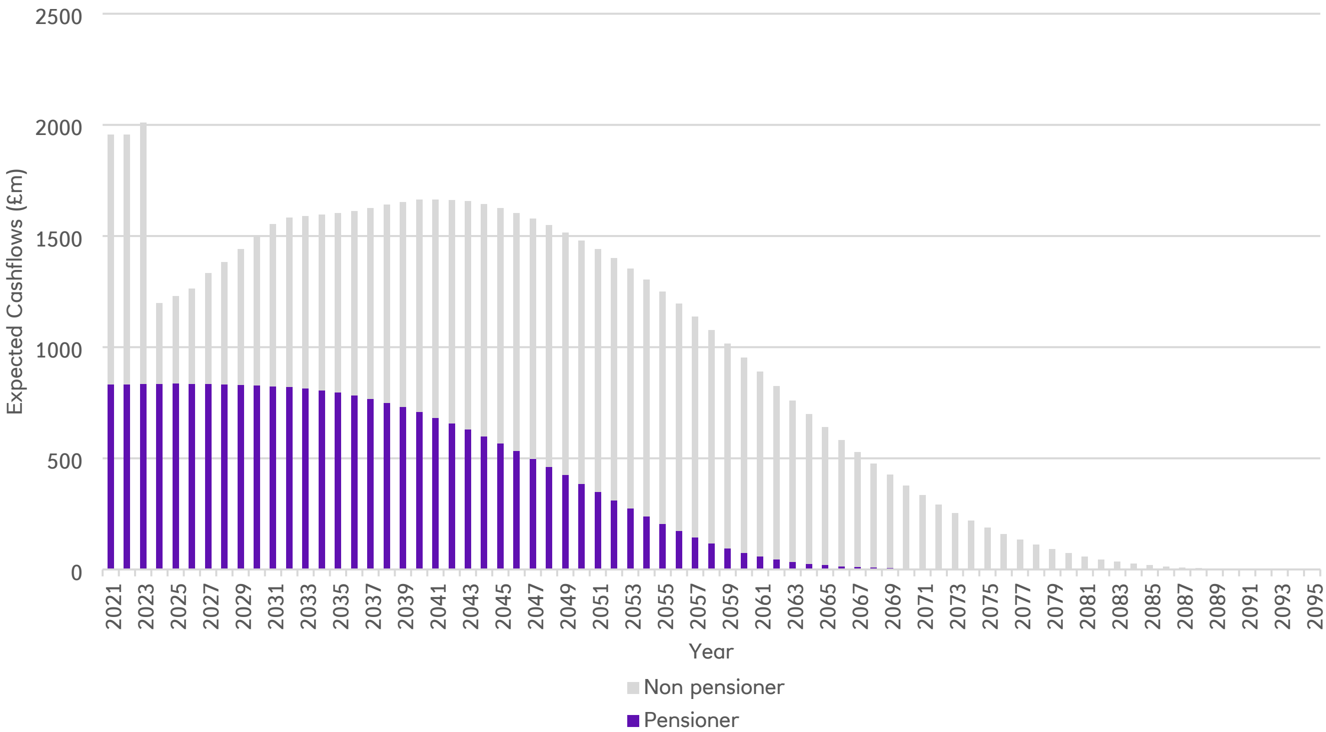
The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds.

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.

5 Pensions continued

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 four years represents the expected level of transfers out to 31 December 2023.

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 are somewhat correlated 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

Includes both quoted and private equity.

5 Pensions continued

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				
		- 2 years	- 1 years	No change	+ 1 year	+ 2 years
2021		**£bn**	**£bn**	**£bn**	**£bn**	**£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 NWH Group schemes is shown below:

History of defined benefit schemes	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of plan assets	**55,241**	54,663	49,539	46,576
Present value of defined benefit obligations	**44,804**	46,781	42,217	37,819
Net surplus	**10,437**	7,882	7,322	8,757
Experience gains/(losses) on plan liabilities	**240**	441	278	(114)
Experience gains/(losses) on plan assets	**832**	5,767	3,366	(1,978)
Actual return on pension schemes assets	**1,588**	6,756	4,679	(792)
Actual return on pension schemes assets	**2.9%**	13.6%	10.0%	(1.7%)

6 Auditor’s remuneration

Amounts payable to NWH Group's auditor for statutory audit and other services are set out below:

	2021 £m	2020 £m
Fees payable for:		
- the audit of NWH Group's annual accounts	**2.2**	2.3
- the audit of NWH Ltd's subsidiaries	**17.6**	18.7
Total audit and audit-related service fees	**19.8**	21.0

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

7 Tax

Continuing operations	2021 £m	2020 (1) £m
Current tax		
Charge for the year	**(1,186)**	(167)
Over provision in respect of prior years	**50**	—
	(1,136)	(167)
Deferred tax		
(Charge)/credit for the year	**(221)**	45
UK tax rate change impact (2)	**179**	92
Net decrease in the carrying value of deferred tax assets in respect of UK and Ireland losses	**(27)**	(108)
(Under)/over provision in respect of prior years (3)	**(3)**	3
Tax charge for the year	**(1,208)**	(135)

(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.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2020 – 19%), as follows:

Continuing operations	2021 £m	2020 (1) £m
Expected tax charge	**(835)**	(64)
Losses and temporary differences in year where no deferred tax asset recognised	**(32)**	(43)
Foreign profits taxed at other rates	**(22)**	(25)
Non deductible goodwill impairment	**(16)**	—
Items not allowed for tax:		
- losses on disposals and write-downs	**(52)**	(7)
- UK bank levy	**(15)**	(23)
- regulatory and legal actions	**(75)**	36
- other disallowable items	**(24)**	(29)
Non-taxable items	**18**	10
Taxable foreign exchange movements	**5**	(3)
Unrecognised losses brought forward and utilised	**2**	4
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses	**—**	29
- Ireland losses	**(27)**	(137)
Banking surcharge	**(396)**	(31)
Tax on paid-in equity	**35**	53
UK tax rate change impact	**179**	92
Adjustment in respect of prior years	**47**	3
Actual tax charge	**(1,208)**	(135)

(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

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

For accounting policy information see Accounting policies note 10.

7 Tax continued

Deferred tax

	2021 £m	2020 £m
Deferred tax liability	218	156
Deferred tax asset	(1,433)	(1,255)
Net deferred tax asset	(1,215)	(1,099)

Net deferred tax asset comprised:

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
1 January 2020	(225)	(225)	(72)	221	(876)	(30)	(1,207)
Acquisitions and disposals of subsidiaries	—	(3)	(1)	—	—	—	(4)
Charge/(credit) to income statement: (1)							
- continuing operations	13	(93)	11	8	33	(4)	(32)
- discontinued operations	—	—	—	—	9	—	9
Charge to other comprehensive income	110	—	—	36	—	(1)	145
Currency translation and other adjustments	1	(1)	—	—	(9)	(1)	(10)
31 December 2020	(101)	(322)	(62)	265	(843)	(36)	(1,099)
Charge/(credit) to income statement:							
- continuing operations	17	21	(3)	3	42	(8)	72
- discontinued operations	—	—	—	—	3	—	3
Credit to other comprehensive income	(9)	—	(3)	(177)	—	(3)	(192)
Currency translation and other adjustments	(2)	(2)	—	—	3	2	1
Transfers to disposal groups	—	—	—	—	—	—	—
31 December 2021	(95)	(303)	(68)	91	(795)	(45)	(1,215)

(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 unused tax losses are recognised if the losses can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses are analysed further below.

	2021 £m	2020 £m
UK tax losses carried forward		
- NWB Plc	608	592
- Ulster Bank Limited	—	8
- RBS plc	176	200
Total	784	800
Overseas tax losses carried forward		
- UBIDAC	11	43
	795	843

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax assets of £1,433 million as at 31 December 2021 (2020 - £1,255 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment - NWH 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 asset in UBIDAC is 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 the Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge 8% rate introduced by The Finance (No. 2) Act 2015.

It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. NWH 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 NWH Group has increased by £189 million, with a £179 million tax credit included in the income statement (refer to reconciling item above), and a £10 million tax credit 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.

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 returned to tax profitability during 2015 and 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.

Unrecognised deferred tax – Deferred tax assets of £2,097 million (2020 - £1,888 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £12,573 million (2020 - £12,920 million) in jurisdictions where doubt exists over the availability of future taxable profits. These losses and other deductible temporary differences carried forward have no expiry date.

Deferred tax liabilities of £123 million (2020 - £103 million) on aggregate underlying temporary differences of £490 million (2020 - £479 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009.

8 Discontinued operations and assets and liabilities of disposal groups

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 NatWest Group 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 c280 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 NatWest Group 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 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.

For accounting policy information see Accounting policies note 3.

(a) Profit from discontinued operations, net of tax

	2021 £m	2020 £m
Interest receivable	**260**	273
Net interest income	**260**	273
Non-interest income	**9**	15
Total income	**269**	288
Operating expenses	**(47)**	(47)
Profit before impairment losses	**222**	241
Impairment losses	**57**	(111)
Operating profit before tax	**279**	130
Tax charge	**(3)**	(9)
Profit from discontinued operations, net of tax	**276**	121

(b) Assets and liabilities of disposal

	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
Net cash flows from operating activities	1,290	(895)
Net increase/(decrease) in cash and cash equivalents	1,290	(895)

9 Financial instruments - classification

The following tables analyse NWH Group's 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			**143,892**		**143,892**
Derivatives (1)	**1,980**				**1,980**
Loans to banks - amortised cost (2)			**5,411**		**5,411**
Loans to customers - amortised cost (3)			**336,077**		**336,077**
Amounts due from holding company and fellow subsidiaries	**348**	**—**	**110**	**145**	**603**
Other financial assets	**288**	**28,239**	**2,659**		**31,186**
Intangible assets				**6,395**	**6,395**
Other assets				**6,564**	**6,564**
Assets of disposal groups				**9,015**	**9,015**
31 December 2021	**2,616**	**28,239**	**488,149**	**22,119**	**541,123**
Cash and balances at central banks			95,187		95,187
Derivatives (1)	3,116				3,116
Loans to banks - amortised cost (2)			4,707		4,707
Loans to customers - amortised cost (3)			338,827		338,827
Amounts due from holding company and fellow subsidiaries	556	—	463	66	1,085
Other financial assets	562	36,504	3,667		40,733
Intangible assets				6,341	6,341
Other assets				6,587	6,587
Assets of disposal groups				—	—
31 December 2020	4,234	36,504	442,851	12,994	496,583

Liabilities	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (4)		**24,205**		**24,205**
Customer deposits		**440,015**		**440,015**
Amounts due to holding company and fellow subsidiaries	**114**	**25,347**	**87**	**25,548**
Derivatives (1)	**4,052**			**4,052**
Other financial liabilities	**99**	**7,153**		**7,252**
Subordinated liabilities		**284**		**284**
Notes in circulation		**3,047**		**3,047**
Other liabilities (5)		**1,260**	**3,705**	**4,965**
31 December 2021	**4,265**	**501,311**	**3,792**	**509,368**
Bank deposits (4)		18,800		18,800
Customer deposits		397,841		397,841
Amounts due to holding company and fellow subsidiaries	222	20,439	1	20,662
Derivatives (1)	6,032			6,032
Other financial liabilities	3	10,623		10,626
Subordinated liabilities		1,316		1,316
Notes in circulation		2,655		2,655
Other liabilities (5)		1,757	3,628	5,385
31 December 2020	6,257	453,431	3,629	463,317

(1) Includes net hedging derivative assets of £324 million (2020 - £735 million) and net hedging derivative liabilities of £62 million (2020 - £54 million).
(2) Includes items in the course of collection from other third party banks of £30 million (2020 - £30 million).
(3) Includes finance lease receivables of £8,434 million (2020 - £8,948 million).
(4) Includes items in the course of transmission to other third party banks of £27 million (2020 - £2 million).
(5) Includes lease liabilities of £1,172 million (2020 - £1,589 million) held at amortised cost.

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgment in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes the portfolio's policies and objectives; how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent solely payments of principal and interest. A level of judgment is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for solely payments of principal and interest, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

For accounting policy information see Accounting policies notes 11, 13, 14 and 16.

9 Financial instruments – classification continued

The following tables include amounts due from/to the holding company and fellow subsidiaries:

	2021			2020		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Loans to banks - amortised cost	—	101	101	—	446	446
Loans to customers - amortised cost	—	9	9	8	9	17
Other financial assets	—	348	348	—	556	556
Other assets	13	132	145	63	3	66
Amounts due from holding company and fellow subsidiaries	13	590	603	71	1,014	1,085
Derivatives (1)	294	179	473	506	347	853
Liabilities						
Bank deposits	—	1,122	1,122	—	957	957
Customer deposits	8,086	181	8,267	5,364	199	5,563
Other financial liabilities	—	114	114	—	222	222
Subordinated liabilities	4,628	—	4,628	4,949	—	4,949
MREL instruments issued to NatWest Group plc	11,330	—	11,330	8,970	—	8,970
Other liabilities	—	87	87	—	1	1
Amounts due to holding company and fellow subsidiaries	24,044	1,504	25,548	19,283	1,379	20,662
Derivatives (1)	316	408	724	460	672	1,132

(1) Intercompany derivatives are included within within derivatives in the balance sheet.

The tables below present information on financial assets and liabilities that are offset on the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

	Offsetable Instruments			Offsetable potential not recognised by IFRS					
2021	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting arrangements and related collateral £m	Amounts not subject to offset £m	Balance sheet total £m
Derivatives assets	9,920	(7,961)	1,959	(1,722)	(210)	—	27	21	1,980
Derivative liabilities	12,579	(8,568)	4,011	(1,722)	(355)	(1,842)	92	41	4,052
Net position (1)	(2,659)	607	(2,052)	—	145	1,842	(65)	(20)	(2,072)
Non trading reverse repos	33,397	(7,594)	25,803	—	—	(25,803)	—	—	25,803
Non trading repos	29,525	(7,594)	21,931	—	—	(21,931)	—	—	21,931
Net position	3,872	—	3,872	—	—	(3,872)	—	—	3,872
2020									
Derivatives assets	13,880	(10,807)	3,073	(2,757)	(222)	—	94	43	3,116
Derivative liabilities	17,536	(11,540)	5,996	(2,757)	(790)	(2,433)	16	36	6,032
Net position (1)	(3,656)	733	(2,923)	—	568	2,433	78	7	(2,916)
Non trading reverse repos	33,202	(9,936)	23,266	—	—	(23,266)	—	—	23,266
Non trading repos	21,373	(9,936)	11,437	—	—	(11,437)	—	—	11,437
Net position	11,829	—	11,829	—	—	(11,829)	—	—	11,829

(1) The net IFRS offset balance of £607 million (2020 - £733 million) relates to variation margin netting reflected on other balance sheet lines.

9 Financial instruments – classification continued

Interest rate benchmark reform

The NatWest Group IBOR program successfully delivered the conversion of the vast majority of the IBOR exposures to risk free rates 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 NWH Group at 31 December 2021 subject to above conversion provisions is £19,739 million of assets, £2 million of liabilities, £13,489 million of loan commitments and £102.5 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			
	GBP LIBOR	USD IBOR (1)	Other IBOR (2)	Total
2021	£m	£m	£m	£m
Loans to customers - amortised cost	2,613	3,107	5	5,725
Other financial assets	744	37	—	781
Amounts due to holding company and fellow subsidiaries	—	6,251	—	6,251
Other financial liabilities	1,070	—	—	1,070
Loan commitments (3)	853	4,453	55	5,361
Derivatives notional (£bn)	—	34.9	—	34.9

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

At December 2021 NWH 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 and USD LIBOR of £0.4 billion.

9 Financial instruments – classification continued

Interest rate benchmark reform

2020	GBP LIBOR £m	USD IBOR (1) £m	EURIBOR (2) £m	Other IBOR £m	Total £m
	Rates subject to IBOR reform				
Loans to banks - amortised cost	13	82	101	—	196
Loans to customers - amortised cost	35,951	4,275	2,634	97	42,957
Other financial assets	1,415	37	65	—	1,517
Amounts due to holding company and fellow subsidiaries	33	8,286	1,791	—	10,110
Other financial liabilities	1,114	—	1,402	—	2,516
Subordinated liabilities	2	519	170	—	691
Loan commitments (3)	23,267	7,111	1,466	682	32,526
Derivatives notional (£bn)	116.4	36.9	27.2	0.8	181.3

(1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 disclosures 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 December 2020 table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of GBP LIBOR of £2.7 billion, USD IBOR of £0.3 billion and EURIBOR of £2.4 billion. Currency swaps of USD IBOR of £1.0 billion, GBP LIBOR of £0.5 billion and EURIBOR of £0.5 billion. Currency swaps of EURIBOR of £0.3 billion and USD IBOR £0.3 billion.

AT1 issuances

NWH Ltd has issued certain capital instruments (AT1), under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon resets to a rate which has IBOR as a specified component of its pricing structure these are subject to IBOR reform and are shown in Note 21.

10 Financial instruments – valuation

(D) = Descriptive; (T) = Table

Critical accounting policy: Fair value - financial instruments

Financial instruments classified as mandatory fair value through profit or loss; held-for-trading; designated fair value through profit or loss and fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement considers the characteristics of the asset or liability and the assumptions that a market participant would consider when pricing the asset or liability.

NatWest Holdings 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 11 and 16.

Valuation

Fair value hierarchy

Financial instruments carried at fair value have been classified under the fair value hierarchy. The classification ranges from level 1 to level 3, with more expert judgment and price uncertainty for those classified at level 3.

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on the level of market activity for the referenced entity.

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

Level 2 - instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

Level 3 - instruments valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.

10 Financial instruments – valuation continued

Valuation techniques

NatWest Holdings Group derives the fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input, typically on a position-by-position basis. Examples include equities and most debt securities.

Non-modelled products can fall into any fair value levelling hierarchy depending on the observable market activity, liquidity, and assessment of valuation uncertainty of the instruments. The assessment of fair value and the classification of the instrument to a fair value level is subject to the valuation controls discussed in the "Valuation control" section.

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives (e.g. balance guarantee swaps).

For modelled products, the fair value is derived using the model and the appropriate model inputs or parameters, as opposed to from a cash price equivalent. Model inputs are taken either directly or indirectly from available data, where some inputs are also modelled.

Fair value classification of modelled instruments is either level 2 or level 3, depending on the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify a position. The modelled product is assigned to the lowest fair value hierarchy level of any significant input used in that valuation.

Most derivative instruments, for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives, are classified as level 2. This is because they are vanilla products valued using standard market models and with observable inputs. Level 2 products range from vanilla to more complex products, where more complex products remain classified as Level 2 due to the materiality of any unobservable inputs.

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the cashflow amounts and timing of those cash flows, and application of appropriate discount rates, incorporating both funding and credit risk. Values between and beyond available data points are obtained by interpolation and extrapolation. The principal inputs to these valuation techniques are as follows:

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

Credit spreads - these express the return required over a benchmark rate or index to compensate for the referenced credit risk. Where available, these are derived from the price of credit default swaps or other credit-based instruments, such as debt securities. When direct prices are not available, credit spreads are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing benchmark interest rates. Benchmark rates include Interbank Offered Rates (IBOR) and the Overnight Index Swap (OIS) rate, including SONIA (Sterling Overnight Interbank Average Rate). Other quoted interest rates may also be used from both the bond and futures markets.

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

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

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or variables are observed to move together. Variables that move in the same direction show positive correlation; those that move in opposite directions are negatively correlated.

Prepayment rates - rates used to reflect how fast a pool of assets prepay. The fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. When valuing prepayable instruments, the value of this prepayment option is considered.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers, the value of the underlying collateral, or inferred from observable credit spreads.

Valuation control

NatWest Holdings Group's control environment for the determination of the fair value of financial instruments includes formalised procedures for the review and validation of fair values. This review is performed by an independent price verification (IPV) team.

IPV is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. These valuations are then reviewed by the IPV team, independent of those trading the financial instruments, in light of available pricing evidence.

Independent pricing data is collated from a range of sources. Each source is reviewed for quality and the independent data applied in the IPV processes using a formalised input quality hierarchy. Consensus services are one source of independent data and encompass interest rate, currency, credit, and bond markets, providing comprehensive coverage of vanilla products and a wide selection of exotic products.

Where measurement differences are identified through the IPV process these are grouped by the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds, an adjustment is made to bring the valuation to within the independently calculated fair value range.

10 Financial instruments – valuation continued

IPV takes place at least monthly, for all fair value financial instruments. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument and forms part of the information considered when determining fair value hierarchy classifications.

Initial fair value level classification of a financial instrument is carried out by the IPV team. These initial classifications are subject to senior management review. Particular attention is paid to instruments transferring from one level to another, new instrument classes or products, instruments where the transaction price is significantly different from the fair value and instruments where valuation uncertainty is high.

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant industry matters.

The Group model risk policy sets the policy for model documentation, testing and review. Governance of the model risk policy is carried out by the Group model risk oversight committee, which comprises model risk owners and independent model experts. All models are required to be independently validated in accordance with the Model Risk Policy.

Key areas of judgment

Over the years the business has simplified, with most products classified as level 1 or 2 of the fair value hierarchy. However, the diverse range of products historically traded by NatWest Holdings Group means some products remain classified as level 3. Level 3 indicates a significant level of pricing uncertainty, where expert judgment is used. As such, extra disclosures are required in respect of level 3 instruments.

In general, the degree of expert judgment used and hence valuation uncertainty depends on the degree of liquidity of an instrument or input.

Where markets are liquid, little judgment is required. However, when the information regarding the liquidity in a particular market is not clear, a judgment may need to be made. For example, for an equity traded on an exchange, daily volumes of trading can be seen, but for an over the counter (OTC) derivative, assessing the liquidity of the market with no central exchange is more challenging.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the Business and IPV. The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

The table below shows the assets and liabilities held by NatWest Holdings Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgment and hence carrying the most significant price uncertainty.

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives	—	1,980	—	1,980	—	3,116	—	3,116
Amounts due from holding company and fellow subsidiaries	—	348	—	348	—	556	—	0 556
Other financial assets								
Securities	21,239	6,799	3	28,041	29,070	7,434	—	36,504
Loans - MFVTPL	—	188	89	277	—	465	97	562
Loans - FVOCI	—	209	—	209	—	—	—	—
Total financial assets held at fair value	21,239	9,524	92	30,855	29,070	11,571	97	40,738
As % of total fair value assets	69%	31%	0%		71%	28%	0%	
Liabilities								
Amounts due to holding company and fellow subsidiaries	—	114	—	114	—	222	—	222
Derivatives	—	3,913	139	4,052	—	5,804	228	6,032
Other financial liabilities								
Deposits - HFT	—	99	—	99	—	3	—	3
Total financial liabilities held at fair value	—	4,126	139	4,265	—	6,029	228	6,257
As % of total fair value liabilities	—	97%	3%		—	96%	4%	

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred.

10 Financial instruments – valuation continued

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:

Adjustment	2021 £m	2020 £m
Funding – FVA	31	19
Credit – CVA	1	2
Bid – Offer	29	25
	61	46

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 Holdings 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 Holdings Group believes it could exit the net risk of the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

Product and deal specific
On initial recognition of financial assets and liabilities valued using valuation techniques which have a significant dependence on information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in the income statement over the life of the transaction, when market data becomes observable, or when the transaction matures or is closed out as appropriate.

Where system generated valuations do not accurately recover market prices, manual valuation adjustments are applied either at a position or portfolio level. Manual adjustments are subject to the scrutiny of independent control teams and are subject to monthly review by senior management.

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
Other financial assets							
Loans	Discount cash flow	Discount margin	bps	113	169	51	226
Derivative assets and liabilities							
Interest rate & FX derivatives	Discount cash flow	Conditional prepayment risk	%	4	6	6	8

(1) NWH Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

10 Financial instruments – valuation continued

L3 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 and FVA are not based on observable market data, the uncertainty of these inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios.

As such, the fair value levelling of the derivative portfolios is not determined by the observability of CVA or FVA inputs. In addition, any fair value sensitivity driven by these inputs is not included in the level 3 sensitivities presented.

The table below shows the high and low range of fair value of the level 3 assets and liabilities. This range incorporates the range of fair value inputs as described in the previous table.

	2021			2020		
	Level 3	Favourable	Unfavourable	Level 3	Favourable	Unfavourable
	£m	£m	£m	£m	£m	£m
Assets						
Other financial assets						
Loans - MFVTPL	89	—	—	97	10	—
Securities	3	—	—	—	—	—
	92	—	—	97	10	—
Liabilities						
Derivatives	139	10	(10)	228	—	—
	139	10	(10)	228	—	—

Movement in Level 3 assets and liabilities over the reporting period

The following table shows the movement in level 3 assets and liabilities in the year.

	2021				2020			
	Trading assets (2)	Other financial assets (3)	Total assets	Total liabilities	Trading assets (2)	Other financial assets (3)	Total assets	Total liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January	—	97	97	228	—	7	7	181
Amounts recorded in the income statement (1)	—	(2)	(2)	(70)	—	(2)	(2)	70
Amounts recorded in the statement of comprehensive income	—	1	1	—	—	(1)	(1)	—
Level 3 transfers in	—	—	—	—	—	98	98	—
Level 3 transfers out	—	(3)	(3)	—	—	—	—	—
Purchases/originations	—	2	2	—	—	1	1	—
Settlements/other decreases	—	—	—	(19)	—	—	—	(23)
Sales	—	—	—	—	—	(7)	(7)	—
Other adjustments	—	(3)	(3)	—	—	1	1	—
At 31 December	—	92	92	139	—	97	97	228
Amounts recorded in the income statement in respect of balances held at year end								
- unrealised	—	(5)	(5)	(89)	—	(2)	(2)	48
- realised	—	—	—	19	—	—	—	23

(1) Net gains on trading assets and liabilities of £70 million (2020 - £70 million losses) were recorded in income from trading activities. Net gains on other instruments of £2 million (2020 - £2 million) 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.

10 Financial instruments valuation continued

Fair value of financial instruments measured at amortised cost on the balance sheet

The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

2021	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level: Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	143.9					
Loans to banks	0.1	5.3	5.2	—	4.6	0.6
Loans to customers		336.1	331.3	—	27.6	303.7
Amounts due from holding company and fellow subsidiaries		0.1	0.1	—	—	0.1
Other financial assets - securities		2.7	2.7	1.6	0.7	0.4
2020						
Financial assets						
Cash and balances at central banks	95.2					
Loans to banks		4.7	4.7	—	3.5	1.2
Loans to customers		338.8	337.6	—	23.3	314.3
Amounts due from holding company and fellow subsidiaries		0.5	0.5	—	—	0.5
Other financial assets - securities		3.7	3.8	2.2	1.2	0.4
2021						
Financial liabilities						
Bank deposits	4.7	19.5	19.1	—	18.8	0.3
Customer deposits	412.1	27.9	28.1	—	18.1	10.0
Amounts due to holding company and fellow subsidiaries	0.8	24.5	24.5	—	16.2	8.3
Other financial liabilities - debt securities in issue		7.2	7.2	—	3.0	4.2
Other financial liabilities - settlement balances	—					
Subordinated liabilities		0.3	0.4	—	0.3	0.1
Notes in circulation	3.0					
2020						
Financial liabilities						
Bank deposits	4.4	14.4	14.4	—	11.3	3.1
Customer deposits	346.4	51.4	51.5	—	10.1	41.4
Amounts due to holding company and fellow subsidiaries	0.9	19.5	20.2	—	14.7	5.5
Other financial liabilities - debt securities in issue		7.3	7.4	—	3.1	4.3
Other financial liabilities - settlement balances	3.3					
Subordinated liabilities		1.3	1.4	—	1.3	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, NWH 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 or 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, Commercial Banking (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Debt securities and subordinated liabilities

Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments in active markets. Fair values of the remaining population are determined using market standard valuation techniques, such as discounted cash flows, adjusting for own credit spreads where appropriate.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques. Where required, methodologies can be revised as additional information and valuation inputs become available.

11 Financial instruments - maturity analysis

Remaining maturity

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

	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	143,892	—	143,892	95,187	—	95,187
Derivatives	209	1,771	1,980	107	3,009	3,116
Loans to banks - amortised cost	5,402	9	5,411	4,698	9	4,707
Loans to customers - amortised cost	93,108	242,969	336,077	78,106	260,721	338,827
Amounts due from holding company and other fellow subsidiaries (1)	458	—	458	1,019	—	1,019
Other financial assets	5,068	26,118	31,186	4,663	36,070	40,733
Liabilities						
Bank deposits	12,205	12,000	24,205	11,023	7,777	18,800
Customer deposits	439,116	899	440,015	396,481	1,360	397,841
Amounts due to holding company and fellow subsidiaries (2)	9,949	15,512	25,461	6,850	13,811	20,661
Derivatives	126	3,926	4,052	302	5,730	6,032
Other financial liabilities	3,552	3,700	7,252	6,644	3,982	10,626
Subordinated liabilities	89	195	284	322	994	1,316
Notes in circulation	3,047	—	3,047	2,655	—	2,655
Lease liabilities	220	952	1,172	162	1,427	1,589

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £145 million (2020 - £66 million) have been excluded from the table.
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £87 million (2020 - £1 million) have been excluded from the table.

11 Financial instruments - maturity analysis continued

Liabilities by contractual cash flows up to 20 years

The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

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

The settlement date of debt securities issued by certain securitisation vehicles consolidated by the Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table along with interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate NWH Group's liquidity position.

Held-for-trading liabilities amounting to £4.2 billion (2020 - £6.2 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 up to 20 years						
Bank deposits	12,202	—	—	12,003	—	—
Customer deposits	434,731	4,147	1,118	4	2	—
Amounts due to holding company and fellow subsidiaries (1)	1,987	6,578	7,573	5,505	5,536	—
Derivatives held for hedging	(52)	(32)	490	145	(147)	(200)
Other financial liabilities	2,285	1,177	2,915	289	499	79
Subordinated liabilities	2	107	29	29	75	200
Other liabilities- notes in circulation	3,047	—	—	—	—	—
Lease liabilities	69	148	200	152	252	239
	454,271	12,125	12,325	18,127	6,217	318
Guarantees and commitments notional amount						
Guarantees (2)	1,197	—	—	—	—	—
Commitments (3)	98,886	—	—	—	—	—
	100,083	—	—	—	—	—

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
Liabilities by contractual maturity up to 20 years						
Bank deposits	10,763	258	2,743	5,001	—	—
Customer deposits	389,428	7,058	1,320	22	24	—
Amounts due to holding company and fellow subsidiaries (1)	3,151	3,964	4,459	6,104	4,412	—
Derivatives held for hedging	38	(17)	15	(2)	68	(1)
Other financial liabilities	5,366	1,286	870	2,476	397	79
Subordinated liabilities	14	349	142	46	113	315
Other liabilities- notes in circulation	2,655	—	—	—	—	—
Lease liabilities	43	119	268	229	398	478
	411,458	13,017	9,817	13,876	5,412	871
Guarantees and commitments notional amount						
Guarantees (2)	1,298	—	—	—	—	—
Commitments (3)	100,552	—	—	—	—	—
	101,850	—	—	—	—	—

(1) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) The NWH Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWH Group expects most guarantees it provides to expire unused.
(3) The NWH 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. The NWH Group does not expect all facilities to be drawn, and some may lapse before drawdown.

12 Derivatives

NWH Group uses derivatives to manage its own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions

	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	25	176	203	24	79	537
Interest rate contracts	386	1,804	3,849	355	3,025	5,495
Credit derivatives	—	—	—	—	12	—
		1,980	4,052		3,116	6,032

For accounting policy information see Accounting notes 11 and 16.

Refer to Note 9 for amounts due from/to fellow NatWest Group companies.

NWH 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.

NWH Group's interest rate hedging relates to the management of NWH Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NWH 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 USD/GBP 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 NWH Group and encompasses the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the benchmark interest rate risk component of the hedged item. The significant benchmarks identified as risk components are USD/GBP LIBOR, EURIBOR and SONIA. These risk components are identified using the risk management systems of NWH Group and encompass the majority of the hedged item's fair value risk.

NWH Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWH 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 NWH 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 NWH 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. NWH 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 - NWH 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

The following significant cash flow and fair value hedge relationships continue to be directly affected by interest rate benchmark reform:

- USD cash flow and fair value hedges of interest rate risk that mature post 30 June 2023.
- GBP Libor re-pricing hedged items in cash flow hedges of interest rate risk will transition to re-price of risk free rates in 2022.

12 Derivatives continued

Included in the tables above 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	42.8	733	1,729	1,183	46.3	1,192	3,461	(1,206)
Cash flow hedging								
Interest rate contracts	126.1	895	1,010	(712)	121.6	1,746	1,191	168
Exchange rate contracts	1.3	6	3	32	3.7	—	29	—
Net investment hedging								
Exchange rate contracts	0.2	4	1	7	0.1	—	3	7
	170.4	1,638	2,743	510	171.7	2,938	4,684	(1,031)
IFRS netting		(1,314)	(2,681)			(2,203)	(4,630)	
		324	62			735	54	

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

The notional of hedging instruments affected by interest rate benchmark reform is as follows:

	2021 £bn	2020 £bn
Fair value hedging		
EURIBOR (1)	—	7.3
GBP LIBOR	—	9.2
USD LIBOR (2)	11.6	17.6
Cash flow hedging		
EURIBOR (1)	—	5.1
GBP LIBOR	—	46.6
SOFR (3)	0.2	—
USD LIBOR (2)	1.8	1.6

(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 £31 million GBP LIBOR derivative contracts in fair value hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

12 Derivatives continued

The following table shows the period in which the notional of hedging contract ends:

2021	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	**0.8**	**1.7**	**3.2**	**5.2**	**5.9**	**4.4**	**3.5**	**24.7**
Hedging liabilities - interest rate risk	**0.8**	**—**	**7.0**	**5.0**	**5.3**	**—**	**—**	**18.1**
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	**4.9**	**7.6**	**14.1**	**21.4**	**9.2**	**—**	**—**	**57.2**
Average fixed rate interest (%)	***1.30***	***1.25***	***1.32***	***0.68***	***0.89***	**—**	**—**	***1.00***
Hedging liabilities								
Interest rate risk	**8.8**	**21.0**	**32.7**	**3.3**	**2.4**	**0.7**	**—**	**68.9**
Average fixed rate interest (%)	***0.50***	***0.24***	***0.39***	***0.47***	***0.84***	***4.55***	**—**	***0.42***
Exchange rate risk	**0.1**	**0.1**	**—**	**1.1**	**—**	**—**	**—**	**1.3**
Net investment hedging								
Exchange rate risk	**0.2**	**—**	**—**	**—**	**—**	**—**	**—**	**0.2**
2020								
Fair value hedging								
Hedging assets - interest rate risk	1.1	1.7	4.0	6.9	8.5	4.6	3.7	30.5
Hedging liabilities - interest rate risk	—	0.3	3.8	7.7	4.0	—	—	15.8
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	0.3	10.3	17.8	10.1	9.5	0.1	—	48.1
Average fixed rate interest (%)	*(0.12)*	*1.18*	*1.45*	*0.94*	*0.92*	*3.12*	—	*1.17*
Hedging liabilities								
Interest rate risk	1.6	28.9	36.5	3.4	2.4	0.7	—	73.5
Average fixed rate interest (%)	*1.14*	*0.78*	*0.36*	*1.25*	*0.65*	*4.55*	—	*0.63*
Exchange rate risk	0.1	2.3	—	0.7	0.6	—	—	3.7
Net investment hedging								
Exchange rate risk	0.1	—	—	—	—	—	—	0.1

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships were USD/GBP 1.44 (2020: 1.39), INR/GBP 106.58 (2020: 95.29) and CHF/GBP 1.25 (2020: n/a) for the main currencies hedged.

For net investment hedging of exchange rate risk, the average foreign exchange rates applicable were SEK/GBP: 11.74 (2020: 11.15), DKK/GBP: 8.85 (2020: 8.28) and NOK/GBP 12.12 (2020: 12.73) for the main currencies hedged.

12 Derivatives continued

The table below analyses assets and liabilities, including intercompany, subject to hedging derivatives:

2021	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	5,377	599	(414)	118
Other financial assets - securities	25,936	506	(1,396)	—
Total	31,313	1,105	(1,810)	118
Other financial liabilities - debt securities in issue	13,471	289	471	—
Subordinated liabilities	4,628	22	189	—
Total	18,099	311	660	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	56,681		1,768	
Other financial assets - securities	519		19	
Total	57,200		1,787	
Cash flow hedging - interest rate				
Bank and customer deposits	68,383		(1,084)	
Other financial liabilities - debt securities in issue	560		(6)	
Total	68,943		(1,090)	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	1,112		(5)	
Subordinated liabilities	—		(17)	
Other	200		(10)	
Total	1,312		(32)	
2020				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	5,716	1,087	222	136
Other financial assets - securities	31,499	2,102	1,479	—
Total	37,215	3,189	1,701	136
Other financial liabilities - debt securities in issue	11,247	762	(334)	—
Subordinated liabilities	5,258	316	(166)	10
Total	16,505	1,078	(500)	10
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	47,019		(552)	
Other financial assets - securities	976		(11)	
Total	47,995		(563)	
Cash flow hedging - interest rate				
Bank and customer deposits	72,880		409	
Other financial liabilities - debt securities in issue	721		3	
Total	73,601		412	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	1,098		2	
Subordinated liabilities	2,490		—	
Other	152		(2)	
Total	3,740		—	

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

12 Derivatives continued

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

	2021		2020	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
EURIBOR (1)	—	—	7.3	147
GBP LIBOR	—	—	9.3	1,090
USD LIBOR (2)	11.6	108	17.6	(167)
Cash flow hedging				
EURIBOR (1)	—	—	3.9	(77)
GBP LIBOR	—	—	8.0	(443)
USD LIBOR (2)	2.0	30	1.6	(27)
BOE Base rate (3)	—	—	38.1	(30)
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 £6.3 billion GBP LIBOR hedged items in cash flow hedge relationships will convert to repricing off SONIA at the first repricing date post cessation.

12 Derivatives continued

The following shows 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	(204)	—	482	—
Foreign exchange risk	3	34	(28)	(15)
De-designated				
Interest rate risk	(344)	—	(396)	—
Foreign exchange risk	—	(15)	—	(18)
	(545)	19	58	(33)

	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	(460)	—	312	—
Foreign exchange risk	6	53	(2)	(21)
Total	(454)	53	310	(21)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	(206)	—	(110)	—
Interest rate risk to non-interest income (1)	32	—	46	—
Foreign exchange risk to net interest income	5	—	(1)	—
Foreign exchange risk to non-interest income	17	—	—	—
Foreign exchange risk to operating expenses	3	—	4	—
Total	(149)	—	(61)	—

(1) There was £32 million reclassified from the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

Hedge ineffectiveness recognised in other operating income comprised:

	2021 £m	2020 £m
Fair value hedging		
(Losses)/gains on the hedged items attributable to the hedged risk	(1,150)	1,201
Gains/(losses) on the hedging instruments	1,183	(1,206)
Fair value hedging ineffectiveness	33	(5)
Cash flow hedging		
interest rate risk	(15)	17
Cash flow hedging ineffectiveness	(15)	17
Total	18	12

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).

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	2021 £m	2020 £m
Loans - amortised cost		
Stage 1	**306,344**	267,185
Stage 2	**33,357**	75,109
Stage 3	**4,761**	5,976
Inter-Group (1)	**111**	463
Total	**344,573**	348,733
ECL provisions (2)		
Stage 1	**289**	493
Stage 2	**1,452**	2,958
Stage 3	**1,926**	2,406
Inter-Group (1)	**-**	1
Total	**3,667**	5,858
ECL provision coverage (3)		
Stage 1 (%)	**0.09**	0.18
Stage 2 (%)	**4.35**	3.94
Stage 3 (%)	**40.45**	40.26
Inter-Group (%) (1)	**-**	0.22
Total	**1.06**	1.68
Continuing operations		
Impairment (releases)/losses		
ECL (release)/charge (4,5)		
Third party	**(1,191)**	2,982
Inter-Group	**(1)**	1
Total	**(1,192)**	2,983
Amounts written off	**781**	923

(1) NWH Group's intercompany assets were classified in Stage 1. The ECL attached to these loans was £0.1 million at 31 December 2021.
(2) Includes £4 million (2020 – £5 million) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(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) Includes a £3 million release (2020 – £10 million charge) related to other financial assets, of which a £2 million release (2020 – £2 million charge) related to assets at FVOCI, and a £31 million release (2020 – £19 million charge) related to contingent liabilities.
(6) The table above 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 £142.5 billion and debt securities of £30.3 billion (2020 – £93.5 billion and £39.8 billion respectively).

13 Loan impairment provisions

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 12 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £3,667 million (2020 - £5,858 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced.

Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

The measurement of credit impairment under the IFRS expected loss model depends on management's assessment of any potential deterioration in the creditworthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

Refer to Credit risk – IFRS 9 ECL model design principles section for further details.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. Refer to Credit risk – economic loss drivers – probability weightings of scenarios section for further details.

14 Other financial assets

	Debt securities								
	Central and local government			Other		Equity		Settlement	
	UK	US	Other	debt	Total	shares	Loans	balances	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	**11**	**277**	—	**288**
Fair value through other comprehensive income	**10,118**	**6,088**	**3,855**	**7,966**	**28,027**	**3**	**209**	—	**28,239**
Amortised cost	**1,582**	—	—	**1,076**	**2,658**	—	—	**1**	**2,659**
Total	**11,700**	**6,088**	**3,855**	**9,042**	**30,685**	**14**	**486**	**1**	**31,186**
2020									
Mandatory fair value through profit or loss	—	—	—	—	—	—	562	—	562
Fair value through other comprehensive income	16,089	7,870	5,111	7,434	36,504	—	—	—	36,504
Amortised cost	2,096	—	—	1,570	3,666	—	—	1	3,667
Total	18,185	7,870	5,111	9,004	40,170	—	562	1	40,733

For accounting policy information see Accounting policies note 11.

15 Intangible assets

	2021			2020		
	Goodwill	Other (1)	Total	Goodwill	Other (1)	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January	9,685	2,572	12,257	9,726	2,277	12,003
Currency translation and other adjustments	—	28	28	—	—	—
Additions	—	465	465	—	341	341
Disposals and write-off of fully amortised assets	—	(50)	(50)	(41)	(46)	(87)
At 31 December	9,685	3,015	12,700	9,685	2,572	12,257
Accumulated amortisation and impairment						
At 1 January	4,378	1,538	5,916	4,419	1,271	5,690
Currency translation and other adjustments	—	31	31	—	1	1
Disposals and write-off of fully amortised assets	—	(28)	(28)	(41)	(24)	(65)
Amortisation charge for the year	—	299	299	—	281	281
Impairment of intangible assets	85	2	87	—	9	9
At 31 December	4,463	1,842	6,305	4,378	1,538	5,916
Net book value at 31 December	5,222	1,173	6,395	5,307	1,034	6,341

(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 Holdings 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 the Group's capital targets.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Value in use is the present value of expected future cash flows from the CGU.

The recoverable amounts for all CGUs at 31 December 2021 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs.

For accounting policy information see Accounting policies notes 5 and 6.

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.

15 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)**
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)

(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

16 Other assets

	2021 £m	2020 £m
Property, plant and equipment (Note 17)	**3,852**	3,938
Pension schemes in net surplus (Note 5)	**99**	279
Prepayments	**351**	318
Accrued income	**194**	179
Tax recoverable	**31**	24
Deferred tax (Note 7)	**1,433**	1,255
Acceptances	**215**	269
Other assets	**389**	325
	6,564	6,587

17 Property, plant and equipment

2021	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	**760**	**7,900**	**1,129**	**9,789**
Transfers to disposal groups	**—**	**(86)**	**—**	**(86)**
Currency translation and other adjustments	**(64)**	**(2)**	**—**	**(66)**
Additions	**144**	**779**	**98**	**1,021**
Disposals and write-off of fully depreciated assets	**—**	**(828)**	**(132)**	**(960)**
At 31 December	**840**	**7,763**	**1,095**	**9,698**
Accumulated impairment, depreciation and amortisation				
At 1 January	**—**	**5,322**	**529**	**5,851**
Transfers to disposal groups	**—**	**(48)**	**—**	**(48)**
Currency translation and other adjustments (1)	**—**	**250**	**—**	**250**
Disposals and write-off of fully depreciated assets	**—**	**(622)**	**(100)**	**(722)**
Charge for the year				
- continuing operations	**—**	**338**	**140**	**478**
- discontinued operations	**—**	**1**	**—**	**1**
Impairment of property, plant and equipment				
- continuing operations	**—**	**37**	**—**	**37**
- discontinued operations	**—**	**(1)**	**—**	**(1)**
At 31 December	**—**	**5,277**	**569**	**5,846**
Net book value at 31 December	**840**	**2,486**	**526**	**3,852**

2020	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	868	8,136	1,120	10,124
Transfers to disposal groups	(71)	(4)	—	(75)
Transfers from/(to) holding company and fellow subsidiaries	—	13	—	13
Currency translation and other adjustments	26	12	—	38
Additions	11	319	132	462
Disposals and write-off of fully depreciated assets	(74)	(576)	(123)	(773)
At 31 December	760	7,900	1,129	9,789
Accumulated impairment, depreciation and amortisation				
At 1 January	—	5,228	467	5,695
Transfers to disposal groups	—	(3)	—	(3)
Transfers from/(to) holding company and fellow subsidiaries	—	7	—	7
Currency translation and other adjustments	—	5	—	5
Disposals and write-off of fully depreciated assets	—	(355)	(83)	(438)
Charge for the year from continuing operations	—	335	145	480
Impairment of property, plant and equipment from continuing operations	—	105	—	105
At 31 December	—	5,322	529	5,851
Net book value at 31 December	760	2,578	600	3,938

(1) Other adjustments include the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £27 million (2020: £22 million) on the value of Investment property.

Valuations were carried out by qualified surveyors who are members of the Royal Institution of Chartered Surveyors, or an equivalent overseas body; property with a fair value of £236 million (2020 - £270 million) was valued by independent valuers for the purpose of year end valuations.

For accounting policy information see Accounting policies notes 6 and 7.

18 Other financial liabilities

	2021 £m	2020 £m
Bank deposits - held-for-trading	**66**	1
Customer deposits - held-for-trading	**33**	2
Settlement balances (1)	**1**	3,297
Debt securities in issue - amortised cost	**7,152**	7,326
Total	**7,252**	10,626

(1) In 2020 £3.1 billion pertains to purchase price consideration of Metro Bank's mortgage portfolio which was settled in February 2021.

For accounting policy information see Accounting policies notes 11 and 15.

19 Subordinated liabilities

	2021 £m	2020 £m
Dated loan capital	**—**	318
Undated loan capital	**166**	855
Preference shares	**118**	143
	284	1,316

The preference shares issued are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

(1) The table above excludes amounts due to holding company and fellow subsidiaries of £4,628 million (2020 - £4,949 million).
(2) For intercompany subordinated liabilities, please refer Note 7 to Parent company financial statements and notes.

Redemptions in the period (values as at date of transaction)	Capital Treatment	2021 £m	2020 £m
National Westminster Bank Plc			
£300 million 6.5% subordinated notes 2021 (not callable)	Tier 2	**300**	—
€10 million floating rate notes (callable quarterly)	Upper Tier 2	**9**	—
€178 million floating rate notes (callable quarterly)	Upper Tier 2	**152**	—
US$193 million floating rate notes (callable semi-annually)	Upper Tier 2	**138**	—
US$229 million floating rate notes (callable semi-annually)	Upper Tier 2	**167**	—
US$285 million floating rate notes (callable semi-annually)	Upper Tier 2	**201**	—
£35 million 11.5% notes (callable December 2022) (partial redemption)	Upper Tier 2	**3**	—
£140 million 9% cumulative preference shares of £1 (not callable)	Tier 1	**24**	—
		994	—

For accounting policy information see Accounting policies notes 11 and 15.

20 Other liabilities

	2021 £m	2020 £m
Lease liabilities (Note 22)	1,172	1,589
Provisions for liabilities and charges	905	1,358
Retirement benefit liabilities (Note 5)	48	57
Accruals	1,359	867
Deferred income	257	287
Current tax	212	193
Deferred tax (Note 7)	218	156
Acceptances	215	269
Other liabilities	579	609
	4,965	5,385

(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 £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2021	723	24	253	162	196	1,358
Expected credit losses impairment release	—	—	—	(73)	—	(73)
Currency translation and other movements	(5)	—	—	(1)	(2)	(8)
Charge to income statement	170	270	113	—	155	708
Release to income statement	(18)	(11)	(117)	—	(69)	(215)
Provisions utilised	(411)	(271)	(35)	—	(148)	(865)
At 31 December 2021	459	12	214	88	132	905

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
(2) Other materially comprises provisions relating to restructuring costs.
(3) Property provision materially includes dilapidation provisions. Release in property provision includes the effect of purchase of freeholds for properties where the group was the primary leaseholder.

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

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 NWH 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.

For accounting policy information see Accounting policies note 9.

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: NWH 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 26.
- Property: This includes provision for contractual costs such as rates associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 26.

21 Share capital and reserves

Allotted, called up and fully paid	2021 £m	2020 £m	Number of shares 2021 000s	2020 000s
Ordinary shares of £1	**3,263**	3,263	**3,263,386**	3,263,386

Ordinary shares

No ordinary shares were issued during 2021 or 2020.

In 2021, NWH Ltd paid an ordinary dividend of £3.5 billion to NatWest Group plc (2020 – nil).

Paid-in equity

Comprises equity instruments issued by NWH Ltd other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWH Ltd having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWH Ltd's discretion.

	2021 £m	2020 £m
Additional Tier 1 instruments		
US$2.0 billion 5.4697% instruments callable February 2024	**1,581**	1,581
US$2.65 billion 5.6964% instruments callable February 2024 (1)	**1,160**	2,095
US$750 thousand 4.3517% instruments callable December 2031	**541**	-
GBP£400 thousand 3.9438% instruments callable September 2028	**400**	-
	3,682	3,676

(1) Coupon reset on 15th August 2021 from 7.9916% to 5.6964%.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

Reserves

NWH Ltd optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and paid-in-equity instruments are also included within regulatory capital. The remittance of reserves to NatWest Group plc or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

For accounting policy information see Accounting policies note 15.

22 Leases

Lessees

The NWH 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
Amounts recognised in the consolidated income statement		
Interest payable	(35)	(38)
Depreciation (1)	(147)	(187)
Rental expense on short term leases	—	(1)
Income from subleasing right-of-use assets	12	14

	2021 £m	2020 £m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (2),(3)	668	874
Additions to right of use assets	69	73
Lease liabilities (3),(4)	(1,172)	(1,589)

The total cash outflow for leases is £171 million (2020: £194 million), including payment of principal amount of £143 million (2020: £157 million) which are included in the operating activities in the cash flow statement.

(1) Depreciation includes impairment of right of use assets of £47 million (2020 - £83 million).
(2) Includes right of use asset for property plant and equipment of £9 million (2020 - £8 million) and depreciation of £4 million (2020 - £2 million).
(3) Includes the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.
(4) Contractual cashflows of lease liabilities are shown in Note 11.

Lessor

Acting as a lessor, NWH 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.

Amounts included in consolidated income statement	2021 £m	2020 £m
Finance leases		
Finance income on the net investment in leases	293	279
Operating leases		
Lease income	169	168

22 Leases continued

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

Amounts receivable under finance leases	2021 £m	2020 £m
Within 1 year	**3,254**	3,127
1 to 2 years	**2,019**	2,211
2 to 3 years	**1,433**	1,585
3 to 4 years	**748**	943
4 to 5 years	**420**	484
After 5 years	**1,357**	1,622
Lease payments total	**9,231**	9,972
Unguaranteed residual values	**225**	232
Future drawdowns	**(21)**	(22)
Unearned income	**(856)**	(1,043)
Present value of lease payments	**8,579**	9,139
Impairments	**(145)**	(191)
Net investment in finance leases	**8,434**	8,948

The following tables show undiscounted lease receipts due from operating leases:

Amounts receivable under operating leases receivables	2021 £m	2020 £m
Within 1 year	**131**	143
1 to 2 years	**92**	112
2 to 3 years	**50**	79
3 to 4 years	**23**	34
4 to 5 years	**11**	14
After 5 years	**9**	11
Total	**316**	393

	2021 £m	2020 £m
Nature of operating lease assets on the balance sheet		
Transportation	**282**	327
Cars and light commercial vehicles	**21**	28
Other	**223**	245
	526	600

Fair value of investment properties under operating lease are £820 million (2020 - £741 million) and had lease income of £54 million (2020 - £58 million). The following table shows undiscounted lease receivables from investment properties:

Amounts receivable under investment properties	2021 £m	2020 £m
Within 1 year	**62**	63
1 to 2 years	**61**	124
2 to 3 years	**58**	51
3 to 4 years	**56**	73
4 to 5 years	**51**	85
After 5 years	**300**	121
Total	**588**	517

23 Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose, they do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities to segregate custodial duties from the fund management advice.

Consolidated structured entities

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to an SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. The NWH Group arranges securitisations to facilitate client transactions and undertakes own-asset securitisations to sell or to fund portfolios of financial assets.

The NWH Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

The NWH Group's involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

Other credit risk transfers securitisations

The NWH Group also transfers credit risk on originated loans and mortgages without the transfer of the assets to a SE. As part of this, the NWH Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2021, debt securities in issue by such SEs (and held by third parties) were £867 million (2020 - £772 million). The associated loans and mortgages at 31 December 2021 were £7,137 million (2020 - £10,027 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £28 million (2020 - £183 million) as a result of financial guarantee contracts with consolidated SEs.

Covered bond programme

Certain loans to banks and customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by the NWH Group. The NWH Group retains all of the risks and rewards of these loans. The partnerships are consolidated by the NWH Group, the loans retained on the NWH Group's balance sheet and the related covered bonds included within debt securities in issue of the NWH Group. At 31 December 2021, £8,267 million (2020 - £10,012 million) of loans to customers have been assigned to bankruptcy remote limited liability partnership to provide security for issue of debt securities by the NWH Group of £2,886 million (2020 - £3,020 million).

Unconsolidated structured entities

NWH Group's interest in unconsolidated structured entities is analysed below.

	2021			2020		
	Asset backed securitisation vehicles	Investment funds and other	Total	Asset backed securitisation vehicles	Investment funds and other	Total
Non trading assets	£m	£m	£m	£m	£m	£m
Loans to customers - amortised cost	5	337	342	15	353	368
Other financial assets	964	—	964	1,480	—	1,480
Total	969	337	1,306	1,495	353	1,848
Liquidity facilities/loan commitments	1	61	62	1	72	73
Maximum exposure	970	398	1,368	1,496	425	1,921

24 Asset transfers

Transfers that do not qualify for derecognition

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

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions are not derecognised if the NWH Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such repurchase transactions included on the balance sheet, are set out below. All of these securities could be sold or re-pledged by the holder.

For accounting policy information see Accounting policies note 13.

The following assets have failed derecognition (1)	2021 £m	2020 £m
Loans to banks - amortised cost	38	5
Loans to customers - amoritsed cost	1,837	39
Other financial assets	11,069	11,438
	12,944	11,482

(1) Associated liabilities were £11,041 million (2020 - £11,391 million).

Assets pledged as collateral

The NWH Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

Assets pledged against liabilities	2021 £m	2020 £m
Loans to bank - amortised cost	62	49
Loans to customers - amortised cost	20,108	15,939
Other financial assets (1)	2,429	2,710
	22,599	18,698

(1) Includes amounts pledged for pension derivatives.

As part of the covered bond programme £8,267 million of loans to customers (2020 – £10,012 million) have been transferred to a bankruptcy remote limited liability partnership within the NWH Group to provide collateral for issues of debt securities by the NWH Group of £2,886 million (2020 – £3,020 million). See Structured Entities Note.

Own asset securitisations

In own-asset securitisations, the pool of assets held by the SE is either originated by the NWH 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 the NWH Group's balance sheet.

	2021				2020			
		Debt securities in issue				Debt securities in issue		
Asset type (1)	Assets £m	Held by third parties £m	Held by the NWH Group £m	Total £m	Assets £m	Held by third parties £m	Held by the NWH Group £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			

Debt securities retained by NWH Group may be pledged with banks.

25 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis are set out below.

	2021 £m	2020 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**31,745**	33,256
Other equity instruments	**(3,682)**	(3,676)
	28,063	29,580
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**(86)**	(244)
Cash flow hedging reserve	**50**	(387)
Deferred tax assets	**(713)**	(760)
Prudential valuation adjustments	**(15)**	(12)
Goodwill and other intangible assets	**(5,984)**	(5,868)
Expected losses less impairments	**—**	—
Foreseeable charges	**(1,879)**	—
Foreseeable pension contributions	**(365)**	(266)
Adjustment under IFRS 9 transition arrangements	**649**	1,700
Other regulatory adjustments	**(5)**	—
	(8,348)	(5,837)
CET1 capital	**19,715**	23,743
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**3,682**	3,676
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	**—**	58
AT1 Capital	**3,682**	3,734
Tier 1 capital	**23,397**	27,477
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,587**	4,613
Qualifying own funds instruments issued by subs and held by third parties	**126**	267
Other regulatory adjustments	**431**	393
Tier 2 Capital	**5,144**	5,273
Total regulatory capital	**28,541**	32,750

In the management of capital resources, NWH Ltd is governed by NatWest Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a common equity Tier 1 component of not less than 4%.

NWH Ltd has complied with the PRA's capital requirements throughout the year.

Common equity Tier 1 component of not less than 4%. NWH Ltd has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWH 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.

26 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2021. Although NWH Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWH Group's expectation of future losses.

For accounting policy information see Accounting policies note 19.

	2021 £m	2020 £m
Guarantees	**1,197**	1,298
Other contingent liabilities	**1,879**	2,166
Standby facilities, credit lines and other commitments	**100,080**	101,723
Contingent liabilities and commitments	**103,156**	105,187

(1) In the normal course of business, NWH Group guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements which are excluded from the table above.

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWH 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 NWH Group's normal credit approval processes.

Guarantees - NWH Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that NWH Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The Group expects most guarantees it provides to expire unused.

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 NWH 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 NWH 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.

Capital Support Deed

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

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2021 £m	2020 £m
Capital expenditure on other property, plant and equipment	**15**	15
Contracts to purchase goods or services (1)	**678**	724
	693	739

(1) Of which due within 1 year: £299 million (2020 - £264 million).

26 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, the NWH 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 the NWH Group's financial statements. The NWH Group earned fee income of £235 million (2020 - £206 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 Holdings Limited and its subsidiary and associated undertakings ('NWH 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.

NWH 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 NWH 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. NWH 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 NWH 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 NWH 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 NWH Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWH 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 20 for information on material provisions.

We have provided information below on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. One plaintiff sought to appeal the dismissal, but on 14 February 2022, the United States Court of Appeals for the Second Circuit (US Court of Appeals) dismissed the appeal because that plaintiff lacks standing to maintain the appeal.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to dismiss, which remains pending.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay the £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

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.

26 Memorandum items continued

Litigation and regulatory matters

In March 2019, the trial court granted summary judgment in favour of NWB Plc. In April 2021, the US Court of Appeals affirmed the trial court's judgment in favour of NWB Plc. In September 2021, the plaintiffs filed a petition seeking discretionary review by the United States Supreme Court and that petition remains pending.

Regulatory matters (including investigations and customer redress programmes)

NWH Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWH Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWH Group, remediation of systems and controls, public or private censure, restriction of NWH 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 NWH 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.

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

Investigations

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

Following an FCA investigation, commenced in 2017, into potential breaches of the UK Money Laundering Regulations 2007 ('MLR 2007'), NWB Plc pled guilty in October 2021 to three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) between 7 November 2013 and 23 June 2016, and regulations 8(3) and 14(1) between 8 November 2012 and 23 June 2016. These regulations required the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of a UK incorporated customer. In December 2021, NWB Plc was fined £264.8 million, incurred a confiscation order and was ordered to pay costs. This was met by NWB Plc from existing provisions, with a small additional provision taken in Q4 2021.

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.

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.

27 Analysis of the net investment in business interests and intangible assets

	2021 £m	2020 £m
Fair value given for business acquired	(2)	(47)
Additional investment in associates	(11)	—
Net assets/liabilities purchased	(3,128)	(19)
Net outflow of cash in respect of purchases	(3,141)	(66)
Net assets/liabilities disposed	50	19
Profit on disposal	55	8
Net inflow of cash in respect of disposals	105	27
Net cash expenditure on intangible assets	(465)	(341)
Net outflow of cash	(3,501)	(380)

28 Analysis of changes in financing during the year

	Called up share capital and paid in Equity		Subordinated liabilities		MREL	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	6,939	6,939	6,265	5,777	8,970	7,582
Issue of paid-in equity	(935)	—				
Redemption of paid-in equity	941	—				
Issue of subordinated liabilities			1,981	500		
Redemption of subordinated liabilities			(4,190)	—		
Interest on subordinated liabilities			(268)	(320)		
Issue of MRELs					2,785	1,293
Interest on MRELs					(346)	(340)
Net cash inflow/(outflow) from financing	6	—	(2,477)	180	2,439	953
Effects of foreign exchange	—	—	1,035	(151)	(21)	(235)
Changes in fair alue of subordinated liabilities and MRELs			(304)	136	(410)	326
Interest on subordinated liabilities and MRELs			256	323	352	344
Other	—	—	137	—	—	—
At 31 December	6,945	6,939	4,912	6,265	11,330	8,970

29 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and loans to banks with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	2021 £m	2020 £m
At 1 January		
- cash	95,187	57,646
- cash equivalents	4,367	4,996
	99,554	62,642
Net increase in cash and cash equivalents	48,573	36,912
At 31 December	148,127	99,554
Comprising:		
Cash and balances at central banks	143,892	95,187
Other financial assets	8	165
Loans to banks including intragroup balances - amortised cost (1)	4,227	4,202
Cash and cash equivalents	148,127	99,554

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £8 million (2020 - £165 million)

30 Directors' and key management remuneration

The executive and non-executive directors of NWH Ltd are aligned with its sub-group's boards (NWB Plc, RBS plc and UBL). The directors were remunerated for their services to NWH Group as a whole and NWH Ltd did not remunerate them, nor could their remuneration be apportioned, in respect of their services to these subsidiaries.

Directors' remuneration	2021 £000	2020 £000
Non-executive directors emoluments	**1,955**	2,078
Chairman and executive directors emoluments	**4,688**	4,349
	6,643	6,427
Amounts receivable under long-term incentive plans and share option plans	**549**	609
	7,192	7,036

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,808,000 (2020 - £2,561,000).

No directors accrued benefits under defined benefit schemes or defined contribution schemes during 2021 and 2020. The executive directors may participate in NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWH Ltd are also directors of NatWest Group plc, details of their share interests can be found in the 2021 Annual Report and Accounts of NatWest Group plc, in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management(1) during the year was as follows:

	2021 £000	2020 £000
Short-term benefits	**15,604**	15,099
Post-employment benefits	**280**	363
Share-based payments	**1,967**	2,707
	17,851	18,169

(1) Key management comprises members of the NWH Ltd Executive Committee.

31 Transactions with directors and key management

At 31 December 2021, amounts outstanding in relation to transaction, arrangements and agreements entered into by authorised institutions in NWH Group, as defined in UK legislation, were £7,032,240 in respect of loans to eight persons who were directors of NWH Ltd at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprise directors of NWH Ltd and members of the NWH Ltd Executive Committee. Amounts in the table below are attributed to each person at their highest level of NatWest Group key management.

	2021 £000	2020 £000
Loans to customers - amortised cost	**8,632**	5,105
Customer deposits	**45,719**	39,164

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the ultimate holding company.

32 Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

At 31 December 2021, HM Treasury's holding in NatWest Group's ordinary shares was 52.96%

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

Bank of England facilities

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

Members of NWH 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 rate.

NWH Group provides guarantees for certain subsidiaries liabilities to the Bank of England.

Other related parties

(a) In their roles as providers of finance, NWH Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company.
(b) NWH Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWH Group.
(c) In accordance with IAS 24, transactions or balances between NWH Group entities that have been eliminated on consolidation are not reported.
(d) The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements. Other net income/(expenses) represents the share of post-tax results of associates and joint ventures, profit (or loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.

The table below discloses transactions between NWH Group and subsidiaries of NatWest Group.

	2021 £m	2020 £m
Interest receivable	**5**	—
Interest payable	**(344)**	(439)
Fees and commissions receivable	**1**	—
Fees and commissions payable	**(9)**	(3)
Other administrative expenses	**33**	12
	(314)	(430)

33 Holding company

NWH Group's holding company is NatWest Group plc which is incorporated in the United Kingdom and registered in Scotland.

As at 31 December 2021, NatWest Group plc heads the largest group in which NWH Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from Legal, Governance & Regulatory Affairs, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ. the Registrar of Companies or at natwestgroup.com.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, The UK Government, through HM Treasury, currently holds 52.96% of the issued ordinary share capital of the Holding company and is therefore NWH Group's ultimate controlling party.

34 Post balance sheet events

There have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

Parent company financial statements and notes

Balance sheet as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Derivatives		**502**	826
Amounts due from holding company and fellow subsidiaries	3	**14,634**	12,380
Investment in Group undertakings	8	**39,308**	35,315
Other assets		**43**	36
Total assets		**54,487**	48,557
Liabilities			
Amounts due to holding company and fellow subsidiaries	3	**16,370**	14,362
Derivatives		**329**	549
Other liabilities		**8**	1
Total liabilities		**16,707**	14,912
Owners' equity		**37,780**	33,645
Total liabilities and equity		**54,487**	48,557

Owners' equity includes a total comprehensive profit for the year, dealt with in the accounts of the parent company, of £7,809 million (2020 - £181 million loss).

As permitted by section 408(3) of the Companies Act 2006, the primary financial statements of the parent company do not include an income statement or a statement of comprehensive income.

The accompanying notes on pages 168 to 177 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 17 February 2022 and signed on its behalf by:

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

NatWest Holdings Limited
Registered No. 10142224

Statement of changes in equity for the year ended 31 December 2021

	2021 £m	2020 £m
Called-up share capital - at 1 January and 31 December	**3,263**	3,263
Paid-in equity - at 1 January	**3,676**	3,676
Redeemed	**(935)**	—
Securities issued during the year	**941**	—
At 31 December	**3,682**	3,676
Cash flow hedging reserve - at 1 January	**(7)**	(8)
Amount recognised in equity	**3**	2
Amount transferred from equity to earnings	**3**	(2)
Tax	**(1)**	1
At 31 December	**(2)**	(7)
Retained earnings - at 1 January	**26,713**	27,172
Profit/(loss) attributable to ordinary shareholders and other equity owners	**7,804**	(182)
Ordinary dividends paid	**(3,500)**	—
Paid-in equity dividends paid	**(213)**	(277)
Redemption of paid-in equity (1)	**33**	—
At 31 December	**30,837**	26,713
Total equity at 31 December	**37,780**	33,645
Attributable to:		
Ordinary shareholders	**34,098**	29,969
Paid-in equity holders	**3,682**	3,676
	37,780	33,645

(1) The redemption of paid-in equity includes a tax credit of £11m.

Cash flow statement for the year ended 31 December 2021

	2021 £m	2020 £m
Operating profit/(loss) before tax	7,774	(217)
Adjustments for:		
Net impairment (reversals)/charges of investments in Group undertakings	(4,014)	1,192
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	(388)	312
Elimination of foreign exchange differences	45	(193)
Other non-cash items	34	(20)
Dividends receivable from subsidiaries	(3,863)	(1,021)
Profit on sale of subsidiaries and associates	(23)	—
Interest payable on MRELs and subordinated liabilities	373	424
Loss on sale of MRELs and subordinated liabilities	95	—
Net cash flows from trading activities	33	477
Decrease/(increase) in derivative assets	327	(353)
Increase in amounts due from holding company and fellow subsidiaries	(2,191)	(420)
Decrease in amounts due to holding company and fellow subsidiaries	(108)	(46)
(Decrease)/increase in derivative liabilities	(220)	245
(Decrease)/Increase in other liabilities	(6)	4
Change in operating assets and liabilities	(2,198)	(570)
Income taxes received	36	35
Net cash flows from operating activities (1)	(2,129)	(58)
Cash flows from investing activities		
Net movement in business interests	14	(5)
Dividends received from subsidiaries	3,863	1,021
Net cash flows from investing activities	3,877	1,016
Cash flows from financing activities		
Movement in MRELs	699	342
Movement in subordinated liabilities	(396)	242
Dividends paid	(3,713)	(277)
Issue of paid-in equity	941	—
Redemption of paid-in equity	(935)	—
Net cash flows from financing activities	(3,404)	307
Effects of exchange rate changes on cash and cash equivalents	(16)	(44)
Net (increase)/decrease in cash and cash equivalents	(1,672)	1,221
Cash and cash equivalents at 1 January	1,840	619
Cash and cash equivalents at 31 December (2)	168	1,840

(1) Includes interest received of £115 million (2020 - £151 million) and interest paid of £225 million (2020 - £300 million).
(2) Cash and cash equivalents is comprised of intragroup loans and advances to banks with maturity of less than 3 months for 2021 and 2020.

1 Presentation of financial statements

The financial statements are prepared on a going concern basis based on the directors' assessment that the NWH Ltd 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 82) and in accordance with UK adopted International Accounting Standards (IAS).

NWH Ltd is incorporated in the UK and registered in England. 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 in 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 NWH Ltd are included in NatWest Holdings Group's accounting policies which are set out on pages 108 to 113 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 NWH Ltd are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgments and assumptions involved in NWH Ltd'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, of its investments in group undertakings, refer to Note 8 on the consolidated accounts.

Future accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2021. NWH Ltd is assessing the effect of adopting these standards and amendments on its financial statements but does not expect the effect to be material.

3 Financial instruments: fair value of financial instruments measured at amortised cost

The following tables analyse NWH Ltd'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 notes 11,13,14 and 15.

Assets	MFVTPL £m	Amortised cost £m	Other assets £m	Total £m
Derivatives (1)	**502**			**502**
Amounts due from holding company and fellow subsidiaries	**7,391**	**7,243**		**14,634**
Investment in group undertakings			**39,308**	**39,308**
Other assets			**43**	**43**
31 December 2021	**7,893**	**7,243**	**39,351**	**54,487**
Derivatives (1)	826			826
Amounts due from holding company and fellow subsidiaries	5,646	6,734		12,380
Investment in group undertakings			35,315	35,315
Other assets			36	36
31 December 2020	6,472	6,734	35,351	48,557

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Amounts due to holding company and fellow subsidiaries	**114**	**6,331**	**9,925**		**16,370**
Derivatives (1)	**329**				**329**
Other financial liabilities				**8**	**8**
31 December 2021	**443**	**6,331**	**9,925**	**8**	**16,707**
Amounts due to holding company and fellow subsidiaries	222	4,557	9,583		14,362
Derivatives (1)	549				549
Other financial liabilities				1	1
31 December 2020	771	4,557	9,583	1	14,912

(1) Includes net hedging derivatives assets of £237 million (2020 - £608 million) and net hedging derivative liabilities of £82 million (2020 - £227 million).

3 Financial instruments continued

The following tables include amounts due from/to the holding company and fellow subsidiaries:

	2021				2020			
	Holding companies	Fellow subsidiaries	Subsidiaries	Total	Holding companies	Fellow subsidiaries	Subsidiaries	Total
Assets	£m	£m	£m	£m	£m	£m	£m	£m
Loans to banks - amortised cost	—	—	7,243	7,243	—	—	6,734	6,734
Other financial assets	—	—	7,391	7,391	—	—	5,646	5,646
Amounts due from holding company and fellow subsidiaries	—	—	14,634	14,634		—	12,380	12,380
Derivatives (1)	279	119	104	502	506	229	91	826
Liabilities								
Other financial liabilities - subordinated liabilities	4,669	—	—	4,669	4,919	—	—	4,919
Other financial liabilities	—	114	—	114	—	222	—	222
MREL instruments issued to NatWest Group plc	11,587	—	—	11,587	9,221	—	—	9,221
Amounts due to holding company and fellow subsidiaries	16,256	114	—	16,370	14,140	222	—	14,362
Derivatives (1)	293	3	33	329	457	9	83	549

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

4 Financial instruments

Interest rate benchmark reform

The total amount of exposure for NWH Ltd at 31 December 2021 subject to above conversion provisions is £548 million assets.

	Rates subject to IBOR reform			
	GBP LIBOR	USD IBOR (1)	Other IBOR	Total
2021	£m	£m	£m	£m
Amounts due from holding company and fellow subsidiaries	—	3,626	—	3,626
Amounts due to holding company and fellow subsidiaries	—	6,436	—	6,436
Derivatives notional (£bn)	—	11.3	—	11.3

	Rates subject to IBOR reform				
	GBP LIBOR	USD IBOR (1)	EURIBOR (2)	Other IBOR	Total
2020	£m	£m	£m	£m	£m
Amounts due from holding company and fellow subsidiaries	537	5,278	1,019	—	6,834
Amounts due to holding company and fellow subsidiaries	—	8,469	1,791	—	10,260
Derivatives notional (£bn)	—	11.8	2.2	—	14.0

(1) In 2021 the FCA declared that USD IBOR 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.

(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

AT1 issuances

As part of its capital management activities NWH Ltd has acquired certain equity instruments issued by its subsidiaries which contain reset clauses linked to IBOR rates. These are reported in investment in group undertakings.

These are outlined below:

	31 December 2021	31 December 2020
	£m	£m
USD $1.3 billion 6.49%	—	934
USD $1.35 billion 6.49%	969	969
USD $2 billion 6.4%	1,436	1,436

5 Financial instruments: fair value of financial instruments measured at amortised cost

The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

2021	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Level 3 £bn
Financial assets					
Amounts due from holding company and fellow subsidiaries	**—**	**7.2**	**7.3**	**4.3**	**3.0**
Financial liabilities					
Amounts due to holding company and fellow subsidiaries	**—**	**9.9**	**9.9**	**9.9**	**—**
2020					
Financial assets					
Amounts due from holding company and fellow subsidiaries	—	6.7	6.9	4.7	2.2
Financial liabilities					
Amounts due to holding company and fellow subsidiaries	—	9.6	10.1	10.1	—

6 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	**85**	**417**	**502**	160	666	826
Amounts due from holding company and fellow subsidiaries	**3,455**	**11,179**	**14,634**	2276	10104	12,380
Liabilities						
Amounts due to holding company and fellow subsidiaries	**560**	**15,810**	**16,370**	330	14,032	14,362
Derivatives	**63**	**266**	**329**	76	473	549

Assets and liabilities by contractual cash flow maturity

The following table shows undiscounted cash flows up to 20 years from the balance sheet date, including future interest payments.

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						
Derivatives held for hedging	**17**	**88**	**84**	**40**	**13**	**—**
Amounts due from holding company and fellow subsidiaries (1)	**460**	**3,079**	**269**	**269**	**3,828**	**349**
	477	**3,167**	**353**	**309**	**3,841**	**349**
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	**422**	**466**	**5,860**	**5,505**	**5,536**	**—**
Derivatives held for hedging	**(7)**	**38**	**32**	**12**	**10**	**—**
	415	**504**	**5,892**	**5,517**	**5,546**	**—**
2020						
Assets by contractual maturity						
Derivatives held for hedging	33	165	304	107	36	—
Amounts due from holding company and fellow subsidiaries (1)	521	1,901	863	387	4,475	—
	554	2,066	1,167	494	4,511	—
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	82	512	4,459	6,104	4,412	—
Derivatives held for hedging	10	87	135	14	—	—
	92	599	4,594	6,118	4,412	—

For further information on the timing of cash flows to settle financial liabilities, refer to Note 11 on the consolidated accounts.

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

7 Subordinated liabilities

Amounts due to the holding company and fellow subsidiaries include £4,669 million (2020 - £4,919 million) of subordinated liabilities. The following tables analyse these intercompany subordinated liabilities:

For accounting policy information see Accounting policies notes 11 and 15.

Dated loan capital	Capital treatment	2021 £m	2020 £m
US$2,000 million 6.071% dated notes 2028 (callable anytime from December 2023)	Tier 2	**1,502**	1,580
US$2,250 million 6.108% dated notes 2029 (callable anytime from May 2024)	Tier 2	**—**	1,799
US$615 million 6.073% dated notes 2028 (callable anytime from December 2023)	Tier 2	**471**	481
US$750 million 3.754% dated notes 2029	Tier 2	**560**	552
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	**507**	507
£1,000 million 2.105% dated notes 2031 (callable anytime from November 2026)	Tier 2	**1,002**	—
€750 million 1.043% dated notes 2032 (callable anytime from September 2027)	Tier 2	**627**	—
		4,669	4,919

Redemptions in the year (value as at date of transaction)	Capital treatment	2021 £m	2020 £m
US$2,250 million 6.108% dated notes 2029	Tier 2	**1,668**	—
US$2,000 million 6.071% dated notes 2028 (callable December 2023) (partial redemption)	Tier 2	**38**	—
		1,706	—

Issuances in the year (value as at date of transaction)	Capital treatment	2021 £m	2020 £m
£500 million 3.622% dated notes 2030 (callable once in August 2025)	Tier 2	**—**	500
£1,000 million 2.105% dated notes 2031 (callable anytime from November 2026)	Tier 2	**1,000**	—
€750 million 1.043% dated notes 2032 (callable anytime from September 2027)	Tier 2	**630**	—
		1,630	500

8 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 Accounting policies note 17.

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	**35,315**	36,485
Currency translation and other adjustments	**(30)**	17
Additional investments in Group undertaking	**943**	5
Disposals of investments in Group undertaking	**(934)**	—
Impairment of investments (1)	**4,014**	(1,192)
At 31 December	**39,308**	35,315

(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 £943 million of contingent convertible AT1 notes to NatWest Bank Plc and redeemed £934 million of contingent convertible AT1 notes issued to NatWest Bank Plc. The additional investment in 2020 was related to the initial capitalisation of NatWest Germany GmbH.

In 2021, Impairment of investments includes a £7,200 million reversal of an earlier impairment of the company’s investment in NatWest Bank Plc as improved five-year cash flow forecasts increased the value in use and a £3,186 million impairment of the company’s investment in Ulster Bank Ireland DAC (£2,386 million), in connection with the wind-down strategy, and RBS plc (£800 million) as reduced five-year cash flow forecasts decreased the value in use. The impairment in 2020 was mainly related to NatWest Bank Plc.

The impact of reasonably possible changes to the more significant variables in the value in use calculations for NatWest Bank Plc 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.

	Potential impairment	
	2021 £bn	2020 £bn
1% adverse movement in discount rate	**(3.9)**	(3.3)
1% adverse movement in terminal growth rate	**(1.9)**	(1.3)
5% adverse movement in forecast income	**(4.1)**	(3.6)
5% adverse movement in forecast cost	**(2.3)**	(2.1)
£250 million adverse movement in forecast 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 issued by NWB Plc.

NatWest Bank Plc, RBS plc and Ulster Bank Ireland DAC are directly owned by NWH Ltd; Ulster Bank Limited, Lombard North Central PLC and Coutts & Company are owned by NWH Ltd through NWB Plc. All of these subsidiaries are included in NatWest Group’s consolidated financial statements and have an accounting reference date of 31 December.

Name of subsidiary	Nature of business	Country of incorporation and principal area of operation	Company's interest %
National Westminster Bank Plc	Banking	Great Britain	100%
The Royal Bank of Scotland plc	Banking	Great Britain	100%
Coutts & Company (1)	Private Banking	Great Britain	100%
Ulster Bank Ireland Designated Activity Company	Banking	Republic of Ireland	100%
Ulster Bank Limited	Banking	Northern Ireland	100%
Lombard North Central PLC	Leasing	Great Britain	100%

(1) Coutts & Company is incorporated with unlimited liability.

9 Analysis of changes in financing during the year

	Called-up share capital and paid-in equity		Subordinated liabilities		MRELs	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	6,939	6,939	4,919	4,439	4,371	3,751
Issue of paid-in equity	941	—				
Redemption of paid-in equity	(935)	—				
Issue of subordinated liabilities			1,630	500		
Redemption of subordinated liabilities			(1,802)	—		
Interest on subordinated liabilities			(224)	(258)		
Issue of MRELs					854	503
Interest on MRELs					(155)	(161)
Net cash inflow/(outflow) from financing	6	—	(396)	242	699	342
Effects of foreign exchange	—	—	52	(142)	(55)	(78)
Changes in fair value of subordinated liabilities and MRELs			(220)	116	(168)	196
Interest on subordinated liabilities and MRELs			219	264	154	160
Other	—	—	95	—	—	—
At 31 December	6,945	6,939	4,669	4,919	5,001	4,371

10 Directors' and key management remuneration

Directors' remuneration is disclosed in Note 30 to the consolidated accounts. The directors had no other reportable related party transactions or balances with the company.

11 Related undertakings

Legal entities and activities at 31 December 2021

In accordance with the Companies Act 2006, NWH Ltd's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWH Ltd or subsidiaries of NWH Ltd and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWH 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 NWH Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(1)
Coutts & Company	CI	FC	(11)
Coutts Finance Company	BF	FC	(11)
Esme Loans Ltd	BF	FC	(1)
FreeAgent Central Ltd	SC	FC	(23)
FreeAgent Holdings Ltd	SC	FC	(23)
G L Trains Ltd	BF	FC	(14)
Gatehouse Way Developments Ltd	INV	DE	(1)
KUC Properties Ltd	BF	DE	(3)
Land Options (West) Ltd	INV	DE	(3)
Lombard & Ulster Ltd	BF	FC	(10)
Lombard Business Finance Ltd	BF	FC	(1)
Lombard Business Leasing Ltd	BF	FC	(1)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(1)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(1)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(1)
Lombard Discount Ltd	BF	FC	(1)
Lombard Finance Ltd	BF	FC	(1)
Lombard Industrial Leasing Ltd	BF	FC	(1)
Lombard Lease Finance Ltd	BF	FC	(1)
Lombard Leasing Company Ltd	BF	FC	(1)
Lombard Leasing Contracts Ltd	BF	FC	(1)
Lombard Lessors Ltd	BF	FC	(1)
Lombard Maritime Ltd	BF	FC	(1)
Lombard North Central Leasing Ltd	BF	FC	(1)
Lombard North Central PLC	BF	FC	(1)
Lombard Property Facilities Ltd	BF	FC	(1)
Lombard Technology Services Ltd	BF	FC	(1)
Mettle Ventures Ltd	OTH	FC	(1)
National Westminster Bank Plc	CI	FC	(1)
National Westminster Home Loans Ltd	BF	FC	(1)
NatWest Corporate Investments	BF	FC	(1)
NatWest Invoice Finance Ltd	OTH	FC	(1)
NatWest Property Investments Ltd	INV	DE	(1)
Pittville Leasing Ltd	BF	FC	(1)
Premier Audit Company Ltd	BF	FC	(1)
R.B. Capital Leasing Ltd	BF	FC	(1)
R.B. Leasing (September) Ltd	BF	FC	(1)
R.B. Quadrangle Leasing Ltd	BF	FC	(1)
RBS Asset Management Holdings	BF	FC	(11)
RBS Collective Investment Funds Ltd	BF	FC	(8)
RBS Invoice Finance Ltd	BF	FC	(1)
RBSG Collective Investments Holdings Ltd	BF	FC	(8)
RBSSAF (2) Ltd	BF	FC	(1)
RBSSAF (8) Ltd	BF	FC	(1)
RBSSAF (25) Ltd	BF	FC	(1)
Royal Bank Leasing Ltd	BF	FC	(3)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(3)
Royal Scot Leasing Ltd	BF	FC	(3)
RoyScot Trust Plc	BF	FC	(1)
The 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	(19)
Ulster Bank Ltd	CI	FC	(10)
Ulster Bank Pension Trustees Ltd	TR	DE	(10)
Voyager Leasing Ltd	BF	FC	(1)
Walton Lake Developments Ltd	INV	DE	(1)
World Learning Limited	BF	FC	(20)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWH Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	(2)
Airside Properties ASP Denmark AS	BF	FC	(9)
Airside Properties Denmark AS	BF	FC	(9)
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	(37)
Brödmagasinet KB	BF	FC	(2)
Eiendomsselskapet Apteno La AS	BF	FC	(5)
Espeland Naering AS	BF	FC	(5)
Eurohill 4 KB	BF	FC	(2)
Fab Ekenäs Formanshagen 4	BF	FC	(4)
Fastighets AB Flöjten I Norrköping	BF	FC	(2)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(2)
Fastighetsbolaget Holma I Höör AB	BF	FC	(2)
First Active Ltd	BF	FC	(6)
Forskningshöjden KB	BF	FC	(2)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(2)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	(2)
Fyrsate Fastighets AB	BF	FC	(2)
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)

11 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Kallebäck Institutfastigheter AB	BF	FC	(2)
Kastrup Commuter K/S	BF	FC	(9)
Kastrup Hangar 5 K/S	BF	FC	(9)
Kastrup V & L Building K/S	BF	FC	(9)
KB Eurohill	BF	FC	(2)
KB Lagermannen	BF	FC	(2)
KB Likriktaren	BF	FC	(2)
Koy Espoon Entresse II	BF	FC	(4)
Koy Helsingin Mechelininkatu 1	BF	FC	(4)
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	(16)
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 Peltolantie 27	BF	FC	(16)
Koy Pennalan Johtotie 2	BF	FC	(4)
Koy Porkkanakatu 2	BF	FC	(16)
Koy Puotikuja 2 Vaasa	BF	FC	(4)
Koy Raision Kihlakulma	BF	FC	(4)
Koy Ravattulan Kauppakeskus	BF	FC	(4)
Koy Tapiolan Louhi	BF	FC	(4)
Koy Vantaan Rasti IV	BF	FC	(4)
Koy Vapaalan Service-Center	BF	FC	(4)
Kvam Eiendom AS	BF	FC	(5)
Läkten 1 KB	BF	FC	(2)
Leiv Sand Eiendom AS	BF	FC	(5)
LerumsKrysset KB	BF	FC	(2)
Limstagården KB	BF	FC	(2)
Lundbyfilen 5 AB	BF	FC	(12)
Narmovegen 455 AS	BF	FC	(5)
National Westminster International Holdings B.V.	BF	FC	(41)
NatWest Germany GmbH	OTH	FC	(24)
NatWest Services (Switzerland) Ltd	SC	FC	(36)
Nordisk Renting AB	BF	FC	(2)
Nordisk Renting AS	BF	FC	(34)
Nordisk Renting OY	BF	FC	(4)
Nordisk Specialinvest AB	BF	FC	(2)
Nordiska Strategifastigheter Holding AB	BF	FC	(2)
NWM Services India Private Ltd	SC	FC	(26)
Nybergflata 5 AS	BF	FC	(5)
Optimus KB	BF	FC	(2)
RBS Asset Management (Dublin) Ltd	BF	FC	(38)
RBS Deutschland Holdings GmbH	BF	FC	(24)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(35)
RBS Services India Private Ltd	SC	FC	(29)
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	(12)
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	(6)
Tygverkstaden 1 KB	BF	FC	(2)
Ulster Bank Dublin Trust Company Unlimited Company	TR	FC	(6)
Ulster Bank Holdings (ROI) Ltd	BF	FC	(6)
Ulster Bank Ireland Designated Activity Company	CI	FC	(6)
Ulster Bank Pension Trustees (RI) Ltd	TR	FC	(6)

The following table details active related undertakings which are 100% owned by NWH Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
West Granite Homes Inc.	INV	DE	(27)

The following table details active related undertakings incorporated in the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Ltd	OTH	EAJV	PC	50	(22)
GWNW City Developments Ltd	BF	EAJV	DE	50	(22)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(1)
JCB Finance (Leasing) Ltd	BF	FC	FC	75	(18)
JCB Finance Ltd	BF	FC	FC	75	(18)
Landpower Leasing Ltd	BF	FC	FC	75	(18)
London Rail Leasing Ltd	BF	EAJV	PC	50	(30)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(13)
Natwest Covered Bonds LLP	BF	FC	FC	73	(14)
Oaxaca Ltd	OTH	IA	IA	24	(43)
Pollinate International Ltd	OTH	AHC	DE	30	(42)
Silvermere Holdings Ltd	BF	FC	FC	95	(8)

11 Related undertakings continued

The following table details active related undertakings incorporated outside the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Ardmore Securities No.1 DAC	BF	FC	DE	0	(15)
Ardmore Securities No.2 DAC	BF	FC	DE	0	(15)
Dunmore Securities No.1 DAC	BF	FC	DE	0	(15)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(7)
Nightingale LF 2021-1 Ltd	BF	FC	DE	0	(7)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(7)
Nightingale Securities 2017-1 Limited	BF	FC	DE	0	(7)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(7)
Pharos Estates Ltd	OTH	AHC	DE	49.49	(28)
The Drive4Growth Company Ltd	OTH	IA	DE	20	(31)
Wiōniowy Management sp. Z.o.o.	SC	AHC	DE	25	(35)

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	(32)
Celtic Residential Irish Mortgage Securitisation No 10 Plc	FC	DE	0	(17)
Celtic Residential Irish Mortgage Securitisation No 11 Plc	FC	DE	0	(17)
Celtic Residential Irish Mortgage Securitisation No 14 DAC	FC	DE	0	(21)
Celtic Residential Irish Mortgage Securitisation No 15 DAC	FC	DE	0	(21)
Lombard Ireland Group Holdings Unlimited	FC	FC	100	(44)
Lombard Ireland Ltd	FC	FC	100	(44)
NatWest Capital Finance Ltd	FC	FC	100	(1)
NatWest Nominees Ltd	FC	FC	100	(1)
Northern Isle Ferries Ltd	FC	FC	100	(1)
RBS Asset Finance Europe Ltd	FC	FC	100	(1)
UB SIG (ROI) Ltd	FC	FC	100	(17)

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Adam & Company (Nominees) Ltd	FC	FC	100	(8)
Custom House Docks Basement Management No. 2 Ltd	IA	DE	25	(33)
Dixon Vehicle Sales Ltd	FC	FC	100	(1)
Dunfly Trustee Ltd	FC	FC	100	(1)
ITB1 Ltd	FC	FC	100	(3)
JCB Finance Pension Ltd	FC	DE	88	(10)
NatWest FIS Nominees Ltd	FC	FC	100	(1)
NatWest Group Secretarial Services Ltd	FC	FC	100	(3)
NatWest Pension Trustee Ltd	NC	DE	100	(1)
NatWest PEP Nominees Ltd	FC	FC	100	(1)
Nordisk Renting A/S	FC	FC	100	(40)
Nordisk Renting HB	FC	FC	100	(2)
R.B. Leasing (March) Ltd	FC	FC	100	(1)
RBS Investment Executive Ltd	NC	DE	100	(3)
RBS Retirement Savings Trustee Ltd	FC	FC	100	(1)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(8)
RoosterMoney UK Limited	FC	FC	100	(20)
Strand Nominees Ltd	FC	FC	100	(11)

The following table details the overseas branches of the Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

11 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)	Ulster Bank Head Office, Block B Central Park, Leopardstown, Dublin 18, D18 N153	Jersey
(7)	44 Esplanade, St Helier, JE4 9WG	UK
(8)	6-8 George Street, Edinburgh, EH2 2PF	UK
(9)	C/O Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev	Denmark
(10)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB	UK
(11)	440, Strand, London, WC2R OQS	UK
(12)	C/O Nordisk Renting AB, Box 14044, SE-104 40, Stockholm	Sweden
(13)	1 Bartholomew Lane London EC2N 2AX	UK
(14)	1 Princes Street, London, EC2R 8BP	UK
(15)	3rd Floor, Fleming Court, Fleming's Place, Dublin 4, D04 N4X9	RoI
(16)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100 Helsinki	Finland
(17)	One Spencer Dock, Dublin, D01 X9R7	RoI
(18)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW	UK
(19)	36 St Andrew Square, Edinburgh, EH2 2YB	UK
(20)	64 New Cavendish Street, London, W1G 8TB	UK
(21)	Block A Georges Quay Plaza, Georges Quay, Dublin 2	RoI
(22)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR	UK
(23)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG	UK
(24)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(25)	Ulster Bank Group Centre, George's Quay, Dublin 2	RoI
(26)	1st floor, Tower A, Building No. 1, Candor Techspace, IT/ITES SEZ, Sector 21, Gurugram, Haryana, 122016	India
(27)	200, Bellevue Parkway, Suite 210, Wilmington, DE 19809	USA
(28)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(29)	6th Floor, Tower A, Building No. 2, Candor TechSpace, GIL IT/ITES SEZ, Sector 21, Gurugram, Haryana, 122016	India
(30)	99 Queen Victoria Street, London, EC4V 4EH	UK
(31)	c/o Denis Crowley & Co Chartered Accountants, Unit 6 Riverside Grove, Riverstick, P43 W221	RoI
(32)	C/o Pinsent Masons Llp, The Soloist, 1 Lanyon Place, Belfast, Co. Antrim, BT1 3LP	UK
(33)	First Floor, 1 Exchange Place, Dublin 1, D01 R8W8	RoI
(34)	H. Heyerdahlsgate 1, Postboks 2020 Vika, Oslo, 0125	Norway
(35)	Ilzecka 26 Street, Warsaw, 02-135	Poland
(36)	Lerchenstrasse 18, Zurich, CH 8022	Switzerland
(37)	Liszt Straße 10, Regensburg, D-93053	Germany
(38)	One Dockland Central, Guild Street, IFSC, Dublin 1	RoI
(39)	The Chestnuts Brewers End, Takeley, Bishop's Stortford, CM22 6QJ	UK
(40)	c/o Adv Jan-Erik Svensson, HC Andersens Boulevard 12, Kopenhaum V, 1553	Denmark
(41)	Kokermolen 16, Houten, 3994 DH	Netherlands
(42)	2nd Floor 120 Old Broad Street, London, EC2N 1AR	UK
(43)	5 Little Portland Street, London, W1W 7JD	UK
(44)	13 - 18 City Quay, Dublin Dockland, Dublin 2, D02 ED70	UK