NatWest Group

NatWest Markets Plc

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At natwestgroup.com:

NatWest Group Annual Report and Accounts
Gives an overview of our business and our 2021 financial and non-financial performance. Also includes our Financial statements and related notes on our governance and remuneration, and Risk and capital management reports.

NatWest Group Climate-related Disclosures Report
Details our progress in 2021 on our climate-related strategy, scenario analysis, risk management and metrics.

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

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

Presentation of information

NatWest Markets Plc ('NWM Plc') is a wholly owned subsidiary of NatWest Group plc or 'the ultimate holding company'. The NatWest Markets Group ('NWM Group') comprises NWM Plc and its subsidiary and associated undertakings.

The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

Approval of Strategic report

The Strategic report for the year ended 31 December 2021 set out on pages 1 to 33 was approved by the Board of Directors on 17 February 2022.

By order of the Board

Company Secretary
Scott Gibson
17 February 2022

Chairman
Frank Dangeard

Executive Directors
Robert Begbie, CEO
David King, CFO

Non-Executive Directors
Vivek Ahuja
Tamsin Rowe
Anne Simpson
Sarah Wilkinson

2021 Performance highlights

We have supported customers' evolving needs with innovative solutions and continued to deliver an integrated customer proposition across NatWest Group. We have made good progress on building towards a sustainable business and creating a platform for growth in its chosen areas. We have reduced our risk-weighted assets (RWAs) and operating expenses in the year and, in Q4 2021, introduced changes to Rates within Fixed income which will improve the strategic alignment with the rest of the business and drive sustainable income growth.

Please refer to the Chief Executive's review on page 4 and the Financial review section on page 36 for further details on the financial performance for the period.

Financial highlights

Total income
£401m
2020: £1,158m

Other operating expenses[2]
£919m
2020: £1,106m

Income excl. asset disposals/strategic risk reduction & OCA[1]
£459m
2020: £1,265m

Operating loss before tax
£(714)m
2020: £(315)m

Capital and leverage highlights

CET1 ratio[3]
17.9%
2020: 21.7%

MREL ratio[3]
42.1%
2020: 49.6%

CRR leverage[3]
4.3%
2020: 5.2%

Liquidity coverage ratio[3]
205%
2020: 268%

RWAs[3]
£22.7bn
2020: £25.6bn

ESG highlights

Climate and Sustainable Funding and Financing[4]
£9.7bn
2020: £7.2bn

(1) Asset disposals/strategic risk reduction includes the costs of exiting positions and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage following the strategic announcements of 14 February 2020. OCA refers to own credit adjustments.
(2) Excludes strategic costs and litigation and conduct costs.
(3) These metrics are shown for NWM Plc. Capital, leverage and RWAs are based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at NWM Plc level.
(4) Funding and financing for climate and sustainable finance to support transition towards a net-zero and climate resilient economy. NatWest Group use internally defined Climate and Sustainable Finance Inclusion Criteria (CSFI criteria) to determine the assets, activities and companies that are eligible to be counted towards its targets for Climate and Sustainable Funding and Financing.

We help NatWest Group's corporate and institutional customers manage their financial risks safely and achieve their short-term and long-term sustainable financial goals. We think and act as one bank for our customers, collaborating with teams across the NatWest Group to be the partner of choice for our customers and their financial markets needs.

By focusing on the things we do best and that matter most to our customers, we help champion their potential. When people, families and businesses thrive, we all…

Thrive Together

A relationship bank for a digital world

We are guided by our purpose

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

Read more in the NatWest Group Annual Report and Accounts 2021

We are informed by the needs of our stakeholders

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

Customers · **Investors** · **Colleagues** · **Communities** · **Regulators** · **Suppliers**

Read more on page 16

We have four strategic priorities…

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

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

Read more on page 8

NatWest Group operates as One Bank working across boundaries to serve our customers

Driven to achieve our growth strategy, supporting NatWest Group…

Lending & financing	Current accounts	Cards & payments	Currencies	Capital markets	Fixed income	Transaction banking	Working capital	Asset & trade finance

← **NatWest Markets** →

…creating a positive impact through our areas of focus

Climate · **Enterprise** · **Learning**

Read more on pages 21 and 22

Our purpose

As part of NatWest Group we are aligned under their Purpose, which is at the heart of everything we do. This helps us ensure we are the partner of choice to meet the financial markets needs of NatWest Group's customers, knowing that when they thrive, so do we. Our business is focused on operating in partnership across NatWest Group. We have the products our customers need, aligning our expertise, global footprint and talent to drive long-term sustainable returns.

Our stakeholders

As a purpose-led organisation, we balance the different interests of all our stakeholders – customers, colleagues, communities and shareholders – in our decision-making, especially when there are difficult choices to be made.

Our blueprint for better business

We also recognise that to be purpose-led requires a significant mind-set change and as such we have engaged with thought leaders on this topic to challenge and develop our strategy. This new way of thinking has already led to great customer innovation, colleague development and collaboration across the bank. We have delivered several initiatives to drive this cultural shift this year, including purpose workshops for over 800 colleagues and research and training to explore what it is that colleagues need to thrive. We have also continued to hold our purpose and engagement forums to provide a platform for open discussion and to drive sustainable progress.

Our growth strategy

Our purpose-driven strategy for growth ensures that we are focused on what's relevant and right for our customers, society and the environment. It focuses on how we will grow our business and financial returns to make NatWest Markets a winning and sustainable business. We will also maintain our leadership in climate and sustainable financing and continue to drive innovation in this area. Finally, we will work together as one team, leveraging our global platform and continuing to develop our culture.

Our values

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

Our positive impact

We recognise the huge responsibilities that our role brings, and this informs our considered approach. From supporting local housing to funding initiatives for sustainability-based targets across our global clients, we continue to have a positive impact on the environment and wider society.

We contribute to the three focus areas of NatWest Group, where we can make a meaningful contribution and build long-term value in our business:

Climate

We will continue to grow our climate and ESG activities to maintain our leadership in climate and sustainable financing, supported by our dedicated climate and sustainability teams.

Enterprise

We continue to serve more of our core NatWest Group customers, removing barriers to enterprise and providing businesses in the UK with the backing they need to grow.

Learning

As we drive towards winning with purpose, we are creating the conditions that allow our colleagues to thrive personally and professionally. We have continued to share our market-leading insight on a number of initiatives with customers.

A more focused business

By simplifying our organisational structure, prioritising the products that matter most to our customers and leveraging the benefits of a One Bank approach, we are now well-positioned for growth.

Robert Begbie
CEO, NatWest Markets

Financial performance

Our total income was £401 million and the operating loss for the year was £714 million. This reflected a weak performance in Fixed Income, contrasting with the exceptional levels of market activity in the prior period caused by the pandemic, and ongoing strategic costs associated with restructuring the business and strengthening the balance sheet. We continued to reduce operating costs in line with the strategic announcement in February 2020 and progressed in closing legacy matters.

We returned £1 billion capital to NatWest Group via dividends during the year up to 31 December 2021, with a further £250 million to be declared and payable to NatWest Group plc on 18 February. We have also made significant progress in rightsizing our cost and capital base to support a sustainable and profitable future business. Our risk-weighted asset (RWA) reduction is largely complete with a decrease of c£2.9 billion during the year reflected in a strong CET1 ratio of 17.9% and leverage ratio of 4.3%. Performance in Capital Markets and Currencies was in line with expectations, but the under-performance in Fixed Income was driven by the continued reshaping of the business as well as an unfavourable market environment.

Supporting our customers

Our clear growth plans, with increased collaboration across NatWest Group, have already started to deliver benefits. We have strengthened our overall foreign exchange (FX) and international payments proposition so that more customers can benefit from our market-leading service. We collaborated across RBSI, NatWest Markets and Commercial Banking to establish a team to grow our offering to the investment management sector enabling us to provide a more integrated experience for our funds and sponsors customer base. Our business in Europe, which is in collaboration with Commercial Banking, is strong and primed for growth.

Simplifying our business, innovating and working with partners

Following the announcement of our plans in February 2020, the transformation of NatWest Markets is largely complete. I believe this is a great achievement against the backdrop of a global pandemic and is testament to the expertise and dedication of our colleagues. To enable becoming a more sustainable business, we have leveraged NatWest Group investment in technology both for colleagues and customers. I'm pleased that our first API (application programming interface) product, Indicative FX Rates, has been added to the NatWest bank of APIs, enhancing our ability to connect with our customers and partners. We also progressed the development of our digital bond capability, completing a pilot trade of a 'blockchain bond' in the secondary market. To build on this progress and support the growth of the business will require continued significant investment in our technology transformation. This investment is expected to have an impact on our 2022 results, as will the incurrence of further costs, if any, associated with litigation and regulatory matters.

Sharpening our capital allocation

Our Capital Management unit has actively managed capital allocation and optimisation across our businesses. We have reduced market-risk RWAs and counterparty-risk RWAs across the trading businesses, allowing for reallocation of capital to support our growth priorities and we have returned capital to NatWest Group via dividends.

Climate and ESG

We've had a strong year supporting our customers' climate and ESG-related finance needs, with product innovation across bonds, FX, interest rate derivatives and private finance. In 2021, we completed £9.7 billion of Climate and Sustainable Funding and Financing, including £3.3 billion in H2 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025. A great example of our support for renewables is on Vineyard Wind 1, the first commercial scale offshore wind farm in the US where our regional expertise supported other NatWest Group teams. And we've also been able to tap into the Asia investor base, supporting Hitachi Capital (UK) Plc with its first green bond.

With NatWest Group a principal partner for COP26, I was delighted to attend the conference and be involved in industry events such as the International Emissions Trading Association (IETA) CEO Roundtable and Global Financial Alliance for Zero (GFANZ) events. Our thought leadership in this area, as well as our commitment to customers, ensures we remain a leading underwriter for green, social and sustainability (GSS) bonds issued by UK corporates and sterling-denominated GSS bonds across all sectors.

Colleagues and ways of working

I'm proud of the way colleagues have adapted to the changes in ways of working, while also keeping our culture front of mind. Our purpose is helping to drive our culture and we've been running a dedicated programme for colleagues to explore and understand the role they play in delivering Purpose and how it shapes our business. This engagement and connection to our purpose is vital to the success of our growth ambition and strategy. This year, we have also stepped up our focus on developing a culture that champions diversity and creates an inclusive workplace that gives all of our people the best opportunity to succeed and grow their careers. I look forward to seeing more progress in this crucial area of diversity, equity and inclusion in the coming months.

As I reflect on the year, I'm delighted by how we've progressed our transformation to a sustainable business. I believe that the creation of the new Commercial and Institutional franchise will further enhance our plans for sustainable growth and enable us to deepen our relationships with customers and support their growth ambitions – helping them, as ever, to thrive.

Read more about our strategy in action on pages 8 and 9.

Outlook[1,5]

We aim to generate sustainable and attractive returns over the medium term, with efficient capital usage.

2022 outlook

NWM Plc 2022 funding plan targets £4-5 billion of public benchmark issuance.

Medium-term outlook

Metric[2]	Estimate
CET1 ratio[3]	~14%
MREL ratio[4]	>30%
Leverage ratio	>4%

Notes:
(1) This supersedes all prior guidance.
(2) All metrics presented relate to NWM Plc.
(3) NWM Plc expects to run above the 15% target on a solo basis in 2022.
(4) Includes total regulatory capital, non-eligible capital plus downstreamed internal MREL.
(5) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the 'Risk factors' section on pages 179 to 200 in this document. These statements constitute forward-looking statements. Refer to 'Forward-looking statements' in this document.

How we create and protect value

Our purpose

NWM Group will be the partner of choice to meet the financial markets needs of NatWest Group customers.

1 Our key strengths and resources

Digitally-led Currencies business that's well connected across NatWest Group, operating seamlessly to deliver for customers.

Innovative Capital Markets platform with market leading structuring and distribution expertise and climate and ESG capabilities.

Strong commitment to climate and ESG and award-winning innovation in sustainable financing.

Talented and diverse workforce with inclusive and collaborative culture.

Strong capital and liquidity positions.

2 Our business

Our customers

As part of NatWest Group, we support our corporate and institutional customers, which includes banks, asset managers, insurers, pension funds, sponsors, sovereigns, supranationals and agencies.

We work in close collaboration with teams across NatWest Group to provide capital markets and risk management solutions to its customers and be the partner of choice for those customers' financial markets needs.

Our operations

We think and act as one bank for our customers, leveraging NatWest Group's expertise and shared services. NWM Group is centred in the UK with trading hubs in Amsterdam, London, Singapore and Stamford (US), with sales offices across key locations in the UK, EU, US and Asia. Financial markets access is offered by the NWM Group across NatWest Markets Plc (NWM Plc) and its subsidiaries, including NatWest Markets Securities Inc. and NatWest Markets N.V. (NWM N.V.).

Our products and solutions

We provide liquidity and risk management in Currencies and Fixed Income through a combination of voice and electronic delivery. Through our Capital Markets business, we provide an integrated proposition across financing, solutions and advisory services.

We understand the power of building deep and enduring relationships and one of the ways we do this is by providing relevant market colour, content and ideas to customers. Our strategists and content experts across Currencies, Fixed Income and Capital Markets offer fresh thinking alongside market-leading economic insights in the key economies where our customers do business.

We have a sharp focus on digitisation and automation with our range of digital FX, fixed income, risk management and international payments options which use our applications or APIs (application programme interfaces), including Agile Markets and FXmicropay.

Fixed income

We have long-standing expertise in the fixed income markets and offer cash bond, repo and interest rate derivatives with a focus in sterling, euros and US dollars that supports our customers' financing and hedging needs. In addition, we provide liquidity and credit for investment grade and high yield bonds and loans for both financial institutions and corporate issuers.

Currencies

We're an award-winning foreign exchange service provider offering FX spot, forwards, cross currency swaps and options well as an FX prime brokerage service and FX digital solutions.

Capital markets

We're a leading partner for our customers, helping them to access global debt capital markets across a wide variety of products and target markets, including bonds, loans, commercial paper, medium-term notes (MTNs) and private placements, as well as bespoke financing solutions and primary lending products.

We also provide customers with thought leadership, advice and products to support their climate and ESG strategies through our ESG and Climate Capital Markets platform.

Underpinned by our focus on ESG as a driver of value creation

3 Value created for our stakeholders

Also refer to Board engagement with key stakeholders on page 16

NatWest Group

- Providing access to financial markets for NatWest Group customers, providing an integrated proposition and expertise.
- Consistent return of capital to NatWest Group via dividends throughout 2021 totalling £1 billion.

Customers

Refer to page 9 for further examples of how NatWest Markets creates value for its customers.

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

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

Colleagues

- We are committed to investing in our workforce and our integrated wellbeing strategy allows us to support colleagues, customers and communities, and is a key part of being a purpose-led organisation.

NatWest Markets investors

- We maintain a strong capital base and liquidity to minimise the risk of defaulting and provide comfort to existing and future investors on the stability of NWM Group as a business.

Community and environment

- We completed £9.7 billion of Climate and Sustainable Funding and Financing (CSFF) in 2021, including £3.3 billion in H2 2021 which will contribute towards the new NatWest Group target of £100 billion between 1 July 2021 and the end of 2025.

Regulators and industry bodies

- We provide insights via our active participation in trade associations and industry-wide forums on key topics such as the transition away from LIBOR and climate-related and ESG financing.
- For more details on our role in industry-wide climate-related and ESG forums, refer to the climate-related disclosures on page 22.

A strategy to deliver our purpose and drive sustainable returns

Our execution delivers on our purpose using our strengths to support customers' needs.

	Strategic priorities	Progress in the year	Our priorities
Supporting our customers	Work as part of One Bank to invest in growth areas that matter the most to our customers.	– Supported customers across Capital Markets with innovative transactions in public and private finance markets as well as continued the development of our product offering in sustainable finance, transition finance and sustainable-linked debt. – We collaborated across RBSI, NatWest Markets and Commercial Banking to establish a team to grow our offering to the investment management sector and provide a more integrated experience for our Funds and Sponsors customers. – Through close collaboration across NatWest Group, we have strengthened the overall foreign exchange (FX) and international payments proposition.	– Continue delivery of growth initiatives as part of our One Bank plans. – The delivery of FX and international payments features in 2022 are set to unlock further opportunities.
Powered by innovation and partnerships	Use new technology, leverage our digital expertise and partner with leading external organisations to deliver excellent customer experience.	– We made significant progress on the implementation of our agreement with BNP Paribas for the provision of house futures and associated back-office services and in January 2022 we successfully went live with the outsourcing of back office services for our US-based Listed Derivatives business. – We developed our sustainability and ESG-linked product suite for customers across FX, interest rate derivatives and private financing. – By supporting NatWest Group's collaboration with other international banks to develop a transparent global marketplace for carbon offsets with clear and consistent pricing and standards known as Carbonplace, we advanced product innovation in the voluntary carbon market. – We progressed the development of our digital bond capability, completing a pilot trade of a 'blockchain bond" in the secondary market.	– Continue innovation to support customer needs and explore opportunities as we develop our Digital Capital Markets capability. – Continue development of Carbonplace partnership.
Simple to deal with	Transform how we operate and simplify the business to improve efficiency, and the customer and colleague experience.	– Refined our country footprint and product range over the year to further align with customers' needs. – Through the introduction of our first API (application programming interface) product, Indicative FX Rates, onto the Bank of APIs, we have enhanced our ability to connect with our customers and partners. – We leveraged NatWest Group's investment in the technology platform, streamlining the colleague desktop experience to interface more easily with NatWest Markets colleagues. – In line with NatWest Group's strategy, Other operating expenses has reduced by £187 million reflecting progress on underlying cost reductions.	– Investment in technology to support a simpler and more digital business model for our customers including further developing our API-first approach. – Migrating all colleagues to NatWest Group technology platform by end of 2022.
Sharpened capital allocation	Demonstrate effective capital management by reducing risk-weighted assets (RWAs) while redeploying capital to our growth areas.	– Our Capital Management unit has actively managed capital allocation and optimisation across the businesses. – We reduced market risk RWAs and counterparty risk RWAs across the trading businesses, allowing for reallocation of capital to support our growth agenda. Total RWAs have reduced to £22.7 billion from £25.6 billion in 2020. – We returned £1 billion capital to NatWest Group via dividends during the year up to 31 December 2021, with a further £250 million to be declared and payable to NatWest Group plc on 18 February 2022. This has been applied to the year-end regulatory capital position.	– Continue dividends/ capital allocations to NatWest Group.

Underpinned by our commitment to sustainability and climate action.

Our strategy in action

Supporting the UK Government to tackle climate change

NatWest Markets has a vital role to play in green finance.

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

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

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

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

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

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

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

Supporting EnBW's climate neutrality plan

Helping our customers achieve their climate ambitions is fundamental to our purpose. For us, it's about understanding their journey and using our expertise to help.

When it came to working with German integrated utility EnBW Energie Baden-Württemberg AG, we knew it had clear and long-standing plans for transitioning towards a lower-carbon operating model.

After investing massively in the expansion of green energy, EnBW now delivers renewables, electromobility and sustainable energy solutions for its customers. What's more, it is developing smart grids to ensure that electricity networks can continue to absorb the increasing proportion of decentralised renewable energy generation. The company also offers access to the largest electric vehicle charging network in Germany.

Having already supported EnBW in the role of structuring adviser and global coordinator for its €500 million NC6 hybrid bond in June 2020, the utility turned to NatWest Markets for support again.

We were mandated by the company as joint bookrunner on its first ever hybrid bond transaction, consisting of a green and a non-green tranche marketed simultaneously. This demonstrated our expertise in the sustainable debt hybrid market which is an important pillar of our sustainable finance offering. The two bonds, with an issue size of €500 million each, replaced two existing non-green EnBW hybrids, and will be used for projects such as offshore wind power and large-scale solar schemes.

This is a great example of NatWest's strategy in action, building on our relationship to offer further areas of expertise and supporting our customer to deliver a climate-positive outcome.

Sustainability-linked FX in action

When a long-standing customer wanted to leverage our expertise to help with its sustainability goals, we were there to help.

The Co-op – a major food retailer and the UK's largest consumer co-operative – is accelerating its action to help tackle climate change. As part of its 'Co-operating for a Fairer World' vision, the organisation has launched a ten-point climate plan, laying out how it will reach net zero by 2040 across its business areas.

The company turned to NatWest Market's FX team to discuss aligning its FX activities with its emissions targets – a concept NatWest Markets previously introduced to the Co-op team.

In order to establish a sustainability-linked FX agreement, Co-op and NatWest Markets settled on slightly adjusted longer-term green key performance indicators in Co-op's revolving credit facility.

The agreement specified that if the Co-op meets its approved science-based target to reduce operational emissions by 2025, then it will qualify for a sustainability-linked rebate. This is to be correlated to the volume of FX trades booked with NatWest Markets between July 2021 and the end of the 2021 financial year.

At the same time, the agreement allows the Co-op to continue to book FX transactions with NatWest with no change to its daily process.

By adopting this concept, the Co-op is a valuable role model for other companies in different sectors to link sustainability performance and financials. For us, it's another example of how we collaborate with our customers, using product innovation to help solve their problems and fulfil their ESG goals.

NWM Group continues to adapt to evolving market trends

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

Competitive landscape

Overview

NWM Group offers risk management, trading solutions and debt financing to financial institutions and UK and European corporate customers. It competes with large domestic banks, major international banks and a number of investment banks. We observed international banks and investment banks have been hiring to grow their businesses across Fixed Income and Capital Markets, notably in the US and selected areas in Europe and APAC. During 2021 investment to build out ESG and sustainable finance platforms has been a common theme across corporate and investment banks. Competition is also increasingly coming from non-bank liquidity providers using low-latency and algorithmic trading to participate in high-volume flow markets.

During 2021 there was solid performance across investment banking divisions in the industry, particularly in mergers and acquisitions and equities which showed robust performance on the back of elevated activity. Across Fixed Income, credit markets outperformed on a relative basis compared to rates and FX following normalisation from COVID-19, lower customer activity and challenging market conditions. With the first signs of recovery from COVID-19, debt capital markets also saw increased issuance activity.

Our response

During 2021, NWM Group continued to refine and innovate its products and services to support the needs of corporate and institutional customers. By doing so, we also looked to preserve strong market positions in FX and Capital Markets in our areas of focus, whilst reshaping our offering in Fixed Income to align with the needs of our customers.

Economy

Overview

NWM Group's activities primarily relate to the UK, Europe and the US, with the majority of its income from operations in the UK. In all of these regions, economies expanded rapidly in 2021 as the roll-out of vaccination programmes allowed governments to remove social restrictions introduced to limit the spread of COVID-19. Governments also maintained substantial support for firms and consumers through the year with transfers and loan guarantees, while central banks kept monetary policy loose and engaged in quantitative easing.

Conditions in the second half of 2021 were more challenging as demand returned to pre-pandemic levels and supply constraints emerged. Unemployment remained lower than forecast in many countries and business investment benefited from some reduction in uncertainty. Against this backdrop, inflationary pressure began to build with an increase in energy prices particularly notable. Asset prices were volatile, reflecting the varying sentiment towards the outlook.

Our response

NWM Group's business and financial position correlates to the economic conditions (in particular, economic growth and the general level of interest rates and volume of transactions) prevailing in its primary markets. Despite an uncertain economic outlook, NatWest Markets remained focused on meeting the diverse needs of customers across the UK and internationally.

Regulation

Overview

NWM Group is comprised of NatWest Markets Plc (NWM Plc) and its operating subsidiaries and associated undertakings. It is primarily regulated by: the Financial Conduct Authority and Prudential Regulation Authority in the UK; De Nederlandsche Bank, Authority for the Financial Markets, and BaFin in Europe; the Securities and Exchange Commission, Commodity Futures Trading Commission, Chicago Mercantile Exchange, Federal Reserve Bank of New York, Office of the Comptroller of the Currency, and National Futures Association in the US; and the Monetary Authority of Singapore, Hong Kong Monetary Authority and Financial Services Agency in Asia.

Both the EU and UK have given significant focus to sustainable finance regulation, with both jurisdictions having laid out clear and ambitious roadmaps. With regard to the EU disclosure regime, the level of firms' alignment with the EU taxonomy (which is divided into six climate and environmental categories) will form the basis of metrics they are required to disclose, such as the Green Asset Ratio (GAR). The UK will adopt a similar approach and develop its own taxonomy, with two of six categories to be defined before the end of 2022.

Our response

An established prudential programme coordinates the regulatory changes encompassed by Capital Requirements Regulation (CRR2) and the Finalised Basel III framework. The programme oversees required capital model changes, Internal Models Approach (IMA) eligibility and business readiness for the revised regulations as well as required changes across trading, risk, finance and technology and simulates the capital impact of the revised regulations.

Climate change

Overview

NWM Group recognises that climate change is a global issue which has significant implications for our customers, colleagues, suppliers, partners and NWM Group itself.

Our response

Throughout 2021, NWM Group has continued to play a key role in NatWest Group's climate ambition and climate-related targets and commitments, while working to help our customers better understand the role they can play in tackling climate change.

For further details refer to climate-related disclosures on page 22 and NatWest Group's Climate-related Disclosures Report 2021 on our corporate website at natwestgroup.com

Technology

Overview

Post COVID-19 market growth has accelerated the need for digital products that meet the changing needs of customers and partners. As a result, there is increased investment in key technologies such as APIs, data analytics and cloud infrastructure to deliver digital propositions to customers how and when they want them. These digital propositions must respond to and anticipate changing customer needs including growing demand for ESG – and deliver them in their preferred medium quickly and efficiently.

Our response

In 2021 we invested £213 million in technology across three of our key areas: customers, colleagues and capability. We are enhancing the customer experience and generating revenue growth by designing and delivering the digital products and services that matter most to them. For colleagues, we're modernising our desktop and trading floor to provide the tools they need to deliver value to customers. And for capability, we are simplifying and modernising our application and infrastructure estate, embedding digital capability, and transforming through innovation. Against this backdrop, we are also aligning to a consistent technology platform with the rest of NatWest Group and creating strong partnerships with our technology suppliers.

Cyber threats

Overview

Cyberattacks pose a constant risk to our operations, both in relation to our own digital estate and indirectly with regards to our supply chain, reinforcing the importance of due diligence with the third parties on which we rely.

Our response

We continue to invest significant resources in the development and evolution of cybersecurity controls, deploy rigorous due diligence with regards to third parties and work to protect and educate our customers on fraud and scam activity.

Human rights and modern slavery

Overview

At NatWest Markets, we understand that businesses have an important role to play in promoting respect for human rights. We believe that tackling modern slavery forms an integral part of our approach to human rights.

Our response

We seek to operate in accordance with the Universal Declaration of Human Rights and our approach to respecting human rights is informed by other internationally accepted standards and principles including the United Nations Guiding Principles on Business and Human Rights. We are a member of the human rights steering group, a management group that brings representatives from across NatWest Group together to co-ordinate activities, and to make recommendations to NatWest Group Executive Committee and Board to develop and strengthen our approach.

We seek to tackle modern slavery through continued implementation of policies covering our customers, colleagues and suppliers. For the third year, our colleagues supported the TRIBE Freedom Foundation and raised over £30,000 to assist their anti-slavery projects, enabling long-term support for survivors and helping to prevent modern slavery. Our approach to tackling modern slavery is outlined in the NatWest Group annual Modern Slavery and Human Trafficking Statement which can be found at natwestgroup.com.

Risk overview

Impactful and effective risk management is a vital part of delivering NWM Group's strategy and purpose.

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

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

NWM Group operates within NatWest Group's enterprise-wide risk management framework. The framework is aligned to NatWest Group's purpose and is designed to support intelligent risk-taking.

While all colleagues share ownership of risk management, the three lines of defence model is used to define responsibilities and accountabilities. This aims to ensure that risks are properly identified, measured, monitored, controlled and reported.

NatWest Group's independent Risk function designs and maintains the framework. The Risk function also provides oversight and monitoring of all risk management activities.

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

Principal financial risks	Principal non-financial risks
Traded Market Risk	Conduct Risk
Non-Traded Market Risk	Financial Crime Risk
Capital Adequacy	Operational Risk
Liquidity & Funding	Regulatory Compliance Risk
Credit Risk	Model Risk
Earnings Stability	Climate Risk
Pension Risk	Reputational Risk

In addition, a regular process identifies top and emerging risks – specific scenarios of concern that, without appropriate management and mitigation, could have a significant negative impact on NWM Group's ability to meet its strategic objectives. These are detailed in the Risk & Capital Management section, beginning on p42.

Risk appetite is a key component of the framework. It defines the level and types of risk NWM Group is willing to take as part of its business activities. Risk appetite is set in line with overall strategy and approved by the Board. It supports the strategic aim of building a sustainable business by providing colleagues with a structured approach to risk-taking within agreed boundaries. Information on the risk profile relative to risk appetite, as well as details of new and emerging risks, is reported regularly to the Board and senior risk committees.

Areas of focus in 2021

The global economy continued to grow, though more slowly than expected. The continuing effects of the pandemic also intensified uncertainty across a number of markets. Accordingly, risk management played a critical role throughout the year, focusing both on striking the correct balance between risk and opportunity but also in ensuring that supporting processes, policies and controls were properly optimised.

The traded market risk profile remained broadly stable, though given the heightened uncertainty, this was an area of significant risk management focus. The non-traded market risk profile also remained stable in line with expectations.

Compliance and conduct

While further progress was made on the compliance and conduct agendas during 2021, in December NWM plc pled guilty in the United States Federal Court to one count of wire fraud and one count of securities fraud. This related to historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 as well as, separately, during approximately three months in 2018. As the result of a plea agreement with the US Department of Justice and the United States Attorney's Office, District of Connecticut, NWM will pay a criminal fine of $25.2 million, approximately $2.8 million of criminal forfeiture and approximately $6.8 million in restitution. The plea agreement also imposes an independent corporate monitor. NWM has also committed to compliance programme reviews and improvements. Reporting and cooperation obligations have also been agreed.

Financial crime

As changes in technology, the economy and wider society take place, risks relating to money-laundering, bribery and corruption, financial sanctions, tax evasion and terrorist financing continue to evolve. NatWest Group has invested significantly in a multi-year transformation programme to strengthen and improve its overall response to the evolving threat. This investment continued during 2021 and there was significant risk management focus on the systems and processes relating to customer due diligence, transaction monitoring and automated customer screening. The embedding of a consistent approach to managing financial crime risk continued, co-ordinated by the enterprise-wide Financial Crime Hub, and work to enhance capabilities and controls remained a focus. Both NatWest Group and NWM Group itself continue to work with law enforcement agencies, industry bodies and regulators to develop intelligence and collaborative solutions to prevent financial crime.

Anti-bribery and corruption (ABC)

NWM Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for the Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles. The Group considers ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

Internal service management

NWM Group relies on a number of services provided by the ring-fenced entities within NatWest Group. There continued to be significant focus on this during 2021 to ensure such arrangements are managed within the terms of the UK's ring-fencing legislation. In addition, there was a strong emphasis on ensuring the risk management aspects of such services are optimised for NWM Group's business lines, products and customer base.

Climate risk

The impact of climate change on NWM Group and its customers continued to be a central risk management focus during the year. This included participation in a number of working groups – both internally and externally – set up to address this agenda as well as oversight of programmes designed to support customers as they tackle the challenges posed by both the physical and transition risks of climate change. NatWest Markets also contributed to NatWest Group's submission to the Bank of England Climate Biennial Exploratory Scenario stress test.

LIBOR

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

Information and cyber security

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

Risk culture

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

Control

There was significant focus on NWM Group's control environment throughout the year. Enhancements were made to the testing regime in order to ensure assurance protocols continue to be as robust as possible. Work to review and strengthen NWM Group's control environment will continue in 2022.

Model risk

An effective understanding of likely future outcomes and the scale of likely hazards is an essential part of forward-looking risk management. NWM Group is heavily reliant on modelling across all aspects of its business. Ensuring that its models are designed effectively – and that associated assumptions, data inputs and techniques are appropriate – remained a key risk management focus in 2021. This included activity within NWM N.V. to review and upgrade certain models to ensure statistical estimates and outputs remain in line with requirements in the rapidly-evolving business landscape.

Strategy

Potential execution risks relating to the NWM Group strategy were also a significant consideration. This included striking a balance between the risks related to implementation and other correlated threats as the year progressed, such as the possible impact of further lockdowns.

Top and emerging risks

NWM Group employs a regular process for identifying and managing its top and emerging risks. These are specific scenarios of concern that could have a significant negative impact on NWM Group's ability to operate or meet its strategic objectives. Details of these risks – and actions taken to mitigate them – are set out below.

External

Climate-related risks	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on NWM Group and the wider economy. Such impacts could include financial loss as a result of a deterioration in credit quality, or a rise in market risk exposure or operational risk – all of which underline the importance of NatWest Group's climate commitments. NWM Group continues to adapt its operations and business strategy to mitigate the risks of both climate change and the transition to a low-carbon economy. It is also embedding climate risk into its risk management framework.
Competitive environment	NWM Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. As these evolve, there is a risk that NWM Group is not able to adapt or compete effectively with the appropriate product offerings and geography. NWM Group monitors the competitive environment and adapts strategy as appropriate to ensure its business model remains sustainable and viable. It remains focused on innovating to deliver compelling propositions for customers. While customer demands and expectations are high and increasing, NWM Group is focused on delivering increased customer satisfaction as well as ensuring customers are offered all of NatWest Group's services appropriate to their needs.
Cyber threats	Cyber attacks continue to increase in frequency, sophistication and severity. There is a risk that a catastrophic cyber attack could damage NWM Group's ability to do business and/or compromise data security. NWM Group operates a multi-layered approach to its defences and continues to invest in building its resilience and cyber-security capabilities.
Regulatory, legal and conduct risk	NWM Group operates in a highly-regulated market and must manage compliance with current regulations and prepare for future regulations, including the finalised Basel III framework and development of capital models in NWM N.V. The implications of proposed, or potential, regulatory developments are incorporated into business and financial plans. Conduct and supervisory risks have been heightened by both strategic change and changing ways of working. NWM Group monitors conduct risk through the Conduct Risk framework and continues to adapt and monitor adherence and appetite position through NWM Group's Conduct Committee. This aims to deliver strong customer and business outcomes, reducing the risk of material staff misconduct and supporting business sustainability.
UK-EU divergence	NWM Group has implemented plans to operate in the EU market and continues to monitor the evolving situation arising from the UK's withdrawal from the EU for any developments that may adversely affect NWM Group and its operating environment. NWM continues to monitor the emerging regulatory environment – and likely associated scenarios – to facilitate continuity of business.

Internal

People risk	NWM Group's operational risk could increase through the loss of key staff, the recalibration of roles or the loss of institutional knowledge due to strategic change. NWM Group monitors people risk closely and has plans in place to support retention of key roles. Wider NatWest Group programmes that support engagement and training are in place for all employees. Given the importance of diversity – particularly the proportion of females in senior roles, pay gaps and ethnic diversity – the risk of not supporting and promoting a diverse and inclusive workforce could have an adverse impact on NWM Group employee engagement and strategy. This could also lead to a reputational impact among investors and regulators. Creating an inclusive workplace is an important part of NWM Group's purpose and plays a powerful role in shaping the business as well as the views of stakeholders.
Strategy execution	NWM Group's strategy includes an increased focus on serving NatWest Group's corporate and institutional customer base. NWM Group has already simplified its operating model and reduced its cost base, but challenges still remain to meet income and cost targets in future years. This will entail material execution risks, commercial risks and operational risks for NWM Group. There is a dependency on NatWest Group's strategic decisions which could affect NWM Group's own strategy. NWM Group's Board maintains proactive engagement with NatWest Group to ensure strategic alignment.
Sustainable control environment	The internal system of controls is key to NWM Group's management of its risks. Failure to maintain a sustainable control environment, due to changes in NWM Group's operating environment or business strategy, could result in an increase in risks. To mitigate these risks, a robust operational risk management framework is in place that supports ongoing identification, management and monitoring of our risk and control profile. NWM Group's control environment (including operational, conduct and financial crime controls) is formally assessed half-yearly to ensure NWM Group's control environment position remains within appetite.

Board engagement with key stakeholders

Here we highlight who our key stakeholders are and how the NWM Plc Board engages with them to create value.

	What matters to them	How we engaged	Outcome of engagement
Customers	The NWM Plc Board is mindful of the significance of providing a reliable service to our customers and supporting them to manage their financial risks and achieve their short and long-term financial goals.	– The NWM Plc Board received regular updates on customer issues via reports from the NWM Plc CEO and business heads, along with deep dive sessions on product lines and customer segments. – The NWM Plc Board was regularly updated on the nature and extent of ESG issuances and financing activity provided to customers following COVID-19. The customer touchpoint rating and client profitability dashboard provided the NWM Plc Board with regular analytics.	The NWM Plc CEO continued to meet with customers throughout the year to enhance relationships and explain the impact of the refocusing of NWM Group.
Colleagues	The NWM Plc Board appreciates the importance of a wide range of topics impacting the workforce including diversity, equity and inclusion, COVID-19 and talent management.	– The NWM Plc Board asked colleagues to share thoughts on what it's like to work for NatWest Group, including in NWM Plc, by completing colleague opinion surveys. – The NatWest Group-level Colleague Advisory Panel provided a mechanism for directors to engage directly with colleagues on topics of strategic interest. – Colleagues were encouraged to report any concerns relating to wrongdoing or misconduct using NatWest Group's whistleblowing service, Speak Up. – The 2021 Talent academy provided a purpose-led opportunity to create a talent pool of colleagues across all business areas, demographics and grades.	The NWM Plc Taskforce continued to support delivery of NatWest Group's commitments to support our Black, Asian and Minority Ethnic colleagues to create a more diverse and inclusive culture. Communications on the new ways of working and hybrid return to the office were circulated to colleagues and supporting colleagues' wellbeing became increasingly important during the COVID-19 pandemic and subsequent transition to the new ways of working.
Community and environment	The NWM Plc Board recognises the growing importance of climate change and its potential impact on our society.	– The NWM Plc Board received regular updates on the significant progress made on green finance and the NWM Plc Board supported NatWest Group as the banking sponsor of COP26. – The NWM Plc CEO led a forum which oversaw the response to the risks posed by climate change as well as exploring the opportunities for growth in the ESG market.	The NWM Plc Board is committed to managing the wider social, environmental and economic impacts of NWM Plc's operations and there has been recognition of NWM Group's strong ESG credentials and climate initiatives in Europe.
Regulators	The focus of regulatory engagement in 2021 was on the strategic change programme and go-forward European strategy, front office changes and trading controls given the new ways of working and growth initiatives as NWM Group's restructuring phase draws to a close.	– The NWM Plc Board recognised the importance of open and continuous dialogue with regulators and the NWM Plc Chairman, executive directors and non-executive directors had regular meetings with the PRA and FCA.	The NWM Plc Board received regular reports on regulatory matters from the Chief Governance & Regulatory Officer.
Suppliers	The NWM Plc Board is mindful of the role suppliers play in ensuring a reliable service is delivered to customers and of the importance of our relationships with key suppliers.	– The NWM Plc Board regularly received analytics as NWM Plc progressed further through the multi-year transformation programme which included the transfer of support functions to NatWest Group to improve operating efficiency and are provided using service level agreements. This allowed NWM Plc to isolate any issues for remediation.	The NWM Plc Board, through the NWM Plc Board Risk Committee, approved further key performance indicators which are used to monitor delivery of the outsourced services.

Section 172(1) statement

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

Board engagement with stakeholders

The NWM Plc Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2021, they remained customers, colleagues, community and environment, investors, regulators and suppliers. Examples of how the NWM Plc Board has engaged with key stakeholders, including the impact of principal decisions, can be found in this statement and on pages 16 and 17.

Supporting effective NWM Plc Board discussions and decision-making

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

Our NWM Plc Board and Committee Terms of Reference reinforce the importance of considering both our purpose and the matters set out in section 172 in NWM Plc Board discussions and decision-making. Our NWM Plc Board and Committee paper template includes a section for paper authors to explain how the paper aligns with our purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider.

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

Principal decisions

Principal decisions are those decisions taken by the NWM Plc Board that are material, or of strategic importance, to the company or are significant to NWM Plc's key stakeholders. Set out on the next page is an example of the principal decisions taken by the NWM Plc Board during 2021.

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

Approving the acceleration of capital distributions

Factors considered:

What was the decision-making process?

As part of the NWM Plc Board's approval of the 2021 Business Plan and Budget in December 2020, the NWM Plc three-year funding plan included a forecast of capital distributions across a three-year period.

Across 2021 at quarterly intervals in February, June, and October, the NWM Plc Board approved updates to the three-year funding plan and accelerated a total of £1 billion in capital distributions to NatWest Group plc.

The NWM Plc Board's decisions were informed by regular updates on NWM Plc's financial and capital positions and a key focus of NWM Plc Board level discussions was how surplus capital was being managed.

The NWM Plc Board Risk Committee also reviewed all capital distribution proposals in advance of the NWM Plc Board and recommended them to the NWM Plc Board for approval.

To support the NWM Plc Board in its decision-making, it received comprehensive papers prepared by management which updated the NWM Plc Board on the progress of the three-year funding plan and sought the NWM Plc Board's support to accelerate each capital distribution.

How did the directors fulfil their duties under section 172? How were stakeholder interests considered? How did the decision align to our purpose?

In approving the accelerated capital distributions throughout 2021, directors were mindful of their duties under section 172 including the likely long-term consequences of the decision and whether the acceleration of the capital distributions would support the long-term sustainable success of the company. Each update the NWM Plc Board received provided an overview of the relevant stakeholder considerations.

Substantial analysis was completed to evaluate options and assess the long-term impacts of accelerated capital distribution on key stakeholder groups (including colleagues, customers, investors and the environment), what their concerns were likely to be and the key messages that would support engagement. NWM Plc's accelerated progress against the strategic plan as the restructuring phase draws to a close allows for increased focus on growth initiatives in areas such as green finance.

There was also extensive engagement with representatives of NatWest Group to ensure proper alignment and that the end state would support the delivery of NatWest Group's overarching purpose and promote a high standard of business conduct. This engagement ensured that the NWM Plc Board understood the views of NatWest Group and could balance these with the interests of other stakeholders in making their decision.

Accelerated capital distributions from NWM Plc to NatWest Group facilitate NatWest Group's management of its double leverage ratio. This ratio is crucial in how NatWest Group distributes its capital to support customers and the wider economy. It also enables NatWest Group to pass on excess capital to its shareholders and achieve its purpose of championing the potential of people, families and businesses.

How was our purpose considered as part of the decision?

Considering relevant stakeholder interests is key to purposeful decision-making. The new purposeful decision-making page referred to previously was used to provide the NWM Plc Board with a detailed analysis of stakeholder considerations and impacts using the five categories in the 'Blueprint for Better Business' framework, specifically: 'honest and fair with customers and suppliers'; 'a responsible and responsive employer'; 'a good citizen'; 'a guardian for future generations'; 'and delivering long-term sustainable performance'.

Actions and outcomes

The NWM Plc Board approved the acceleration of capital distributions at its meetings throughout 2021 on 18 February 2021, 9 June 2021, and 28 October 2021. The NWM Plc Board continues to receive updates on the progress of the three-year funding plan.

Helping our **colleagues thrive**

We aim for NatWest Markets to be a great place to work. By offering a fulfilling job, a healthy workplace, fair rewards, excellent development, and great leadership, we believe our colleagues can thrive in what they do.

Our HR policies and procedures are aligned to NatWest Group wherever possible, and information on Groupwide progress can be found in the 'Colleagues' section in the NatWest Group Annual Report and Accounts 2021.

Supporting colleagues' wellbeing

A vital part of being a purpose-led organisation is having a fully embedded wellbeing strategy. We take a holistic approach to wellbeing and our proposition covers mental health, physical health and financial wellbeing. In addition to NatWest Group activity:

- NatWest Markets Wellbeing network continued to offer speaker sessions on topics such as resilience and mental health.
- The Analyst and Associates network, which supports and promotes the development of the Graduate, Apprentice, Analyst and Associate communities, helped its members to navigate working from home at the early stage of their careers.

Ways of Working

In 2021 we have adopted new ways of working as outlined in NatWest Group's 'Ways of Working' framework. This is designed to be a flexible and dynamic way to both deliver colleague choice and better meet customer needs. The regulatory oversight of some roles in NatWest Markets means some colleagues have been assigned to the Office First model where people will perform the majority of their work at their designated hub. The remainder of colleagues align to the Hybrid model and split their time more evenly between their designated hub and home. As we've transitioned to the new ways of working we've taken a phased test and learn approach and ensured a focus on colleague wellbeing and health and safety.

Helping colleagues realise their potential

Participation in NatWest Group initiatives has been strong, with 1,300 colleagues accessing the NatWest Group Academy. A further 82 were then selected for the Talent Academy which supports high-potential colleagues through a programme of challenging and purposeful development opportunities.

In addition we have supported around 100 senior women to extend their business networks and to hear from inspiring speakers through our continued sponsorship of the Reaching Further initiative.

Diversity, equity and inclusion (DE&I)

We are focused on developing a community that champions diversity while creating an inclusive workplace which gives our people the best opportunity to succeed and grow their careers. Examples of how we have worked towards this in 2021 include:

- The NatWest Markets Diversity Task Force, which is chaired by Robert Begbie, was established to regularly discuss and progress the DE&I agenda in consultation with the senior leadership team in NatWest Markets. The Task Force also reviews all senior vacancies to ensure that a diverse pipeline of candidates are considered for opportunities.
- The employee-led network, NatWest Markets Women, was enhanced in 2021 to create a community and voice for all women in NatWest Markets. In addition to a programme of events, the network set up a 'buddy' system to act as an informal support system. NatWest Markets Women also surveyed a number of customer-facing colleagues to determine the key challenges facing women in progressing their careers.
- The 'Talent to Watch' global programme, which provides coaching, support and leadership sponsorship, was refreshed in 2021 to help it to continue to build and develop future talent.
- The target for 2021 was to have female representation at CEO-3 or above at 25%. As of 31 December 2021 the representation was 21%. The reported mean gender pay gap is 38.3% (median: 28.4%) and the mean gender bonus gap is 59.1% (median: 50.0%). We recognise we have more to do and continue to focus on the recruitment, retention and advancement of women to meet our ambition of having full gender balance in our top three levels globally by 2030.
- The 2021 target relating to representation of Black, Asian and Minority Ethnic colleagues in the top four leadership layers of the organisation was 18% and as of 31 December 2021, representation was 19.4%.

For people risk please refer to Top and emerging risks on page 15.

Learning and **enterprise focus areas**

We are guided by our purpose and create a positive impact through our areas of focus. You can read about our climate focus from page 22.

Enterprise:

We continue to work across NatWest to support initiatives that are removing barriers to enterprise and providing businesses in the UK the support they need to grow.

This year we have made progress in several areas and have focused our attention on upskilling and further developing our understanding of the issues that enterprises face, in order to take meaningful action.

NatWest COP26 SMI Action Forum event

Members of the NatWest Markets team, including Robert Begbie, CEO, and Victoria Cleverley, Chief of Staff, NatWest Markets, were involved in creating and leading a One Bank event focused on SMEs, in collaboration with the Sustainable Markets Initiative, during COP26.

As a principal partner of COP26, NatWest Group convened over 70 stakeholders in Glasgow to discuss practical and actionable steps for SMEs to tackle climate change. The purpose of the session was to bring together business leaders and owners to establish impactful shared visions that support SMEs to take action centred on our recent Springboard to Sustainable Recovery report and how to accelerate SMEs' journey to net zero. Whilst focused on climate this allowed the team to hear directly from enterprises about what was required on issues related to funding and market access, amongst other topics.

Treasury Training

NatWest Markets worked in collaboration with Corporates & Institutions to run a successful week-long series of bite-sized customer seminars presented as the NatWest Treasury Training boxset.

Hosted by a broad team of subject matter experts from across the businesses, the programme of 29 sessions was attended by participants from more than 400 companies and an average of 105 customers per session, with content ranging from capital markets and risk management, to working capital and open banking.

Those involved shared a view that supporting customer education and building financial capability is an important part of NatWest's purpose and the event is a great demonstration of how we can fulfil these ambitions while deepening customer relationships.

Starting out as in-person, product specific training on a small scale four years ago, our approach to providing free training to customers has evolved and grown both in size and quality and embracing technology has played a huge part in the success. While seeing customers in person has significant benefits, the virtual format allowed a broader range of topics to be offered to a global external and internal audience, as well as providing a recording and a wealth of data about which topics are of most interest to which customers.

Learning:

As we continue to drive towards winning with purpose, we are creating environments to understand our colleagues' thoughts and ideas and importantly, what conditions we need to create for colleagues to thrive.

We are engaging with colleagues, to help them to connect their personal purpose to their roles. By doing so we believe we can unlock the potential within our organisation. Our goal is to create the conditions that allow our colleagues to thrive personally and professionally and to ensure our strategy, operating model, and culture are driven by purpose. To support this over 800 colleagues have now attended a purpose workshop.

We have continued to share our market-leading insight with customers on a number of topics including ESG and the transition away from LIBOR.

Our subject matter experts supported our customers' learning on many ESG themes through events and insight articles. For colleagues we ran bi-monthly ESG Bitesize webinars covering a range of case studies and product innovation. Over 300 colleagues globally signed up to the University of Edinburgh's Climate Change transformation programme, helping to integrate our climate ambition across different roles and functions.

Climate-related disclosures overview

Throughout 2021, NWM Group has continued to play a key role in NatWest Group's climate ambition, while working to help our customers better understand the role they can play in addressing climate change.

The table below summarises the ongoing progress NWM Group has made during 2021 with regard to climate-related risks, opportunities and the areas of future focus.

	Climate disclosure themes			
	Governance	Strategy	Risk management	Metrics and targets
Progress to date	– Targeted training for NWM Plc Board (the "Board") to build climate knowledge and support ongoing oversight of management's response to climate-related risks and opportunities. – A monthly CEO led forum, the Climate & Sustainability Committee (CSC) is attended by members of the NWM Group Executive team to discuss the business's progress on climate matters. – Established climate change roles and responsibilities across the senior management team.	– Established a Climate and ESG Capital Markets team to provide centralised resource and expertise for customer facing and product teams. – Continued to build climate knowledge with all stakeholders. Delivered in excess of 180 publications and events throughout 2021 aimed at supporting learning journeys for customers and colleagues; in excess of 300 NWM Group colleagues globally signed up to the University of Edinburgh's Climate Change training programme. – Advanced product innovation in the voluntary carbon market by supporting NatWest Group with the launch of Carbonplace.	– Climate change is monitored and managed as a principal risk. NWM Group is aligned to the NatWest Group Climate Risk Policy. – Credit risk: NWM Group adopted the NatWest Group approach of integrating and embedding climate risk into wholesale credit risk management. This included mandatory qualitative climate commentary in credit risk assessments and the development of the qualitative scorecard approach to provide a standardised assessment of customers' exposure to physical/transition climate-related risks and opportunities. – Market risk: A monthly climate sector and geography report was developed to monitor key climate risk concentrations. – Operational risk: Climate change considerations were incorporated into NWM Group's operational risk assessment processes. A dedicated climate change scenario was developed to assess potential risks.	– Established quantitative assessments for the following metrics: – NWM Group's progress against its contribution to the £100 billion NatWest Group Climate and Sustainable Funding and Financing target. – NWM Group's loan exposures to high-carbon sectors identified based on physical and transition risk assessment. – NWM Group's capital markets transactions (financing) – lead management activity by sector.
Areas of future focus	– Continue to develop operating rhythm for Board review and oversight of climate-related risks and opportunities. – Continue to enhance management roles and responsibilities framework to incorporate management of climate-related risk and opportunities.	– Quantify our climate impact across the balance sheet and consider the impact of our underwriting business on global emissions. – Establish NWM Group-specific management actions based on insights from scenario analysis. – Further develop technology and data capabilities to support customer engagement, business decision-making and governance.	– NWM Group continues to refine and innovate ways to further integrate climate within risk management practices, including within the enterprise-wide risk management framework. – Credit risk: The approval and launch of five scorecards is scheduled for Q1 2022. The intention is to develop subsequent scorecards to expand coverage of the NWM Group portfolio. A more quantitative approach is in plan to be developed within this methodology as data becomes available. – Market risk: Ongoing engagement with regulators will continue to ensure NWM Group remains in line with industry standards. Additional work will be planned as required – for example if the Bank of England revises its approach and includes traded market risk in its scope for the Climate Biennial Exploratory Scenario (CBES) in 2022, NWM Group will provide further support for the NatWest Group submission. – Operational risk: There will be further design, implementation and embedding of climate change considerations in risk and control, as well as change impact assessments, which will require further training of colleagues. – There will be ongoing assessment of the impact of the European Central Bank (ECB) guidelines on our European franchise (NWM N.V. Group) on environmental risk.	– Continue to work with NatWest Group, on developing NWM Group's key metrics and targets to assess and manage own climate-related risks and opportunities.

Climate-related disclosures: Governance

The NWM Plc Board and senior management team are committed to ensuring NWM Group, as part of NatWest Group, plays a leading role in the transition to a net-zero economy.

Governance framework

During 2021 NWM Group has continued to embed its approach to climate governance and build on the framework developed in 2020. A key focus has been to ensure clarity of responsibility over climate in relation to the NWM Plc Board, Board Committees, management forums and individuals across the business.

The Board and senior management intend to continue to focus on the integration of climate into risk appetite and the embedding of climate within established governance operating rhythms.

The chart below provides insight into climate accountabilities for both forums and individuals within NWM Group.

NWM Plc Board oversight

NWM Plc Board has ultimate oversight of how NWM Group identifies, measures, manages and mitigates climate-related risks and opportunities throughout the business. The NWM Plc Board is assisted by the NWM Plc Board Risk Committee in setting risk appetite and monitoring the risk management response to climate change-related physical and transition risks and opportunities within the business.

The NWM Plc Board Risk Committee has discussed the bank's progress towards meeting regulatory requirements as part of the wider risk response to the financial risks posed by climate change.

The NWM Plc Audit Committee continues to review disclosures, including non-financial reporting and NWM Group specific climate-related disclosures.

	Forum	Role/Responsibility
Board level governance	NWM Plc Board	The NWM Plc Board approves NWM Group's strategy and objectives within the aims of the wider NatWest Group. This includes the progress towards delivering on NatWest Group's strategy, including climate ambitions. The Board has received regular updates on the progress towards climate-related funding and financing targets and future commitments as part of NatWest Group ambitions.
	NWM Plc Board Risk Committee	The NWM Plc Board Risk Committee (BRC) is responsible for the oversight of NWM Group's risk profile. The BRC has been involved in discussion on the development of NWM Group's climate risk appetite, including the quantitative risk appetite measures.
	NWM Plc Audit Committee	The NWM Plc Audit Committee is responsible for oversight of the bank's material disclosures, including non-financial disclosures as well as climate.
Executive level governance	NWM Climate & Sustainability Committee	The Climate & Sustainability Committee (CSC) is the senior NWM Group forum which has the objective of assessing and managing climate-related risks and opportunities. The CSC supports the NWM Plc CEO discharge the delegated Senior Management Function (SMF) accountability from the NatWest Group CEO for identifying and managing financial risks and opportunities arising from climate change.

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

NatWest Group has adopted an integrated climate governance structure with legal entity boards and accountable individuals within franchises expected to ensure that climate considerations are built into day-to-day decision-making. There are a number of cross-bank forums which support collaboration and escalation, including the NatWest Group Climate Change Executive Steering Group (CC ESG). The CC ESG is responsible for coordinating the NatWest Group response across climate-related regulations, risks and delivery of strategic climate ambitions. The CC ESG includes cross-franchise and functional representatives, including the NWM Plc CEO.

As part of the integrated cross-bank approach the NWM CEO has been designated to support the NatWest Group CEO in discharging the Senior Management Function 1 (SMF1) accountability for identifying and managing the risk and opportunities from climate change, as well as delivery on NatWest Group's ambition to be a leading bank in the UK helping to address the climate challenge.

To support the CEO and accountable individuals with their responsibilities, and to further enhance the integration of climate-related issues into the business, NWM Group continues to operate a NWM Group Climate Programme (NWM CP) which is overseen by the CEO chaired Climate & Sustainability Committee (CSC).

Climate-related disclosures: Strategy

Climate is one of the three focus areas under the NatWest Group purpose. The NWM Group's climate strategy supports and contributes to NatWest Group's ambition to be a leading bank in the UK helping to address the climate challenge.

Climate-related risks

Climate risk is classified as a principal risk and remains a significant area of focus for risk management activities. Climate-related risks are also considered as part of NWM Group's top and emerging risks process, which also provides a focus on developing issues such as biodiversity and nature loss.

Alongside regular reporting on the principal risks detailed within the Risk & Capital Management section, top and emerging risks are reported to the NWM Plc Board on a regular basis.

NatWest Group's enterprise-wide risk management framework, which also applies to NWM Group, sets out a consistent management approach for all principal risks, including climate risk. In addition, where appropriate, climate risk considerations are integrated into management activities for several of NWM Group's other principal risks. Climate risk is also considered within internal risk and control assessments and scenario analysis activities. This supports an evolving understanding of climate-related impacts. Climate risk is regularly assessed at the NWM Climate & Sustainability Committee and progress was made during 2021 to enhance climate risk management capabilities.

The risk events associated with NatWest Group failing to adequately mitigate the transition and physical risks arising from climate change are illustrated by a table within NatWest Group 2021 Climate-related Disclosures Report section 3.2. The table includes an initial assessment of expected time horizons, potential impacts and links to different risk types, where climate is considered to have a relatively significant impact in the relevant time frame: short (1-5 years), medium (10 years) and long term (30 years).

Due to the nature of its business, NWM Group would additionally be affected by changes in the pricing of certain traded financial instruments and services, affecting market risk and model risk. NWM Group would be less affected than NatWest Group by changes to mortgages.

NWM Group continues to leverage NatWest Group's ongoing assessment of the transition and physical risks arising from climate change. NWM Group continues its work to assess the impact of the most meaningful such events on its strategy, operating model and risk profile, along the likely timeline of when such events are expected to occur.

Climate-related opportunities

Established in December 2020, the Climate Opportunities Group (COG) brings together colleagues from NatWest Group business segments to conceptualise and develop opportunities that complement the NatWest Group climate ambition. NWM Group also connects on opportunities across NatWest Group in the Green Finance forum – a One Bank collaboration with NWM Group, Commercial, RBSI and Coutts which aims to support customers' ambitions around energy efficiency and low-carbon generation to accelerate the transition to a net-zero economy.

The table in the NatWest Group 2021 Climate-related Disclosures Report section 3.3 illustrates the key climate-related opportunities which underpin the achievement of the NatWest Group climate ambition, which NWM Group is aligned to, along with the potential financial impacts and timing. Many of NWM Group's climate opportunities, all of which have reputational benefits for us along with potentially increased revenues, impact on strategy and are discussed further within this section.

In 2021, we have further adapted our business model to help customers navigate their own journeys to transition to a net-zero economy, and to provide them with climate-related funding and financing, as well as an advisory service:

Centre of Excellence for climate and ESG financing and customer solutions

We have established a Centre of Excellence for climate and ESG in our Capital Markets business as we build out capability and look to integrate climate into our customer and product offering across NWM Group. This forms part of an ecosystem across NWM Group that aims to provide thought leadership and support our customers with solutions across financing and risk management to achieve their climate ambitions.

Climate-related disclosures: Strategy continued

Championing climate-related product innovation

We are a part of NatWest Group's One Bank approach to climate-related opportunities. Current activities are centred on the scoping of product development opportunities aimed at producing a comprehensive climate and ESG product suite and broadening market presence into new areas such as private finance, repo, FX and ESG-linked transactions, as well as solutions to reduce the carbon intensity of portfolios. We anticipate these enhanced product offerings will help customers navigate their own transition to net zero.

We have also been active in the voluntary carbon markets. These markets allow individuals, companies or governments to purchase greenhouse gas or carbon credits to mitigate or offset their own emissions. In 2021, we initiated dialogue with customers, building out our intelligence to determine options for a specialised role NWM Group can play in this market. We have supported NatWest Group to play a key role in establishing Carbonplace, a technology- based exchange platform for trading high-quality carbon credits, aligned with the Taskforce for Scaling Voluntary Carbon Markets (TSVCM).

Overall, our performance has been expansive across green, social, and sustainability (GSS) bond transactions, as well as sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs). In 2021, NWM Group ranked in the top 2 bookrunners for supporting UK corporate issuers[1], and in the top 2 supporting issuers globally in Sterling (GBP) issuance, with their GSS bonds[1]. NWM Group ranked in the top 5 for supporting Western Europe corporate issuers, with their GSS bonds[1]. We were also ranked number 6 for supporting European financial institutions with their green bond issuance[1], as well as number 1 for all GBP-denominated GSS issues by financial institutions[1]. NWM Group continued to support financial institutions who were increasing their GSS issuance as a proportion of their overall funding, acting as bookrunner on 23 transactions which included 9 customers with their debut green and social issuance, and a further 6 who accessed a new currency or asset class within the green and social bond market. We also supported the corporate and public sector, as well as housing associations, with ESG structuring.

Many of these transactions are part of the NatWest Group initial two-year target to provide £20 billion Climate and Sustainable Funding and Financing which was exceeded in under 18 months, and the additional £100 billion Climate and Sustainable Funding and Financing target announced in October 2021 that NatWest Group is aiming to provide between 1 July 2021 and the end of 2025. This reflects a shift in customer preferences and an opportunity for us to reach new customers.

(1) Source, Dealogic.

Thought leadership and influence

NWM Group's subject matter experts delivered 108 articles and 53 events throughout 2021 across many ESG themes aimed at supporting our customers' learning journeys and bi-monthly ESG Bitesize webinars to the benefit of NWM Group's colleagues.

In excess of 300 NWM Group colleagues globally signed up to the University of Edinburgh's Climate Change transformation programme, helping to integrate our climate ambition across different roles and functions.

We play an active role in industry-wide sustainable finance-related forums to develop our thought leadership and help to shape and influence climate-related developments externally. We are a Board Member of the Global Financial Markets Association (GFMA), play a role with the International Capital Market Association (ICMA) and are a Board Member of the Association for Financial Markets in Europe (AFME), which are crucial to building market momentum and developing standardised frameworks and products. NWM Group co-sponsored a report by Boston Consulting Group and Global Financial Markets Association, 'Unlocking the Potential of Carbon Markets to Achieve Global Net Zero', which provides an overview of the developing carbon market and describes the evolving carbon ecosystem which contains both compliance and voluntary market alternatives. NWM Group colleagues are involved with a range of industry bodies that support the transition to net zero as well as the development of the sustainable finance market to ensure a strong and robust market for all participants.

We have also taken steps to embed climate thought leadership into our US and APAC teams by expanding our engagement with institutional investors and building out our investor intelligence to support product development across our financing activity. In the US we have also been increasing the issuer dialogue with regard to ESG – both loans and bonds.

Approach to climate-related risks

We are part of NatWest Group's One Bank approach to climate-related risks. Our climate ambition incorporates various climate-related opportunities and, at the same time, enables us to identify, assess and manage climate-related risks. In order to meet our commitments to help end the most harmful activities and at least halve the climate impact of our financing activity by 2030, NWM Group has assessed and acted upon a number of risks related to our financing of fossil fuels and are taking steps to develop our stance on nature and biodiversity loss. We intend this ambition to result in limiting activity with companies with more than 15% of activities related to thermal and lignite coal and major oil & gas producers, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021; and over time reduced investment risk in customer portfolios associated with climate change and reduced impact of our financing activities.

Evolving climate data and analytics

In light of the continued challenges we face in sourcing and evaluating climate-related data of varied scope and quality we have directed resources to invest in climate data and tools to equip our customer facing teams with the analytics to best support business origination and delivery. We plan to evolve our capability and enhance NWM Group's own set of measurable KPIs for management information purposes as well as external disclosure. Over time we expect these enhancements to help us with the incorporation of climate and ESG factors as part of NWM Group's capital and portfolio management; the standardisation of reporting and measurement in respect of Climate and Sustainable Funding and Financing products; as well as the enhancement of our climate risk appetite measures in light of continued product innovation.

Our own operational footprint

During 2021[1], NatWest Group reduced its direct own operational[2] carbon footprint 46% against 2019 baseline, and increased renewable electricity consumption to 97%. For NatWest Group own operations to support the public commitments to the Net Zero Banking Alliance, they plan to align to the Science Based Targets initiative (SBTi)'s 'SBTi Corporate Net-Zero Standard' released in October 2021 and account for the wider value chain[3], including suppliers. NWM Group plan to work with NatWest Group to contribute to stretching targets for minimum 90% decarbonisation by 2050 for all emissions to achieve net zero (excluding financed emissions which is covered in more detail in the NatWest Group 2021 Climate-related Disclosures Report section 5.7).

Climate-related impact on financial planning and future looking plan

During 2021, we have worked with NatWest Group to incorporate climate into the financial planning process by developing the first carbon plan for NatWest Group. This work progressed alongside the NatWest Group financial planning process in the second half of the year. This included an assessment of climate impact of:

- lending and investment changes incorporated in the financial plan over the next five years,
- current and planned climate-related opportunities including, but not limited to, NatWest Group's commitment to provide £100 billion Climate and Sustainable Funding and Financing and the role that NWM Group will play in that,
- to acknowledge our dependence on policies, technology developments and customer behaviour, and the related risks, we also assessed current and expected policies based on the Climate Change Committee's Sixth Carbon Budget published in 2020 and any potential impacts on our climate ambition. Refer to NatWest Group 2021 Climate-related Disclosures Report section 5.7 for details on policy and technology changes needed to support transition by sector.

During 2022, we plan to continue to work with NatWest Group to develop capability to measure the impact of climate-related risks and opportunities arising from NatWest Group actions and also external factors. Our work on assessing emissions from our own direct operations and on our lending and investments is noted in the Natwest Group 2021 Climate-related Disclosures Report sections 5.6 and 5.7. Section 5.7 also outlines current estimates of 2030 emissions intensities for sectors analysed and consequently the level of emissions reductions that may be required, acknowledging the uncertainties arising from dependence on customer behaviour changes, their transition plans as well as policy and technology developments.

In 2022, NatWest Group plan to further enhance carbon planning capability to support development of transition plans to measure and track progress towards the NatWest Group ambition to halve the climate impact of our financing activity by 2030.

Scenario analysis

In 2021, NWM Group participated in the Climate Biennial Exploratory Scenario (CBES) within the overall NatWest Group submission. While the trading book was excluded from scope under the Bank of England guidance, we have produced stressed credit risk results for the banking book, including both impairments and risk-weighted assets projections, for each of the 'Early', 'Late' and 'No Policy Action' scenarios. NWM Group supported the analysis of large financial counterparties. Beyond CBES, we continue to strengthen our overall climate-risk scenario capabilities and have explicitly included climate effects in one of the core scenarios to be used in this year's Internal Capital Adequacy Assessment Process (ICAAP). We remain aligned to NatWest Group's initiatives to develop the necessary methodology and processes to perform climate scenario analysis as an integral part of risk management and strategic decision-making.

(1) Our own operational footprint reporting year runs from October 2020 to September 2021.
(2) NatWest Group defines direct own operations as our Scope 1, Scope 2 market-based and Scope 3 (paper, water, waste, business travel, commuting and work from home emissions). It therefore excludes upstream and downstream emissions from our value chain.
(3) Upstream operational value chain emissions are all the indirect Scope 3 emissions required for our operations to occur, including emissions from our suppliers, energy creation and transport to our facilities, and our mail. Downstream operational value chain emissions are all of the indirect Scope 3 emissions associated with our operations during and after serving our customers, including customer transport to and from our facilities, how our products are used and how they are disposed of.

Climate-related disclosures: Risk management

The organisation's processes for identifying and assessing climate-related risks[1].

Climate risk is the risk of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it. Climate change represents inherent risk to NWM Group, not only from its impact on the global economy and the businesses of its customers, but also through its potential effects on asset values, operational costs and business models. As a result, NWM Group has adopted a dual approach to climate risk management in line with the wider NatWest Group. Climate risk is recognised as a principal risk as well as a causal factor affecting other financial and non-financial risks. Throughout 2021, NatWest Group continued to embed this dual approach, updating existing risk policies and toolkits, where appropriate, to incorporate climate considerations.

Climate-related risks are classified as either physical or transition risks[2]. In April 2021, the NatWest Group Board Risk Committee approved a principles-based climate risk policy, which defined the key requirements for effectively managing climate risk: the identification and assessment of climate risk through the incorporation of climate considerations in key risk management processes. This is largely delivered through the following mechanisms:

- Scenario analysis to identify, assess, measure and mitigate climate risk on NatWest Group's balance sheet.
- Long-term balance sheet transformation driven by NatWest Group's strategic ambition and purpose to reduce its climate impact.
- Enhanced climate risk data capabilities.

NatWest Group has adopted three first generation risk appetite measures to embed climate risk capabilities and support the identification, assessment and mitigation of climate risk in the day-to-day operations of the business. These will be considered by NWM Group when designing and embedding their risk appetite measures into their business-as-usual risk management practices in 2022.

Integrating climate-related risks into our principal risk management

Following inclusion of climate risk as a principal risk in the NatWest Group Risk Directory in Q1 2021, an approach which uses iterative multi-year enhancements was established to fully integrate climate risk as a factor within NatWest Group's risk management, including NWM Group. The timing of this multi-year journey reflects both the complexity of the task and evolving nature of climate data capabilities and supporting tooling.

A climate maturity rating scale has been developed to support the ongoing assessment of climate risk management throughout NatWest Group. This approach translated NatWest Group's climate risk policy into thematic management outcomes. Implementation of processes, procedures and controls against these outcomes by the first line of defence provides a measurement of the level of maturity of climate risk management. This is overseen by the second line of defence.

At year-end 2021, measured against this scale, NWM Group achieved the minimum expectation of first-generation implementation. This means a predominantly qualitative approach to the policy outcomes, with coverage across priority sectors or customers. For example, NWM Group now requires mandatory qualitative climate commentary in credit risk assessments and has developed qualitative scorecards to assess customers' exposure to physical/transition risks and opportunities.

Once all outcomes have been achieved to the most advanced maturity rating, the principal climate risk will no longer be required as the capabilities to manage climate-related risks effectively would be integrated to respective risk management activity.

Within NWM Group, progress has been made in embedding climate considerations in credit and operational risk management, with all areas progressing and further development plans in place for 2022. Having the right climate-related data available is essential for further integration, and NWM Group is working closely with NatWest Group's data teams to evolve capabilities.

Climate Risk Challenges

Climate risk management is an evolving discipline. Climate risk metrics are complex and require many methodological choices, judgements and assumptions. Many climate metrics and data are based on underlying assumptions made about climate changes, policies, technologies and other matters that are uncertain or not yet known. For further details see NatWest Group 2021 Climate-related Disclosures Report section 5.8.

(1) For further information on our process for identifying and assessing climate-related risks please refer to 2021 NatWest Group Climate-related Disclosures Report section 4.1.
(2) Physical risks can be either acute, such as extreme weather events resulting in business disruption to the bank's own operations, or chronic effects such as prolonged drought conditions adversely affecting agricultural yields. Transition risks are those associated with shift towards a net-zero economy.

Credit risk

NWM Group participates in NatWest Group's Wholesale Credit Risk Climate Forum which brings together key stakeholders to integrate and embed climate risk into wholesale credit risk management.

This activity is supported by working groups in the business segments carrying out detailed activity to integrate climate risk in the credit assessment process. Key climate decisions impacting credit risk frameworks, policies and risk-management activities are escalated to the NWM Group Credit Risk Committee for approval.

During 2021, climate risk was further embedded in the credit risk-management process. Climate risk was included as a factor in determining sector classification. Transaction Acceptance Standards (TAS) were also updated to incorporate climate considerations.

Qualitative assessment of climate risk and the mandatory inclusion of climate commentary was incorporated into the existing review processes for NWM Group's credit portfolio from Q4 2021. This may include an assessment of physical and transition risks as well as the quality of transition plans, an understanding of customer capabilities to manage climate-related risks, emissions assessments and associated potential financial impacts.

A methodology was also developed to assess climate-risk exposure among NatWest Group's wholesale customers, including NWM Group, using scorecards. These provide a consistent approach to the qualitative assessment of customers' exposure to physical or transition risks and opportunities. The scorecards are aligned with probability of default models.

Scorecards are being phased in to ensure NatWest Group's exposure to heightened climate risk sectors and key counterparty types are prioritised for assessment and monitoring. In Q4 2021, the first scorecards (mid-large and large corporate, property, housing association, banks and leveraged funds) were finalised for approval and launch in Q1 2022. These cover approximately 60% of NWM Group's exposure at default (EAD) and 90% of EAD associated with heightened climate risk sectors.

In Q4 2021, NatWest Group started planning a more quantitative assessment of climate risk within the credit assessment process. The aim is to integrate climate activities, seeking to improve customer-level analysis, including carbon budget reporting, credible transition plans, climate stress testing scenario output and climate scorecards. This is expected to help determine risk appetite, differentiate pricing and support appropriate business opportunities and risk management.

Building on progress made over the past year, several enhancements are planned for 2022, including evolving TAS.

Further scorecard development is planned to include those used to assess securitisation, then covering approximately 75% of NWM Group's EAD. Strategic integration of the scorecards is expected with a phased migration into NatWest Group's ratings platform, enhancing monitoring and reporting capabilities.

As the availability of quantitative climate data improves, the aim is to incorporate it into the scorecard tool, which is expected to become increasingly automated to help improve the consistency of assessment.

For further information please refer to NatWest Group 2021 Climate-related Disclosures Report section 4.3.

Market risk

The impact of extreme climate events or an acute shift in global climate-related regulation has the potential to affect market risk across all products.

Increased market risk may also arise because of supply chain disruption, changes in demand for products, and sharp adjustments to market prices for affected sectors or geographies.

The embedding of market risk climate-specific stress scenarios will follow industry standards and regulatory guidance. A monthly climate sector and geography report has been developed to monitor sector, issuer and country concentrations across traded bonds, loans and credit default swaps.

The reporting provides information on the existing climate-risk profile as well as informing decisions on future profile and guideline setting.

Climate-related disclosures: Risk management continued

Model risk

NWM Group leverages NatWest Group-wide models and policy standards where applicable for climate risk. Unlike other risk-estimation models, there are limited benchmarking options available for climate risk. As a result, an understanding of the underlying uncertainty and holistic view of the impact on existing models is still developing.

Reputational risk

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 net-zero economy.

NWM Group applies the NatWest Group reputational risk policy which sets out expectations around the identification and assessment of reputational risk. The policy links to Environmental, Social & Ethical mandatory procedures which provide clear guidance to employees when dealing with customers, projects and transactions that present heightened environmental, social and ethical risks.

The NWM Group Reputational Risk Committee is the point for escalation and review of potential issues that arise at a transactional, business or legal entity level. It receives authority from the NWM Group Executive Risk Committee and is also overseen by the NWM Plc Board Risk Committee and the NatWest Group Reputational Risk Committee. The NWM Group Climate and Sustainability Committee also has a focus on environmental, social and ethical issues.

Operational risk

Climate change is a source of operational risk, including disruption to business services, damage to physical assets and supply chain disruption.

The NatWest Group change and risk and control assessment frameworks that NWM Group uses have been enhanced to incorporate climate change considerations. NWM Group completed a risk discovery heat map in 2021 to ensure adequate coverage of climate change considerations across these assessments and scenario analysis.

During 2021, a NatWest Group-wide operational risk climate scenario exercise was performed, focused on operations in UK and India. For full details of the scenario analysis see NatWest Group 2021 Climate-related Disclosures Report section 4.3. The impact for NWM Group was:

- The customer impact from a 1-in-25 years scenario was categorised as 'Important', with a direct cost implication estimated at approximately £0.2 million.
- The customer and reputation impact of a 1-in-100 years scenario was categorised as 'Significant', with direct costs estimated at approximately £2.9 million.

The scenario outcomes and learnings will be used, alongside the risk discovery heatmap work, to support our 2022 planning.

Conduct and compliance risk

Climate change and responses to it may amplify existing conduct risks. These include risks associated with the design and distribution of products and NWM Group's compliance with the rapid pace of change in climate legislation, regulation and best practice.

NWM Group is committed to identifying, managing and mitigating these additional risks as part of its climate programme. It considers conduct risk as part of its product governance and approval processes for ESG-focused products. Climate-related risks are escalated to the CSC and other risk fora, as appropriate. NWM Group also considers potential legislative and regulatory changes in the jurisdictions in which it operates to ensure it continues to remain compliant with local requirements and expectations.

To support NatWest Group's purpose and climate agenda, NWM Group is reviewing its current product governance processes and procedures with enhancements being delivered to ensure they remain fit for purpose and effective in the management of conduct and compliance risk.

Climate-related disclosures: Metrics and targets

NatWest Group has developed metrics and internal reporting tools to assess and monitor climate-related risks and opportunities. These metrics continue to evolve in step with NatWest Group's growing climate capability and industry guidance. This section includes the metrics used to assess climate-related risks and opportunities as relevant to NWM Group.

Heightened climate-related risk sectors

As part of its risk-management activity, NatWest Group identified 13 sectors within its wholesale portfolio as exposed to heightened climate-related risk impacts[1]. The table below summarises NWM Group loan exposures[2,3] to these sectors; the amounts reported include all lending to customers including climate and sustainable lending.

Total exposure to heightened climate-related risk sectors reduced by £1.7 billion during 2021. There is a decrease across the majority of sectors with the largest decrease, £0.5 billion, in the power utilities sector:

	31 December 2021				31 December 2020			
Heightened climate-related risk sectors	**Loans £m**	**Off-Balance sheet £m**	**Total sector exposure £m**	**Total sector exposure as % of Total NWG %**	Loans £m	Off-Balance sheet £m	Total sector exposure £m	Total sector exposure as % of Total NWG %
Power utilities	**88**	**1,398**	**1,486**	**7.3%**	161	1,795	1,956	8.6%
Automotive	**49**	**686**	**735**	**3.6%**	49	863	912	4.0%
Land transport and logistics	**75**	**231**	**306**	**1.5%**	87	457	544	2.4%
Commercial real estate	**97**	**182**	**279**	**1.4%**	166	313	479	2.1%
Oil and gas	**269**	**40**	**309**	**1.5%**	64	377	441	1.9%
Airlines and aerospace	**7**	**207**	**214**	**1.1%**	33	356	389	1.7%
Chemicals	**0**	**62**	**62**	**0.3%**	0	164	164	0.7%
Shipping	**0**	**1**	**1**	**0.0%**	0	96	96	0.4%
Construction	**0**	**76**	**76**	**0.4%**	0	90	90	0.4%
Building materials	**3**	**12**	**15**	**0.1%**	0	75	75	0.3%
Agriculture	**40**	**1**	**41**	**0.2%**	38	1	39	0.2%
Housing associations	**23**	**0**	**23**	**0.1%**	24	0	24	0.1%
Mining and metals	**3**	**0**	**3**	**0.0%**	3	0	3	0.0%
Total Heightened climate-related sectors	**654**	**2,896**	**3,550**	**17.5%**	625	4,587	5,212	23.0%
Total NWM Group all sectors	**8,547**	**11,714**	**20,261**	**100.0%**	9,536	13,140	22,676	100.0%

(1) Refer to NatWest Group 2021 Climate-related Disclosures Report section 4.3 for further details of the identification and review process.
(2) Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only and excludes amounts that are outside the scope of the Expected Credit Loss (ECL) framework.
(3) Off-balance sheet includes loan commitments and contingent liabilities.

Climate-related disclosures: Metrics and targets continued

Climate and Sustainable Funding and Financing

NatWest Group aims to play a leading role in championing climate solutions by supporting its customers' transition towards a net-zero, climate-resilient and sustainable economy through Climate and Sustainable Funding and Financing. NatWest Group uses its Climate and Sustainable Funding and Financing Inclusion Criteria (CSFI) criteria[1] to determine the assets, activities and customers that are eligible to be counted towards the NatWest Group Climate and Sustainable Funding and Financing targets.

During H1 2021 NatWest Group exceeded its 2020-21 target of providing £20 billion of Climate and Sustainable Funding and Financing in the two years ended 2021. In October 2021, NatWest Group announced a new target to provide an additional £100 billion of Climate and Sustainable Funding and Financing between 1 July 2021 and the end of 2025.

In the full year ended December 2021, NatWest Group completed £17.5 billion of Climate and Sustainable Funding and Financing. This comprised £9.7 billion in NWM Group from 71 deals. Of these 53 were green bonds and private placements totalling a notional amount of £38.7 billion which accounts for c.16% of the total lead managed transactions by NWM Group during the period[2].

Climate and Sustainable Funding and Financing[1]	Full year ended 31 December 2021 £m	Half year ended 31 December 2021 £m	Half year ended 30 June 2021 £m	Full year ended 31 December 2020 £m
Green Public Bonds and Green Private Placements[2]	**8,227**	**2,777**	5,450	5,030
Green Loan Underwriting[2]	**153**	**–**	153	–
Sustainability Linked Loans[3]	**639**	**347**	292	732
Sustainability Linked Bonds and Private Placements[3]	**201**	**201**	–	–
Other financing within the CSFI criteria[4]	**430**	**–**	430	1,395
Total	**9,650**	**3,325**	6,325	7,157

(1) For the full year ended 31 December 2021, the NatWest Group 2021 CSFI criteria published in February 2021 has been used to determine the assets, activities and companies that are eligible to be counted. The revised CSFI criteria published in October 2021 will be used from 1 January 2022. Full details of the CSFI criteria can be found at natwestgroup.com

(2) Underwriting of specific use of proceeds debt capital market issuances for project expenditures, as well as green loan commitments when customers meet the CSFI criteria. Amounts represent the NWM Group share of the notional (total underwriting amount lead managed or placed by NWM Group), based on the number of underwriters within a specific deal. During the year ended 31 December 2021 53 green bonds and private placements totalling a notional amount of £38.7 billion (36 deals, £22.7 billion during full year 2020), account for c.16% of the total lead managed or placed transactions by NWM Group during the period (c.4% for full year 2020).

(3) Sustainability Linked Loans, Bonds and private placements made to customers, in line with Loan Market Association (LMA) Sustainability Linked Loan principles and International Capital Market Association (ICMA) Sustainability Linked Bond principles where deal targets include green performance indicators, aligned to CSFI criteria.

(4) In addition to transactions that directly meet CSFI criteria based on use of proceeds for green purposes, the CSFI criteria also includes certain general purpose bonds and private placements to customers who can evidence (to NatWest Group's satisfaction through review of the customers' profit and loss statement) 50% or more of revenues from the categories and sectors outlined in the criteria. In the year ended 31 December 2021, the £430 million relates to bonds and private placements on this basis.

Examples of green deals

UK Debt Management Office

NWM Group acted as joint lead manager raising £6 billion for the Debt Management Office's second green bond; read more on page 9.

Origin Housing

NWM Group acted as sole ESG structurer and agent on Origin Housing's inaugural green £120 million private placement. We thereby helped this social landlord lock in long-term financing to develop affordable and energy-efficient homes for its tenants in London and Hertfordshire.

KfW

NWM Group acted as joint bookrunner on KfW's €4 billion green bond issuance. This issuance supported KfW's two green loan initiatives: the 'Renewable Energies Programme', which mainly funds wind and photovoltaics projects; and the 'Energy-efficient Construction' programme which supports energy-efficiency in new residential buildings in Germany.

Capital markets transactions (financing)

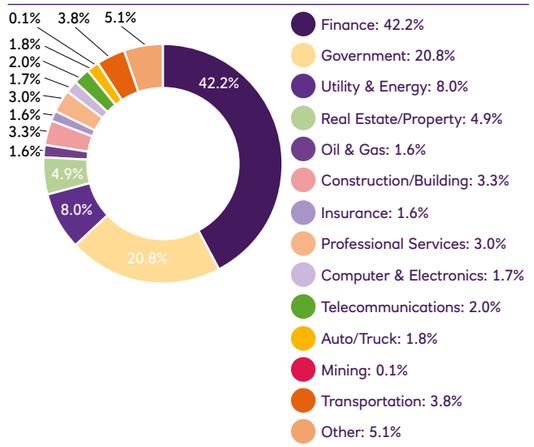
NWM Group also supports customers through capital markets by providing an integrated proposition across financing, solutions and advisory services. We are a leading partner for our customers, helping them to access global debt capital markets across a wide variety of products, including bonds, loans, commercial paper, medium-term notes and private placements as well as bespoke financing solutions and primary lending products.

As part of capital markets transactions, NWM Group acts as a facilitator[1] to support customers to issue debt instruments.

These transactions are not recorded on the balance sheet since the climate-related exposure is held by the investor who places the bonds or private placements in their portfolio.

The chart below shows NWM Group's lead management activity during 2021 by sector.

NWM Group's Underwriting Business by Sector in 2021



The data is sourced from Dealogic, and uses the Dealogic General and Specific Industry Group classifications. Financing volumes are reported on a manager-proceeds basis including bonds and securitised bonds; no modifications have been made by NWM Group. This data represents a third party view of our financing and is subject to Dealogic's league table methodology, which pro-rates volume across lead-managers.

The table below shows value for financing related to mining, oil & gas and utility & energy sectors. These are identified as high risk as they are emissions intensive and therefore particularly exposed to rising carbon costs; however, those deals meeting the CSFI criteria have been shown separately given their decarbonisation scope/trajectory:

Sector	2021 £m	% of Total	2020 £m	% of Total
Utility & Energy	**5,706**	**8.0%**	5,761	7.4%
Of which fall under the CSFI criteria	**899**		2,931	
Mining	**94**	**0.1%**	270	0.3%
Oil & Gas	**1,166**	**1.6%**	589	0.8%
Grand Total of all industries (NWM Group apportioned value)	**71,210**		77,471	

As methodologies are developed by the industry, NWM Group intends to incorporate facilitated emissions into its measuring and reporting cycle.

(1) The Partnership for Carbon Accounting Financials (PCAF) discussion paper on Capital Markets, issued in November 2021 defines a facilitator as: 'An institution (usually large international banks) that helps an entity (in this paper only corporates are in scope) to issue equity or debt instruments in the capital markets. The facilitator may carry out activities including advising the issuing entity on structure, pricing, and process; preparing materials for and engaging with investors; and arranging and guiding issuing entities on a roadshow. Formal roles encompassed by this term include Lead/Active/Passive Bookrunner(s) and Lead/Co-Manager(s).'

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Financial review

Presentation of information

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc or 'the ultimate holding company'. The term 'NWM Group' or 'we' refers to NWM Plc and its subsidiary and associated undertakings.

The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NatWest Holdings Limited ('NWH') and its subsidiary and associated undertakings. The term 'NatWest Bank Plc' or 'NWB Plc' refers to National Westminster Bank Plc.

NWM 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 pound 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.

NWM Group legal entity disclosures

There is a distinction between the disclosure of the NatWest Markets operating segment performance in NatWest Group plc's 2021 Annual Report and Accounts (ARA), and NWM Group's disclosures as presented in this document, with differences primarily as follows:

- NWM Group's legal entity disclosures include the Central items & other segment,
- NatWest Group plc's 2021 ARA reports the NatWest Markets segment excluding the Central items & other segment.

Non-IFRS financial measures

NWM Group prepares its financial statements in accordance with generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These non-IFRS measures provide users of the financial statements with a consistent basis for comparing business performance between financial periods and information on elements of performance that are one-off in nature. The non-IFRS measures also include the calculation of metrics that are used throughout the banking industry. These non-IFRS measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. Refer to the section, 'Non-IFRS financial measures', on page 178 for further information and calculations of non-IFRS financial measures included throughout this document, and, where relevant, the most directly comparable IFRS financial measures.

Performance overview

NWM Group reported a loss for the year ended 31 December 2021 of £491 million compared with a loss of £327 million for the year ended 31 December 2020. Lower income reflected under-performance in Fixed Income in 2021 and the exceptional market activity in the prior year in response to the COVID-19 pandemic. Operating expenses for the current year were lower than in 2020, largely reflecting lower litigation and conduct costs and progress on underlying cost reductions.

Financial performance

- Income was £401 million in 2021, compared with £1,158 million in 2020, driven by under-performance in Fixed Income, in contrast to the prior year which benefitted from exceptional levels of market activity generated by the initial spread of the COVID-19 virus.
- Operating expenses of £1,150 million were £281 million lower compared with £1,431 million in 2020. Litigation and conduct costs of £17 million credit reflected progress in closing legacy matters and were £151 million lower than £134 million in 2020. Strategic costs were £248 million, up from £191 million in the prior year, as work continued on the refocusing of NWM Group. Other operating expenses of £919 million were £187 million lower than in 2020, reflecting progress on underlying cost reductions.
- Impairment releases were £35 million in 2021, largely driven by credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 counterparties, compared with losses of £42 million in the prior year which were largely due to the credit deterioration of an individual counterparty and the impact of expected credit losses recognised following the COVID-19 pandemic.
- NWM Group's total assets and liabilities decreased by £70.1 billion and £68.2 billion to £203.0 billion and £195.6 billion respectively at 31 December 2021, compared with the prior year. The decreases primarily reflect lower derivative fair values, largely driven by increases in interest rates across major currencies during the year.
- Total dividends paid to NatWest Group plc during the year ended 31 December 2021 amounted to £1.0 billion. On 17 February 2022, the NWM Plc Board approved a further interim dividend of £250 million, to be declared and payable to NatWest Group plc on 18 February 2022. There has been no adjustment to the year-end statutory financial statements, however a £250 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.

Capital and leverage

- Total NWM Plc RWAs reduced to £22.7 billion at 31 December 2021 from £25.6 billion at 31 December 2020, reflecting lower levels of credit, counterparty credit, market and operational risk which have trended downwards as the business seeks to reduce RWAs through the execution of capital optimisation actions, including strategic risk reduction transactions and exit activity.
- NWM Plc's Common Equity Tier 1 (CET1) ratio was 17.9% at 31 December 2021, compared with 21.7% at 31 December 2020. The decrease in the year reflected the impact of dividends paid to NatWest Group plc and other reserve movements, partly offset by the reduction in RWAs. The CRR leverage ratio decreased to 4.3% from 5.2% at 31 December 2020.
- Total MREL for NWM Plc at 31 December 2021 was £9.6 billion, or 42.1% of RWAs, down from £12.7 billion or 49.6% of RWAs at 31 December 2020. The decrease in the year was largely due to the redemption of a $1.5 billion internal instrument issued to NatWest Group plc and the reduction in CET1 capital.

Liquidity and funding

- NWM Plc's liquidity portfolio at 31 December 2021 was £16.1 billion with an LCR of 205%, compared with £19.4 billion and an LCR of 268% at 31 December 2020. Stressed coverage ratio was 146% at 31 December 2021, compared with 207% at 31 December 2020.
- NWM Plc issued £4.3 billion of term senior unsecured debt securities during 2021, including two benchmark transactions under the US MTN programme amounting to $2.55 billion of notes, two benchmark transactions under the EMTN programme amounting to €2.25 billion of notes, and other private placements.

NWM Group business review

The table below presents a segmental analysis of key lines of NWM Group's income statement. Commentary refers to the table below as well as the statutory income statement presented on page 105.

	2021			2020				
Income statement	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m	Variance £m	Variance %
Net interest income	**8**	**—**	**8**	(62)	2	(60)	68	(113%)
Non-interest income	**401**	**(8)**	**393**	1,180	38	1,218	(825)	(68%)
Total income	**409**	**(8)**	**401**	1,118	40	1,158	(757)	(65%)
Strategic costs	**(236)**	**(12)**	**(248)**	(207)	16	(191)	(57)	30%
Litigation and conduct costs	**—**	**17**	**17**	(4)	(130)	(134)	151	(113%)
Other operating expenses	**(921)**	**2**	**(919)**	(1,106)	—	(1,106)	187	(17%)
Operating expenses	**(1,157)**	**7**	**(1,150)**	(1,317)	(114)	(1,431)	281	(20%)
Operating loss before impairments	**(748)**	**(1)**	**(749)**	(199)	(74)	(273)	(476)	174%
Impairment releases/(losses)	**35**	**—**	**35**	(40)	(2)	(42)	77	(183%)
Operating loss before tax	**(713)**	**(1)**	**(714)**	(239)	(76)	(315)	(399)	127%
Tax credit/(charge)			**223**			(12)	235	(1,958%)
Loss for the year			**(491)**			(327)	(164)	50%
Income (8)								
Fixed Income (1,2,3,4,5)	**(64)**	**—**	**(64)**	511	—	511	(575)	(113%)
Currencies (2,4)	**427**	**—**	**427**	583	—	583	(156)	(27%)
Capital Markets (2,3,4)	**336**	**—**	**336**	384	—	384	(48)	(13%)
Capital Management Unit and other (1,2,5,6)	**(35)**	**(8)**	**(43)**	(60)	40	(20)	(23)	115%
Income before Revenue share paid, Asset disposals and OCA	**664**	**(8)**	**656**	1,418	40	1,458	(802)	(55%)
Revenue share with other NatWest Group segments	**(197)**	**—**	**(197)**	(193)	—	(193)	(4)	2%
Income excluding Asset disposals and OCA	**467**	**(8)**	**459**	1,225	40	1,265	(806)	(64%)
Asset disposals/Strategic risk reduction (7)	**(64)**	**—**	**(64)**	(83)	—	(83)	19	(23%)
Own credit adjustments (OCA)	**6**	**—**	**6**	(24)	—	(24)	30	(125%)
Total income	**409**	**(8)**	**401**	1,118	40	1,158	(757)	(65%)

(1) Income of £(12) million reported within Fixed Income relates to business subsequently reallocated to Capital Management Unit during 2021. Comparatives have not been restated. The full year equivalent amount for 2020 was £1 million.
(2) Income of £(42) million, £(8) million and £(14) million reported within Fixed Income, Currencies and Capital Markets respectively in 2020 relates to business that was subsequently reallocated to Capital Management Unit during 2020.
(3) Income of £33 million reported within Capital Markets in 2020 relates to business that was subsequently transferred to Fixed Income during 2020.
(4) Income of £59 million and £8 million reported within Fixed Income in 2020 relates to business that was subsequently transferred to Currencies and Capital Markets respectively during 2020.
(5) Fixed Income includes income of £(7) million (2020: £37 million) relating to miscellaneous balances that from Q2 2021 have been included in Capital Management Unit and other.
(6) Capital Management Unit was set up in Q3 2020 to manage the capital usage and optimisation across all parts of NatWest Markets. The income shown here relates to legacy assets and other miscellaneous balances. Other relates to income booked to the Central items & other operating segment.
(7) Asset disposals/Strategic risk reduction relates to the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into, in respect of the strategic announcements of 14 February 2020.
(8) Product performance includes gross income earned on a NatWest group-wide basis, including amounts contributed to other segments.

NWM Group business review continued

Income

Net interest income was £8 million for 2021, compared with net interest expense of £60 million in 2020. Net interest income largely represents interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business. The movement in the year primarily reflected reduced funding costs for the business driven by the ongoing repayment of legacy debt.

Non-interest income decreased by £825 million to £393 million, compared with £1,218 million in 2020. Income from trading activities decreased to £263 million from £1,088 million in 2020, reflecting under-performance in Fixed Income which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from the exceptional market activity generated by the initial spread of the COVID-19 virus. Asset disposals/Strategic risk reduction was a £64 million loss for the year, compared with a £83 million loss in the prior year following the strategic announcements in February 2020.

Operating expenses

Operating expenses of £1,150 million in the current year were £281 million lower than £1,431 million in 2020. Litigation and conduct costs credit of £17 million for the year reflected continued progress in closing legacy matters and were down £151 million from £134 million in 2020. Strategic costs were £248 million in 2021 compared with £191 million in 2020, as work continued on the refocusing of NWM Group. Other operating expenses decreased to £919 million from £1,106 million in 2020, primarily reflecting ongoing progress on underlying cost reductions.

Impairments

Impairment releases were £35 million in 2021, largely driven by credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 exposures, compared with losses of £42 million in 2020, which were largely due to the credit deterioration of an individual counterparty and the increased expected credit losses recognised following the COVID-19 pandemic.

NatWest Markets segment

The operating loss before tax was £713 million compared with a loss of £239 million in 2020. Income excluding asset disposals and own credit adjustments of £467 million was £758 million lower than in 2020, reflecting under-performance in Fixed Income which was impacted by the re-shaping of the business, and the increased customer activity in the prior year as the market reacted to COVID-19. Operating expenses of £1,157 million were £160 million lower than £1,317 million in 2020, largely driven by a decrease in other operating expenses reflecting continued progress on underlying cost reductions.

Central items & other segment

The operating loss before tax was £1 million compared with a loss of £76 million in 2020. Litigation and conduct costs of £17 million credit reflected progress in closing legacy matters and were down £147 million from £130 million in 2020.

NWM Group business review continued

Balance sheet profile as at 31 December 2021

NWM Group's balance sheet profile is summarised below. Commentary refers to the tables below as well as the consolidated balance sheet on page 106.

Assets			Liabilities		
	2021 £bn	2020 £bn	2021 £bn	2020 £bn	
Cash and balances at central banks	**16.6**	15.8			
Securities	**25.0**	29.2	**25.0**	26.8	Short positions
Reverse repos (1)	**20.7**	19.4	**19.4**	19.0	Repos (2)
Derivative cash collateral posted (3)	**12.0**	18.5	**17.6**	23.2	Derivative cash collateral received (4)
Other trading assets	**1.4**	1.6	**2.5**	3.3	Other trading liabilities
Total trading assets	**59.1**	68.7	**64.5**	72.3	Total trading liabilities
Loans - amortised cost	**8.4**	9.4	**4.1**	4.4	Deposits - amortised cost
Settlement balances	**2.1**	2.3	**2.1**	2.2	Settlement balances
Amounts due from holding company and fellow subsidiaries	**1.5**	1.6	**6.1**	8.1	Amounts due to holding company and fellow subsidiaries
Other financial assets	**8.8**	9.0	**19.3**	18.2	Other financial liabilities
Other assets	**0.9**	0.7	**1.0**	1.3	Other liabilities
Funded assets	**97.4**	107.5	**97.1**	106.5	Liabilities excluding derivatives
Derivative assets	**105.6**	165.6	**98.5**	157.3	Derivative liabilities
Total assets	**203.0**	273.1	**195.6**	263.8	Total liabilities
					of which:
			21.1	20.6	wholesale funding (5)
			9.2	9.5	short-term wholesale funding (5)
Net derivative assets	**3.6**	4.7	**2.9**	3.6	Net derivative liabilities

(1) Comprises bank reverse repos of £3.9 billion (2020 - £2.2 billion) and customer reverse repos of £16.8 billion (2020 - £17.2 billion).
(2) Comprises bank repos of £0.8 billion (2020 - £1.0 billion) and customer repos of £18.6 billion (2020 - £18.0 billion).
(3) Comprises derivative cash collateral posted relating to banks of £4.3 billion (2020 - £7.5 billion) and customers of £7.7 billion (2020 - £11.0 billion).
(4) Comprises derivative cash collateral received relating to banks of £8.1 billion (2020 - £11.8 billion) and customers of £9.5 billion (2020 - £11.4 billion).
(5) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third party subordinated liabilities.

Total assets and liabilities decreased by £70.1 billion and £68.2 billion to £203.0 billion and £195.6 billion respectively at 31 December 2021, compared with £273.1 billion and £263.8 billion at 31 December 2020. The decreases primarily reflect lower derivative fair values, largely driven by increases in interest rates across major currencies. Funded assets, which exclude derivatives, decreased by £10.1 billion to £97.4 billion at 31 December 2021.

Trading assets, which primarily relate to client-led activity as well as derivative cash collateral posted, decreased to £59.1 billion at 31 December 2021 from £68.7 billion at 31 December 2020, driven by decreases in derivative cash collateral posted and securities, partially offset by an increase in reverse repos as the balance sheet was managed within limits. Trading liabilities decreased by £7.8 billion to £64.5 billion at 31 December 2021 (2020 - £72.3 billion), driven largely by a reduction in derivative cash collateral received.

Derivative assets and derivative liabilities were down £60.0 billion to £105.6 billion and £58.8 billion to £98.5 billion respectively compared with year end 2020. The decreases in mark-to-market were largely driven by increases in interest rates across major currencies during the year.

Other financial liabilities increased to £19.3 billion from £18.2 billion at 31 December 2020, driven by new issuance partially offset by maturities, and includes £12.4 billion of medium term notes issued.

Board of directors and secretary

Board and committees
Chairman
Frank Dangeard
Chairman of the Board and Chairman of the Nominations and Governance Committee

Executive directors
Robert Begbie
Chief Executive Officer

David King
Chief Financial Officer

Independent non-executive directors
Vivek Ahuja
Chairman of Board Risk Committee

Anne Simpson
Chairman of Audit Committee

Tamsin Rowe
Chairman of the Performance and Remuneration Committee

Sarah Wilkinson

Board changes in 2021
Brendan Nelson (non-executive director) resigned on 30 June 2021.

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

Registered office
36 St Andrew Square
Edinburgh EH2 2YB

Principal office
NatWest Markets Plc
250 Bishopsgate
London EC2M 4AA

NatWest Markets N.V.
Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands

NatWest Markets Holdings USA Inc.
600 Washington Blvd
Stamford
CT 06901 USA

NatWest Markets Plc
Registered in Scotland No. SC090312

Risk and capital management

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Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 42 to 88) 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 NWM 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. NWM 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 NWM Group's portfolios for some time.

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

Risk management framework

Introduction

NWM 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 NWM 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 NWM Group. It aligns risk management with NWM 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 NWM 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 NWM 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 NWM 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 NWM 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 NWM 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.

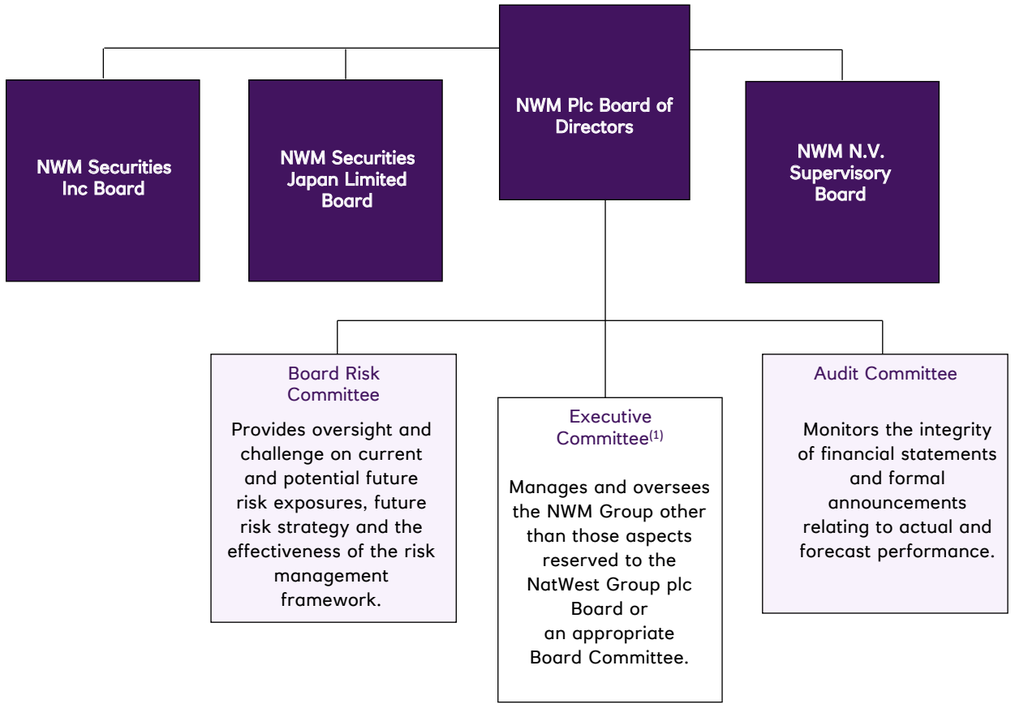
Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees 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.

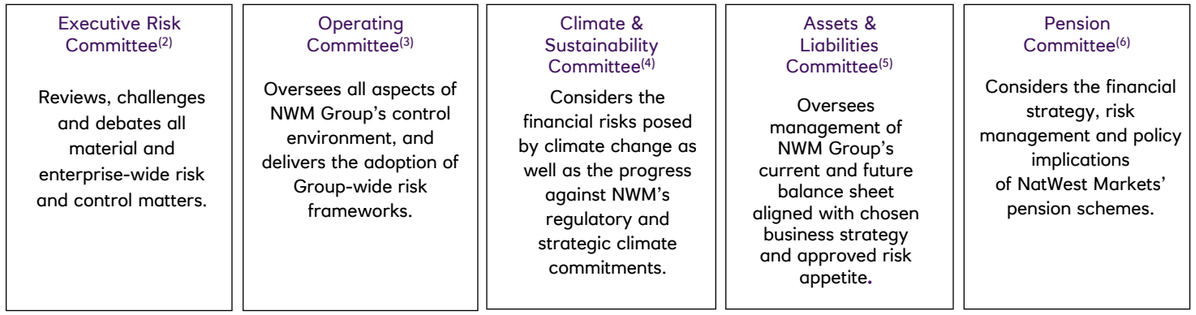
Risk management framework continued

Governance

Committee structure

The diagram shows NWM Plc's risk committee structure in 2021 and the main purposes of each committee.





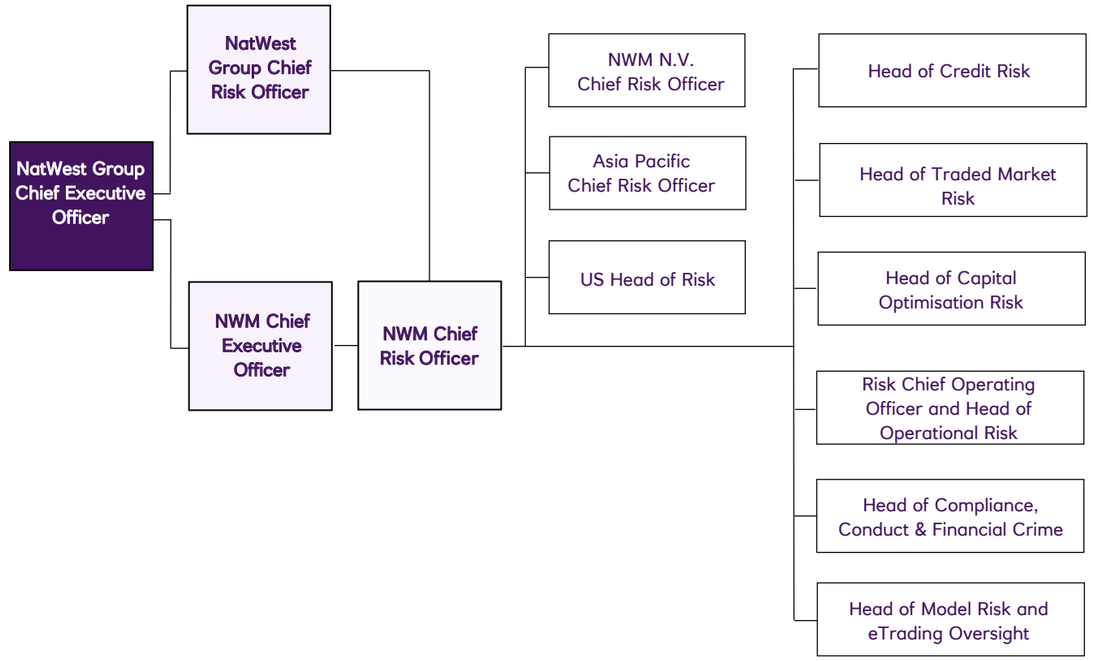
(1) The Executive Committee is chaired by the NWM Chief Executive Officer and supports him in discharging his individual accountabilities in accordance with the authority delegated to him by the NWM Plc Board of Directors.
(2) The Executive Risk Committee is chaired by the NWM Chief Risk Officer and supports him in discharging his risk management accountabilities.
(3) The Operating Committee is chaired by the NWM Chief Operating Officer and supports him in discharging his individual accountabilities in accordance with the authority delegated to him by the NWM Chief Executive Officer.
(4) The Climate & Sustainability Committee is chaired by the NWM Chief Executive Officer and supports him in discharging his climate risk accountabilities.
(5) The Assets & Liabilities Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to treasury and balance sheet management.
(6) The Pension Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to the management of NatWest Markets' pension schemes.
(7) The Financial Crime Risk Committee, the E-Trading Oversight Committee, the Reputational Risk Committee, the Valuations Committee, the Enterprise Wide Risk Committee, the Policy Approval Committee, the Model Risk Committee, the Provisions Committee and the Credit Risk Committee are not shown here. They support the Executive Risk Committee in discharging its risk management responsibilities.

Risk management framework continued

Governance

Risk management structure

The diagram shows NWM Group's risk management structure in 2021.



(1) The NWM Chief Risk Officer reports directly to the NWM Chief Executive Officer and the NatWest Group Chief Risk Officer. The NWM Chief Risk Officer also has an additional reporting line to the chair of the NWM Board Risk Committee, and a right of access to the committee.
(2) The NWM Group Risk function is independent and provides oversight of risk management activities to ensure risks are adequately monitored and controlled. The heads of risk work closely with the NWM N.V. Chief Risk Officer, the US Head of Risk and the Chief Risk Officer Asia Pacific to ensure consistency across the international businesses.
(3) The NWH Group Risk function provides services across NatWest Group, including – where agreed – to the NWM Chief Risk Officer. These services are managed, as applicable, through service level agreements and resource augmentation agreements.

Risk management framework continued

Three lines of defence

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

First line of defence

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

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

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

Second line of defence

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

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

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

Third line of defence

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

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

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

Risk appetite

Risk appetite defines the type and aggregate level of risk NWM 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 NWM 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 NWM 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 NWM 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 NWM Group is well placed to meet its priorities and long-term targets even in challenging economic environments. This supports NWM Group in remaining resilient and secure as it pursues its strategic business objectives.

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

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

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprise:

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

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

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 NWM 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 NWM 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 NWM 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 NWM 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, including at NWM Group level. The diagram below summarises key areas of focus.

Specific areas that involve capital management include:

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

Risk management framework continued

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 NWM 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.

Under stress testing, the peak-to-trough change in CET1 may be affected by the transitions from Stage 1 to Stage 2 in stress conditions. Stress and peak-to-trough movements are used to help assess the amount of capital NWM 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 NWM Group's specific capital requirements through the Pillar 2 framework.

Capital allocation

NWM Group has mechanisms to allocate capital across its 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 Assets & Liabilities 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 Assets & Liabilities 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, NWM Group maintains the Internal Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed in the following table.

Type	Description
Idiosyncratic scenario	The market perceives NWM 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. NWM 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.

NWM 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

Within NWM Group, both NWM Plc and NWM N.V. each have a recovery plan explaining how they would identify and respond to a financial stress event and restore their financial position so that they remain 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.

Risk management framework continued

The plan is intended to enable critical services and products to be maintained, as well as core business lines while operating within risk appetite and restoring financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The NWM Plc plan is reviewed and approved by the Board prior to submission to the PRA each year.

Fire drill simulations of possible recovery events are used to test the effectiveness of the 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 the overall approach to recovery planning.

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Traded market risk

NatWest Markets carries out regular market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading portfolios.

NatWest Markets conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

Historical stress tests form part of the market risk limit framework and their results are reported regularly to senior management. Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line.

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

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

Risk management framework continued

Internal scenarios

During 2021, NWM Group continued to review and refine its internal scenarios where appropriate.

In addition, NWM Group vulnerabilities are considered as part of the development of all NatWest Group-wide integrated scenarios and exercises.

Regulatory stress testing

In 2021, NWM Group contributed to NatWest Group's submission to the regulatory stress tests conducted by the Bank of England. 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.

NWM Group also contributed to NatWest Group's submission to 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.

In addition to its participation in NatWest Group's stress testing programme, NWM Group has a further regulatory commitment in relation to its traded risk model approvals for market risk (IMA) and counterparty credit risk (IMM). A robust stress testing framework is a regulatory requirement.

The purpose of this stress testing framework includes the identification of possible causes of large losses, an estimation of their size and potential impact on capital adequacy together with the identification of steps that could be taken to manage those exposures as required. Such risk management-led stress testing covers both traded market risk and counterparty credit risk and is used to monitor and set risk appetite.

The requirements of NWM Group's stress testing programme are codified in NWM Group's stress testing policy and associated mandatory procedures.

Market risk (audited)

NWM Group is exposed to traded market risk through its trading activities and to non-traded market risk through its banking activities. Traded and non-traded market risk exposures are managed and discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 54.

Pension-related activities also give rise to market risk. Refer to page 83 for more information on risk related to pensions.

Traded market risk

Definition (audited)

Traded market risk is the risk arising from changes in fair value on positions, assets, liabilities or commitments in trading portfolios as a result of fluctuations in market prices.

Sources of risk (audited)

Traded market risk mainly arises from NWM Group's trading activities. These activities provide a range of financing, risk management and investment services to clients – including corporations and financial institutions – around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit.

NWM Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

Trading activities may also give rise to counterparty credit risk. For further detail, refer to the Credit risk section.

Key developments in 2021

- The UK, US and Eurozone economies rebounded strongly in 2021 following the rollout of COVID-19 vaccines. However, inflation rose in H2 2021, in part due to global supply disruptions. This led to further market volatility, particularly in Rates, due to significant shifts in inflation expectations.
- Traded VaR remained within appetite, with an average-basis year-on-year reduction driven by de-risking activity in line with the strategic focus on RWA reduction.

Governance (audited)

Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

Risk appetite

NWM Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NWM Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments and recalibrated to ensure that they remain aligned to NWM Group RWA targets. Limit reviews focus on optimising the alignment between traded market risk exposure and capital usage.

To ensure approved limits are not breached and that NWM Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented.

For more detail on risk appetite, refer to page 46.

Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and NWM Group-wide levels. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business and NWM Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad-hoc reporting.

A risk review of trading businesses is undertaken weekly with senior risk and front office staff. This includes a review of profit and loss drivers, notable position concentrations and other positions of concern.

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to NWM Group's Executive Risk Committee and Board Risk Committee.

Traded market risk continued

Measurement (audited)

NWM Group uses VaR, SVaR and the incremental risk charge to measure traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NWM Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

The suite of internal metrics used for risk management purposes at NWM Group level have been designed to capture correlation effects and to allow for an aggregated view of traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

Value-at-risk

For internal risk management purposes, VaR assumes a time horizon of one trading day and a confidence level of 99%.

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days on an equally-weighted basis.

The model also captures the potential impact of interest rate risk, credit spread risk, foreign currency price risk, equity price risk and commodity price risk.

When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:

- Back-testing: Internal and regulatory back-testing is conducted on a daily basis. For further information on back-testing, refer to the following page.
- Ongoing model validation: VaR model performance is assessed both regularly and on an ad-hoc basis if market conditions or portfolio profile change significantly.
- Model Risk Management review: As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management, refer to page 87. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

One-day 99% traded internal VaR (audited)

The table below shows one-day 99% internal VaR for the trading portfolios of NWM Group, split by exposure type.

	2021				2020			
Traded internal VaR (1-day 99%)	**Average £m**	**Maximum £m**	**Minimum £m**	**Period end £m**	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**10.4**	**25.3**	**4.5**	**8.9**	8.7	20.2	4.8	6.3
Credit spread	**11.3**	**13.4**	**9.4**	**10.7**	15.3	27.2	9.1	10.3
Currency	**3.4**	**9.4**	**1.7**	**2.2**	4.2	8.4	2.1	3.0
Equity	**0.4**	**0.8**	**—**	**0.2**	0.6	2.0	0.2	0.7
Commodity	**0.1**	**0.5**	**—**	**—**	0.1	0.6	—	0.2
Diversification (1)	**(12.3)**			**(10.5)**	(12.8)			(10.3)
Total	**13.3**	**23.9**	**9.3**	**11.5**	16.1	25.7	10.1	10.2

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

- Traded VaR increased in the first half of 2021 reflecting a rise in tenor basis risk in sterling flow trading. This related to the transition from LIBOR to alternative risk-free rates.
- A regulator-approved update to the VaR model was applied in the second half of the year, to address the impact of this transition.
- On an average basis, traded VaR decreased in 2021 compared to 2020. This was driven by de-risking activity in line with the strategic focus on RWA reduction.

Traded market risk continued

VaR back-testing

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical P&L. For more details on the back-testing approach and the differences between internal and regulatory VaR, refer to the Market risk section of the NatWest Group Pillar 3 Report.

The table below shows regulatory back-testing exceptions in NWM Plc for the 250-business-day period to 31 December 2021 for one-day 99% traded regulatory VaR compared with Actual and Hypothetical (Hypo) P&L.

	Back-testing exceptions	
	Actual	**Hypo**
NWM Plc	**1**	**3**

- In the 250-day rolling window to 31 December 2021, NWM Plc experienced one Actual and three Hypothetical VaR P&L back-testing exceptions.
- The Actual exception and two of the Hypothetical exceptions occurred in October 2021, driven by market moves in sterling rates and inflation.
- The third Hypothetical exception occurred in December 2021, driven by market moves in sterling and US dollar rates.

The table below shows internal back-testing exceptions in the major NWM businesses for the 250-business-day period to 31 December 2021. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	**Hypo**
Rates	**1**	**2**
Currencies	**1**	**1**
Credit	**—**	**—**
xVA	**—**	**—**

- The exceptions in the Rates business were mainly driven by market moves in sterling, euro and US dollar rates.
- The exceptions in the Currencies business were mainly driven by market moves related to the Turkish lira.

Stressed VaR (SVaR)

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions. A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%. NWM Group's internal traded SVaR model captures all trading book positions.

The table below analyses 10-day 99% internal SVaR for the trading portfolios of NWM Group.

	2021				2020			
	Average £m	**Maximum £m**	**Minimum £m**	**Period end £m**	Average £m	Maximum £m	Minimum £m	Period end £m
Total internal traded SVaR	**95**	**175**	**46**	**66**	97	196	59	87

- Traded SVaR increased in the first half of 2021, reflecting a rise in tenor basis risk in sterling flow trading. This related to the transition from LIBOR to alternative risk-free rates.
- Traded SVaR subsequently decreased in the second half of the year following changes to the treatment of tenor basis risk in the VaR model.

Traded market risk continued

Risks Not In VaR (RNIVs)

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the NatWest Group Pillar 3 Report.

Stress testing

For information on stress testing, refer to page 47.

Incremental risk charge (IRC)

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the NatWest Group Pillar 3 Report.

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 equity risk.

For detailed qualitative and quantitative information on each of these risk types, refer to the separate sub-sections starting on the following page.

Key developments in 2021

- NWM Plc's non-traded internal VaR experienced less volatility compared to 2020. On an average basis, it decreased driven by the foreign exchange component, mainly due to the strategic focus on RWA reduction. NWM Plc continued to maintain a foreign exchange hedging programme to mitigate the downside risk to its solo CET1 capital ratio from movements in foreign exchange rates. Ahead of a revised regulatory permission that came into effect in the UK on 31 December 2021, increased hedging of some exposures was carried out. However, the aim of the programme remains unchanged and the impact of the change was managed within risk appetite.
- NWM Plc maintains a structural hedge of its common equity and reserves. At 31 December 2021, the notional amount of the structural hedge in place was £3.9 billion (£4.8 billion at 31 December 2020). NWM policy is to align the notional of the hedge to its business strategy.
- During the year, the structural hedging programme fully transitioned to SONIA-linked swaps, instead of LIBOR.

Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by NWM Group's Non-Traded Market Risk function.

Risk positions are reported regularly to NWM Group's Executive Risk Committee and the Board Risk Committee, as well as to the Assets & Liabilities Committee (ALCo). Non-traded market risk policy statements set out the governance and risk management framework.

Non-traded market risk is managed separately on both sides of the ring-fence. It is aggregated and monitored against risk appetite at both NWM Plc and NatWest Group levels.

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. At NWM Plc level, the Board limit comprises a VaR measure. This is supplemented with SVaR, sensitivities (including to the CET1 ratio), earnings-at-risk and economic-value-of-equity measures monitored at Executive governance level.

To ensure limits are not breached and that NWM Plc remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the business, Non-Traded Market Risk and Finance for implementation. Limits are reviewed regularly to reflect changes in risk appetite, business plans, portfolio composition and the external environment. For further information on risk appetite, refer to page 46.

Non-traded market risk continued

Non-traded internal VaR (one-day 99%) (audited)

The market risk exposures arising as a result of banking activities are measured using a combination of value-based metrics (VaR and sensitivities) and earnings-based metrics. The following table shows NWM Plc's one-day internal banking book VaR at a 99% confidence level, split by risk type. VaR values for each year are calculated based on one-day values for each of the 12 month-end reporting dates. For NWM N.V., refer to the appropriate key point below the table.

	2021				2020			
NWM Plc	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	2.8	3.4	2.1	2.6	2.9	3.4	2.3	2.3
Credit spread	5.8	7.8	4.4	4.9	7.0	8.5	3.8	7.6
Foreign exchange rate	4.8	5.9	4.3	4.4	11.5	14.3	7.7	7.7
Equity risk	2.8	3.1	2.5	2.6	2.3	3.0	1.0	3.0
Diversification (1)	(7.8)			(7.0)	(7.7)			(8.9)
Total	8.4	10.9	6.4	7.5	16.0	19.7	11.8	11.8

(1) NWM Plc 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.

- In NWM Plc, non-traded internal VaR decreased on an average basis.
- This was driven by a decrease in the foreign exchange VaR, mainly due to the strategic focus on RWA reduction. Credit spread VaR also decreased, mainly reflecting a reduction in risk sensitivities in FVOCI loan portfolios.
- In NWM N.V., non-traded VaR was £0.9 million on an average basis (2020 - £1.3 million) and £0.5 million on a period end basis (2020 - £1.4 million).

Interest rate risk

Non-traded interest rate risk (NTIRR) mainly arises from capital hedges, in portfolios held for liquidity purposes and from interest rate repricing mismatches between assets and liabilities in other portfolios. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises the following three primary risk types:

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

To manage exposures within appetite, NWM Group aggregates its interest rate positions and hedges these externally using cash and derivatives (primarily interest rate swaps).

Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond (or other credit-sensitive instrument) yields and swap rates, where the portfolios are accounted at fair value. Credit risk also arises on loan portfolios classified at fair value.

To ensure NWM Group can continue to meet its obligations in the event that access to wholesale funding markets is restricted, it maintains a liquidity buffer in the form of bond portfolios – comprising primarily high-quality securities – and central bank cash. Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a daily basis.

Non-traded market risk continued

Foreign exchange risk

Non-traded foreign exchange risk arises from two main sources:

- Structural foreign exchange rate risk: arises from the capital deployed in foreign currency operations (mainly overseas subsidiaries and branches) net of related currency hedging.
- Transactional foreign exchange rate risk: arises mainly from non-sterling denominated transactions and associated gains and losses.

Structural foreign exchange rate risk is assessed and managed by NWM Plc Treasury, with the aim of reducing NWM Plc's solo CET1 ratio sensitivity to unexpected movements in spot foreign exchange rates.

The position is managed within risk appetite levels under delegated authority from NWM Plc ALCo. The sensitivity of the CET1 ratio to exchange rates is reported to NWM Plc senior management monthly.

Gains or losses arising from the retranslation of net investments in overseas operations are recognised in equity reserves and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs.

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

Foreign exchange exposures (audited)

The table below shows NWM Group's structural foreign currency exposures.

2021	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Economic hedges £m	Residual structural foreign currency exposures £m
US dollar (1)	**1,250**	**(260)**	**990**	**(853)**	**137**
Euro	**2,400**	**(221)**	**2,179**	**—**	**2,179**
Swiss franc	**171**	**(171)**	**—**	**—**	**—**
Other non-sterling	**392**	**(69)**	**323**	**—**	**323**
	4,213	**(721)**	**3,492**	**(853)**	**2,639**
2020					
US dollar (1)	1,300	—	1,300	(842)	458
Euro	2,349	(236)	2,113	—	2,113
Swiss franc	184	(174)	10	—	10
Other non-sterling	404	—	404	—	404
	4,237	(410)	3,827	(842)	2,985

(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.

- Against the euro, sterling strengthened to 1.19 at 31 December 2021 compared to 1.11 at 31 December 2020. Against the dollar, sterling weakened slightly to 1.35 at 31 December 2021 compared to 1.37 at 31 December 2020.
- During the year, NWM Plc increased net investment hedging in US dollars and other non-sterling currencies to reduce the potential impact on RWAs of changes to its regulatory FX hedging permission.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.2 billion in equity, respectively.

Capital, liquidity and funding risk

NWM 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 & funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring the Group operates within its regulatory requirements and risk appetite.

Definitions (audited)

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions are set by applicable regulations to determine capital eligibility.

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

Liquidity consists of assets that can be readily converted to cash within a short timeframe and with 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;
- Credit ratings;
- Wholesale market conditions; and
- Depositor and investor behaviour.

Sources (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 loss absorption. 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 perpetual in nature, with an initial call period of at least five years from issue and are written off or converted into CET1 capital if a pre-specified CET1 ratio is reached. The sum of CET1 and AT1 capital is referred to as Tier 1 capital.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. 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 NWM Plc has failed. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum initial maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes with a residual maturity of at least one year issued by NWM Plc, may be used to cover certain gone concern capital requirements.

Liquidity

NWM Group maintains a prudent approach to the definition of liquidity resources. 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 may include lower-quality bonds and eligible 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

NWM Group's primary funding sources are as follows:

Type	Description
Wholesale markets	Includes: – Short-term (less than 1 year) unsecured money market funding. – Commercial paper and certificates of deposit. – Secured repo market funding.
Term debt	Includes: – Long-term (typically more than 1 year) senior unsecured and secured debt securities. – Long-term subordinated liabilities.
Internal capital and MREL	Includes: – Equity, AT1, Tier 2 capital instruments and MREL issued to NatWest Group plc (under the Single Point of Entry regime).

Managing capital, liquidity and funding requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWM Group manages capital having regard to regulatory requirements. Regulatory capital, MREL, RWA and leverage is monitored and reported on an individual regulated bank legal entity basis ('bank entity'), which is the CRR transitional basis as relevant in the UK and EU.

Liquidity metrics including the LCR are presented for the solo legal entity as regulated by the PRA. Funding sources and Notes issued disclosures are presented for NWM Group rather than for NatWest Markets Plc.

Capital, liquidity and funding risk continued

Key developments in 2021

- NWM Plc's CET1 ratio decreased by 380 basis points to 17.9% at 31 December 2021, from 21.7% at 31 December 2020, primarily driven by the decrease in CET1 capital, partially offset by impact of lower RWAs. The decrease in CET1 capital reflected the impact of dividends paid to NatWest Group plc, including a £250 million foreseeable ordinary dividend deduction, and other reserve movements.
- NWM Plc's RWAs decreased by £2.9 billion to £22.7 billion at 31 December 2021, reflecting lower levels of credit, counterparty credit and market risk which have trended downwards as the business seeks to reduce RWAs including through the execution of capital optimisation actions and exit activity. Operational risk RWAs reduced following the annual recalculation.
- CRR leverage exposure for NWM Plc decreased to £110.6 billion compared with £123.9 billion at 31 December 2020.
- The leverage ratio on a CRR basis, using PRA transitional capital, was 4.3% at 31 December 2021 compared with 5.2% at the prior year end. The decrease was driven by a reduction in Tier 1 capital, offset partially by the decrease in leverage exposure.
- Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework. As per the new framework, NWM Plc is required to implement changes to the definition of leverage exposure measure and to reporting and disclosure requirements with effect from 1 January 2022. The UK leverage ratio of 4.8% for 2021 has been calculated under the existing CRR as well as the existing PRA UK leverage framework.
- NWM Plc's MREL at 31 December 2021 was £9.6 billion, or 42.1% of RWAs, down from £12.7 billion and 49.6% respectively at 31 December 2020. The decrease in the year was largely due to the redemption of a $1.5 billion internal instrument issued to NatWest Group and the reduction in CET1 capital.
- The NWM Plc liquidity portfolio was £16.1 billion at 31 December 2021, a decrease of £3.3 billion from £19.4 billion at the prior year end.
- The LCR for NWM Plc was 205% at 31 December 2021, compared with 268% at year end 2020.

Capital management

Capital management is the process by which banks ensure that they have sufficient capital and other loss absorbing instruments to operate effectively. This includes meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals. Capital management is critical in supporting banks businesses. Capital management within NWM Group is executed in accordance with the NatWest Group-wide framework.

NWM Plc's capital plans are produced and updated by the bank on a monthly basis. This process includes integration into NatWest Group's wider annual budgeting process and is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 46 and 47.

Produce capital plans	– A capital plan is produced for NWM Plc using a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing through the ICAAP or for regulatory purposes. – A shorter term (rolling 12 month) forecast is updated 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 ensure that capital of sufficient quantity and quality is planned to be available to support NWM Group's business and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. – Impact assessment captures input from across NWM Group including from businesses.
Inform capital actions	– Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions. – Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions. – As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.

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

Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital.

Liquidity portfolio management

The size of the portfolio is determined by reference to NWM Group's liquidity risk appetite. Consistent with NatWest Group, NWM Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix. NWM Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The majority of the NWM Plc portfolio is managed by NatWest Holdings Treasury on behalf of NWM Plc, for which the NatWest Markets Treasurer is responsible.

NatWest Markets Securities Inc. and NatWest Markets N.V., both of which are significant operating subsidiaries of NWM Plc, hold locally managed liquidity portfolios to comply with local regulations that 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

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

The long term obligations of NWM Group must be met with diverse and stable funding sources, the behavioural maturity of these liabilities must at a minimum equal those of the assets.

Capital, liquidity and funding risk continued

Minimum requirements

Capital ratios

The Bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the CRR end-point minimum requirements of capital to RWAs that the UK bank entities are expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer (1)	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	0.0%	0.0%	0.0%
Total (2)	7.0%	8.5%	10.5%

(1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The Financial Policy Committee (FPC) sets the UK countercyclical capital buffer. In December 2021, the FPC 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. Foreign exposures may be subject to different countercyclical capital buffer rates dependent on the rate set in those jurisdictions. NWM Plc's main relevant exposures are to the UK (54%) and the US (19%). The capital conservation buffer and the countercyclical capital buffer are required to be met with CET1 capital only.
(2) In addition, NWM Plc is subject to Pillar 2A requirements which are not disclosed publicly.

Leverage ratio

At present, NWM Plc only has a leverage ratio reporting requirement, and not a regulatory minimum leverage requirement. Following the publication of the new UK leverage ratio framework on 8 October 2021, NWM Plc will be subject to the minimum leverage requirement from 1 January 2023.

Measurement

Capital, RWAs and leverage

Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc are set out below. Regulatory capital is monitored and reported at legal entity level for large subsidiaries of NatWest Group.

Capital adequacy ratios	2021 %	2020 %
CET1	17.9	21.7
Tier 1	21.0	25.2
Total	25.9	30.3
Total MREL	42.1	49.6
Capital (1)	**£m**	**£m**
CET1	4,072	5,547
Tier 1	4,755	6,433
Total	5,870	7,753
Total MREL (2)	9,555	12,679
RWAs		
Credit risk	6,878	6,902
Counterparty credit risk	6,854	8,130
Market risk	6,934	8,150
Operational risk	2,020	2,382
Total RWAs	22,686	25,564
Leverage (3)		
CRR leverage exposure (£m)	110,603	123,927
Tier 1 capital (£m)	4,755	6,433
CRR leverage ratio (%) (4)	4.3	5.2

(1) CRR end-point for UK banks set by the PRA is 10.5% minimum total capital ratio, with a minimum CET1 ratio of 7.0%.
(2) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £3.7 billion (2020 - £4.9 billion).
(3) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures, subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.
(4) CRR leverage exposure includes netting of regular way deals pending settlement in line with CRR amendments that came into effect in June 2020.
(5) Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework. As per the new framework, NWM Plc is required to implement changes to the definition of leverage exposure measure and to reporting and disclosure requirements with effect from 1 January 2022. The UK leverage ratio of 4.8% for 2021 has been calculated under the existing CRR as well as the existing PRA UK leverage framework.

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	**12,294**	11,736
Trading assets	**41,222**	52,169
Derivatives	**103,042**	164,104
Net loans to customers	**21,988**	23,827
Other assets	**4,008**	4,246
Total assets	**182,554**	256,082
Derivatives		
- netting	**(106,317)**	(169,152)
- potential future exposures	**32,235**	35,654
Securities financing transactions gross up	**1,298**	999
Undrawn commitments	**4,993**	5,037
Regulatory deductions and other adjustments	**(3,186)**	(2,977)
Exclusion of core UK-group exposures	**(974)**	(1,716)
Leverage exposure	**110,603**	123,927

Liquidity portfolio (audited)

The table below shows the liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal stressed outflow coverage. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow coverage purposes.

	Liquidity value (1)	
NatWest Markets Plc	2021 £m	2020 £m
Cash and balances at central banks	**12,277**	11,773
AAA to AA- rated governments	**3,457**	7,207
A+ and lower rated governments	**18**	79
Government guaranteed issuers, public sector entities and government sponsored entities	**13**	—
International organisations and multilateral development banks	**140**	144
LCR level 1 bonds	**3,628**	7,430
LCR level 1 assets	**15,905**	19,203
LCR level 2 assets	**—**	—
Non-LCR eligible assets	**—**	—
Primary liquidity	**15,905**	19,203
Secondary liquidity (2)	**190**	224
Total liquidity value	**16,095**	19,427

The table below shows the liquidity value of the liquidity portfolio by currency.

Total liquidity portfolio	GBP £m	USD £m	EUR £m	Other £m	Total £m
2021	**7,947**	**3,010**	**5,120**	**18**	**16,095**
2020	8,838	3,793	6,716	80	19,427

(1) Liquidity value is aligned to the internal stressed outflow coverage, which is stated after discounts (or haircuts) are applied to the instruments.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Capital, liquidity and funding risk continued

Funding sources (audited)

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	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	**1,244**	**564**	**1,808**	1,294	514	1,808
of which: repos (amortised cost)	***522***	**—**	***522***	*200*	—	*200*
Customer deposits	**2,161**	**107**	**2,268**	2,526	92	2,618
of which: repos (amortised cost)	**—**	**—**	**—**	—	—	—
Trading liabilities (1)						
Repos (2)	**19,389**	**—**	**19,389**	19,036	—	19,036
Derivative cash collateral received	**17,619**	**—**	**17,619**	23,226	—	23,226
Other bank and customer deposits	**832**	**704**	**1,536**	818	985	1,803
Debt securities in issue	**178**	**796**	**974**	527	881	1,408
	38,018	**1,500**	**39,518**	43,607	1,866	45,473
Other financial liabilities						
Customer deposits (designated at fair value)	**568**	**—**	**568**	616	180	796
Debt securities in issue						
commercial paper and certificates of deposits	**5,179**	**115**	**5,294**	3,253	168	3,421
medium term notes (MTNs)	**2,693**	**9,737**	**12,430**	4,441	8,407	12,848
Subordinated liabilities	**275**	**688**	**963**	—	1,105	1,105
	8,715	**10,540**	**19,255**	8,310	9,860	18,170
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL	**939**	**2,919**	**3,858**	—	5,181	5,181
Other bank and customer deposits	**623**	**—**	**623**	925	—	925
Subordinated liabilities	**—**	**1,464**	**1,464**	—	1,753	1,753
	1,562	**4,383**	**5,945**	925	6,934	7,859
Total funding	**51,700**	**17,094**	**68,794**	56,662	19,266	75,928
Of which: available in resolution (4)			***6,010***			*8,039*

(1) Funding sources excludes short positions of £24,964 million (2020 - £26,779 million) reflected as trading liabilities on the balance sheet.
(2) Comprises Central and other bank repos of £827 million (2020 - £1,048 million), other financial institution repos of £16,935 million (2020 - £15,973 million) and other corporate repos of £1,627 million (2020 - £2,015 million).
(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £181 million (2020 - £275 million) have been excluded from the table.
(4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published in June 2018.

Capital, liquidity and funding risk continued

Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal resolution instruments by residual maturity.

	Trading liabilities	Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
	Debt securities in issue	Debt securities in issue						
2021	MTNs £m	Commercial paper and CDs £m	MTNs £m	Subordinated liabilities £m	Total £m	Internal MREL £m	Subordinated liabilities £m	Total notes in issue £m
Less than 1 year	178	5,179	2,693	275	8,147	939	—	9,264
1-3 years	335	105	4,907	222	5,234	2,919	824	9,312
3-5 years	112	10	4,425	21	4,456	—	—	4,568
More than 5 years	349	—	405	445	850	—	640	1,839
Total	974	5,294	12,430	963	18,687	3,858	1,464	24,983
2020								
Less than 1 year	527	3,253	4,441	—	7,694	—	—	8,221
1-3 years	169	165	4,444	549	5,158	5,181	—	10,508
3-5 years	240	3	3,356	—	3,359	—	889	4,488
More than 5 years	472	—	607	556	1,163	—	864	2,499
Total	1,408	3,421	12,848	1,105	17,374	5,181	1,753	25,716

The table below shows the currency breakdown of total notes in issue.

2021	GBP £m	USD £m	EUR £m	Other £m	Total £m
Commercial paper and CDs	257	1,801	3,236	—	5,294
MTNs	552	4,439	6,906	1,507	13,404
External subordinated liabilities	44	216	703	—	963
Internal MREL due to NatWest Group plc	—	2,060	1,798	—	3,858
Subordinated liabilities due to NatWest Group plc	—	640	824	—	1,464
Total	853	9,156	13,467	1,507	24,983
2020 Total	724	8,029	14,588	2,375	25,716

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 NWM Group are lending, off-balance sheet products, derivatives and securities financing, debt securities, and settlement risk through trading activities.

Key developments in 2021 (audited)

- The outlook for credit risk and asset quality improved during 2021 with the economic recovery from the disruption caused by COVID-19 being faster than initially forecast.
- NWM Group continues to monitor sector and country impact closely and adjust limits as necessary.
- Stage 1 and Stage 2 expected credit loss (ECL) reduced due to the improved economic outlook, which led to a reduction in underlying PDs and LGDs. The Stage 2 population in particular saw a marked reduction, due to the strategic exit of some positions and the improved economic outlook leading to migration of assets into Stage 1.
- Qualitative assessment of climate risk was made mandatory for the majority of the wholesale credit risk portfolio. This was supported by enhancements to Transaction Acceptance Standards (TAS), with the inclusion of sector-specific climate considerations for the heightened risk sectors and generic climate considerations for all other TAS documents.

Governance (audited)

The Credit Risk function provides oversight and challenge of frontline credit risk management activities. Authority is delegated to credit risk officers who operate within designated limits set at a customer level and a portfolio level.

Governance activities include:

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

A Credit Risk Committee provides oversight of the overall credit risk profile and sector/product/asset class concentrations.

Risk appetite

Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through a risk appetite framework.

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 and 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. It is a material part of NWM Group's credit risk.

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

Assessment and monitoring

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.

Credit risk continued

In response to COVID-19, a new framework was introduced to categorise clients in a consistent manner across the 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 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.

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through systems, strategies and policy rules.

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

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

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

Problem debt management

Early problem identification

Each sector has 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 Risk of Credit Loss framework is used where the credit profile of a customer has deteriorated materially since origination. Experienced credit risk officers apply expert judgment to classify cases into categories that reflect progressively deteriorating credit risk. 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 NWM Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Customers classified in the Heightened Monitoring category are those who are still performing but have certain characteristics – such as trading issues, covenant breaches, material PD downgrades and past due facilities – that may affect the ability to meet repayment obligations. Heightened Monitoring customers require pre-emptive actions to return or maintain their facilities within 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 NWM 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.

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team in NatWest Bank Plc as a service to NWM Group. The team protects NWM Group's capital by working with corporate and commercial customers to support their turnaround and recovery strategies and enable them to return to mainstream banking.

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. The type of forbearance offered is tailored to the customer's individual circumstances and 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.

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.

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

Credit risk continued

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

Model build:

- The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
- The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for exposures in Stage 2.

Model application:

- The assessment of the SICR and the formation of a framework capable of consistent application.
- The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
- The choice of forward-looking economic scenarios and their respective probability weights.

Refer to Accounting policies note 9 for further details.

IFRS 9 ECL model design principles (audited)

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

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

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

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

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

PD estimates

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.

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

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 NWM 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:

- 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 focus area of NWM 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 portfolio/sector mix.

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

	2021 £m	2020 £m
Deferred model calibrations	—	—
Economic uncertainty	2	2
Other adjustments	—	—
Total	2	2
Of which:		
- Stage 1	—	—
- Stage 2	2	2
- Stage 3	—	—

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). NWM 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 NWM 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) 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. In broad terms, a doubling of PD would indicate a SICR. However, the PD uplift must be at least 0.1%.
- 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 and exposures managed within the Risk of Credit Loss framework.

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

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.

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

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

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

The transfer of 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 – asset duration is based on annual customer review schedules and will be set to the next review date.

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 for the UK portfolios include UK gross domestic product (GDP), world GDP, the unemployment rate, the house price index, and the Bank of England base rate. Similar metrics are used for other key country exposures in NWM Group.

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.

Credit risk continued

Economic loss drivers (audited)

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.

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

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

Probability weightings of scenarios

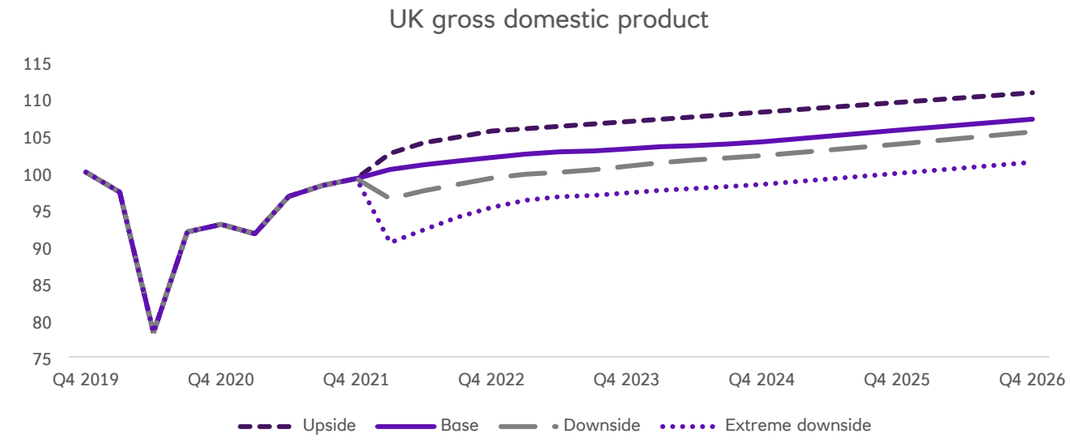
NWM Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWM 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.

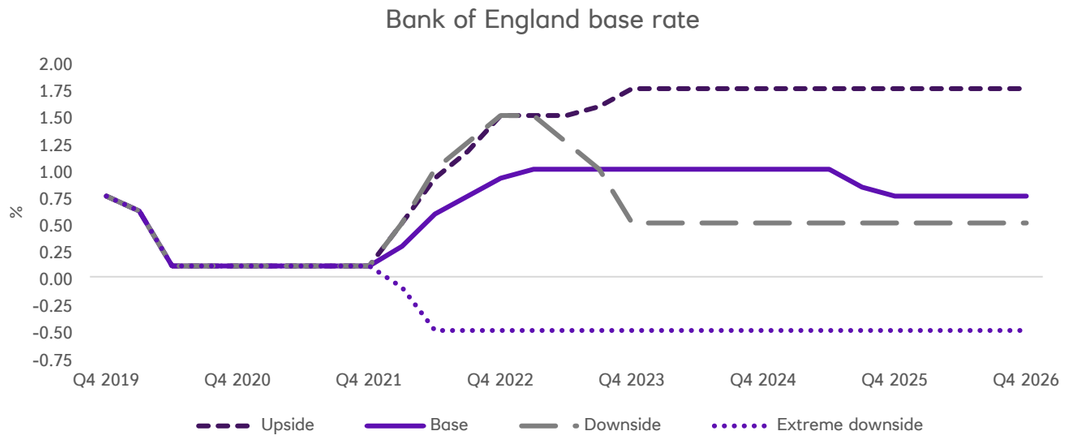
Instead, NWM Group has subjectively applied probability weights, reflecting expert views within NWM Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the 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. NWM 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. NWM Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

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

Credit risk continued

Economic loss drivers





Credit risk continued
Economic loss drivers (audited)
Annual figures

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

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

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

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

Bank of England base rate - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	0.10	0.10	0.10	0.10
2022	1.02	0.63	1.06	(0.40)
2023	1.58	1.00	1.06	(0.50)
2024	1.75	1.00	0.50	(0.50)
2025	1.75	0.90	0.50	(0.50)
2026	1.75	0.75	0.50	(0.50)

Worst points

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

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

Credit risk continued
Economic loss drivers (audited)
Use of the scenarios in lending
The lending ECL methodology is based on the concept of credit cycle indices (CCIs). The CCIs represent 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 approach is the long-standing observation that loss rates in the portfolios tend to follow regular cycles. This allows NWM 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.

UK economic uncertainty
Treatment of COVID-19 relief mechanisms
Use of COVID-19 relief mechanisms does not automatically merit identification of SICR and trigger a Stage 2 classification in isolation.

NWM 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 NWM 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.

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
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.

Credit risk continued

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. In the simulations, NWM 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.

NWM 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.

31 December 2021	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (£m)	7,723	7,723	7,723	7,723	7,225
Stage 1 modelled ECL (£m)	6	6	6	6	6
Stage 1 coverage (%)	0.08%	0.08%	0.08%	0.08%	0.08%
Stage 2 modelled exposure (£m)	137	137	137	137	635
Stage 2 modelled ECL (£m)	3	3	3	3	11
Stage 2 coverage (%)	2.19%	2.19%	2.19%	2.19%	1.73%
Stage 1 and Stage 2 modelled exposure (£m)	7,860	7,860	7,860	7,860	7,860
Stage 1 and Stage 2 modelled ECL (£m)	9	9	9	9	17
Stage 1 and Stage 2 coverage (%)	0.11%	0.11%	0.11%	0.11%	0.22%
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL	—	—	—	—	8

(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 exposures relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2021. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.
(5) Refer to the NWM Group 2020 Annual Report and Accounts for 2020 comparatives.

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, NWM 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, NWM Group anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2021.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWM Group operates, but also, among others:

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

Credit risk – Trading activities

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

Securities financing transactions and collateral (audited)

The table below shows securities financing transactions in NWM Group. Balance sheet captions include balances held at all classifications under IFRS.

	Reverse repos			Repos		
2021	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
Gross	45,511	44,861	650	44,333	43,186	1,147
IFRS offset	(24,422)	(24,422)	—	(24,422)	(24,422)	—
Carrying value	21,089	20,439	650	19,911	18,764	1,147
Master netting arrangements	(900)	(900)	—	(900)	(900)	—
Securities collateral	(19,467)	(19,467)	—	(17,863)	(17,863)	—
Potential for offset not recognised under IFRS	(20,367)	(20,367)	—	(18,763)	(18,763)	—
Net	722	72	650	1,148	1	1,147
2020						
Gross	46,169	45,806	363	44,102	42,402	1,700
IFRS offset	(24,866)	(24,866)	—	(24,866)	(24,866)	—
Carrying value	21,303	20,940	363	19,236	17,536	1,700
Master netting arrangements	(929)	(929)	—	(929)	(929)	—
Securities collateral	(19,938)	(19,938)	—	(16,607)	(16,607)	—
Potential for offset not recognised under IFRS	(20,867)	(20,867)	—	(17,536)	(17,536)	—
Net	436	73	363	1,700	—	1,700

Debt securities (audited)

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor's, Moody's and Fitch.

	Central and local government			Financial		
2021	UK £m	US £m	Other £m	institutions £m	Corporate £m	Total £m
AAA	—	—	2,011	838	—	2,849
AA to AA+	—	3,329	3,145	1,401	62	7,937
A to AA-	6,919	—	1,950	308	57	9,234
BBB- to A-	—	—	3,792	346	513	4,651
Non-investment grade	—	—	31	163	82	276
Unrated	—	—	—	3	3	6
Total	6,919	3,329	10,929	3,059	717	24,953
Short positions	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)
2020						
AAA	—	—	3,114	1,113	—	4,227
AA to AA+	—	5,149	3,651	576	49	9,425
A to AA-	4,184	—	1,358	272	81	5,895
BBB- to A-	—	—	8,277	444	656	9,377
Non-investment grade	—	—	36	127	53	216
Unrated	—	—	—	150	1	151
Total	4,184	5,149	16,436	2,682	840	29,291
Short positions	(5,704)	(1,123)	(18,135)	(1,761)	(56)	(26,779)

Credit risk – Trading activities continued

Derivatives (audited)

The table below shows third party derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS.

	2021							2020		
	Notional									
	GBP £bn	USD £bn	EUR £bn	Other £bn	Total £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Gross exposure						104,614	97,500		164,252	155,787
IFRS offset						—	—		—	—
Carrying value	3,227	3,220	4,047	1,224	11,718	104,614	97,500	13,697	164,252	155,787
Of which:										
Interest rate (1)	2,907	1,844	3,493	314	8,558	66,091	57,955	10,371	111,879	100,632
Exchange rate	318	1,372	546	910	3,146	38,369	39,202	3,310	52,204	54,771
Credit	2	4	8	—	14	154	343	15	161	376
Equity and commodity	—	—	—	—	—	—	—	1	8	8
Carrying value					11,718	104,614	97,500	13,697	164,252	155,787
Counterparty mark-to-market netting						(83,633)	(83,633)		(134,913)	(134,913)
Cash collateral						(14,938)	(9,902)		(19,606)	(14,778)
Securities collateral						(2,428)	(1,070)		(5,053)	(2,487)
Net exposure						3,615	2,895		4,680	3,609
Banks (2)						314	404		206	532
Other financial institutions (3)						1,549	1,515		1,416	1,939
Corporate (4)						1,683	905		2,921	1,046
Government (5)						69	71		137	92
Net exposure						3,615	2,895		4,680	3,609
UK						1,940	1,030		2,833	1,516
Europe						709	1,008		1,076	1,192
US						645	653		470	644
RoW						321	204		301	257
Net exposure						3,615	2,895		4,680	3,609
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,909			3,388	
AQ5-AQ8						649			1,263	
AQ9-AQ10						57			29	
Net exposure						3,615			4,680	

(1) The notional amount of interest rate derivatives includes £5,830 billion (2020 – £7,074 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with which NWM Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, for example, China, where the collateral agreements are not deemed to be legally enforceable.
(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM Group's external rating.
(4) Mainly large corporates with which NWM Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Credit risk – Trading activities continued

Derivatives: settlement basis and central counterparties (audited)

The table below shows the third party derivative notional and fair value by trading and settlement method.

	Notional				Asset		Liability	
		Traded over the counter						
2021	Traded on recognised exchanges £bn	Settled by central counterparties £bn	Not settled by central counterparties £bn	Total £bn	Traded on recognised exchanges £m	Traded over the counter £m	Traded on recognised exchanges £m	Traded over the counter £m
Interest rate	723	5,830	2,005	8,558	—	66,091	—	57,955
Exchange rate	2	—	3,144	3,146	—	38,369	—	39,202
Credit	—	—	14	14	—	154	—	343
Equity and commodity	—	—	—	—	—	—	—	—
Total	725	5,830	5,163	11,718	—	104,614	—	97,500
2020								
Interest rate	1,032	7,074	2,265	10,371	—	111,879	—	100,632
Exchange rate	2	—	3,308	3,310	—	52,203	—	54,771
Credit	—	—	15	15	—	162	—	376
Equity and commodity	—	—	1	1	—	8	—	8
Total	1,034	7,074	5,589	13,697	—	164,252	—	155,787

Credit risk – Net credit exposures for banking and trading activities

Asset quality (audited)

The table below shows the current and potential exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products. Refer to page 79 for a mapping of AQ band to probability of default range and indicative external credit rating.

2021	Cash & balances at central banks £m	Sovereign debt securities £m	Loans and other lending £m	Other debt securities £m	Collateralised rate risk management £m	Uncollateralised rate risk management £m	Repo and reverse repo £m	Off-balance sheet items £m	Leasing £m	Total £m
AQ1-AQ4	16,645	5,176	6,998	3,060	2,355	1,520	510	669	49	36,982
AQ5-AQ8	—	—	534	238	327	428	10	29	—	1,566
AQ9	—	—	23	—	2	52	—	—	—	77
AQ10	—	—	21	1	—	2	—	—	—	24
Current exposure	16,645	5,176	7,576	3,299	2,684	2,002	520	698	49	38,649
Potential exposure	16,645	5,176	18,065	3,299	10,493	3,865	1,590	2,014	49	61,196
2020										
AQ1-AQ4	15,771	5,968	6,687	1,432	2,399	2,109	351	815	55	35,587
AQ5-AQ8	—	—	1,183	58	479	985	—	59	—	2,764
AQ9	—	—	168	—	2	3	—	1	—	174
AQ10	—	—	30	1	1	8	—	1	4	45
Current exposure	15,771	5,968	8,068	1,491	2,881	3,105	351	876	59	38,570
Potential exposure	15,771	5,968	20,119	1,491	11,969	4,764	1,306	1,811	59	63,258

- Measured against NWM Group's asset quality scale, 96% (2020 – 92%) of total current exposure was rated in the AQ1-AQ4 bands, which in the context of external credit ratings was equivalent to an investment grade rating of BBB- or better and a PD range of 0-0.381%.
- The decrease in total exposure primarily reflected lower levels of credit and counterparty credit risk, due to risk reduction following the strategic decisions made in 2020.
- Non-investment grade exposures were proportionally lower than the prior year and concentrated within loans and other lending, collateralised and uncollateralised rate risk management.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NWM Group's banking activities. Refer to Accounting policies note 9 and Note 14 to the financial statements for policies and critical judgments relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework (audited)

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

Financial assets

	31 December 2021			31 December 2020		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	**36.0**			36.6		
In scope of IFRS 9 ECL framework	**33.6**			33.9		
% in scope	**93%**			93%		
Loans to customers - in scope - amortised cost	**7.5**	**0.1**	**7.4**	8.5	0.2	8.3
Loans to customers - in scope - FVOCI	**0.1**	**—**	**0.1**	—	—	—
Loans to banks - in scope - amortised cost	**0.9**	**—**	**0.9**	1.0	—	1.0
Total loans - in scope	**8.5**	**0.1**	**8.4**	9.5	0.2	9.3
Stage 1	**8.3**	**—**	**8.3**	7.8	—	7.8
Stage 2	**0.1**	**—**	**0.1**	1.6	0.1	1.5
Stage 3	**0.1**	**0.1**	**—**	0.1	0.1	—
Other financial assets - in scope - amortised cost	**19.8**	**—**	**19.8**	18.3	—	18.3
Other financial assets - in scope - FVOCI	**5.3**	**—**	**5.3**	6.1	—	6.1
Total other financial assets - in scope	**25.1**	**—**	**25.1**	24.4	—	24.4
Stage 1	**25.0**	**—**	**25.0**	24.4	—	24.4
Stage 2	**0.1**	**—**	**0.1**	—	—	—
Stage 3	**—**	**—**	**—**	—	—	—
Out of scope of IFRS 9 ECL framework	**2.4**	**na**	**2.4**	2.7	na	2.7
Loans to customers - out of scope - amortised cost	**—**	**na**	**—**	0.1	na	0.1
Loans to banks - out of scope - amortised cost	**—**	**na**	**—**	—	na	—
Other financial assets - out of scope - amortised cost	**2.2**	**na**	**2.2**	2.3	na	2.3
Other financial assets - out of scope - FVOCI	**0.2**	**na**	**0.2**	0.3	na	0.3

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 £2.2 billion (2020 – £2.4 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.1 billion (2020 – £0.1 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans and debt securities hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £0.1 billion (2020 – £0.2 billion).

In scope assets also include an additional £0.7 billion (2020 – £0.8 billion) of inter-Group assets not shown in the table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 25 to the financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by £0.2 billion (2020 – £0.2 billion) out of scope balances primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £11.7 billion (2020 – £13.1 billion) comprised Stage 1 £11.4 billion (2020 – £10.8 billion); Stage 2 £0.3 billion (2020 – £2.3 billion); and Stage 3 nil (2020 – nil).

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

Credit risk – Banking activities continued

Portfolio summary (audited)

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

	2021 £m	2020 £m
Loans - amortised cost and FVOCI		
Stage 1	**8,301**	7,799
Stage 2	**147**	1,566
Stage 3	**99**	171
Of which: individual	***91***	*162*
Of which: collective	***8***	*9*
Inter-Group (1)	**731**	755
Total	**9,278**	10,291
ECL provisions		
Stage 1	**6**	12
Stage 2	**3**	49
Stage 3	**75**	132
Of which: individual	***68***	*124*
Of which: collective	***7***	*8*
Inter-Group	**—**	1
Total	**84**	194
ECL provisions coverage (2)		
Stage 1 (%)	**0.07**	0.15
Stage 2 (%)	**2.04**	3.13
Stage 3 (%)	**75.76**	77.19
Inter-Group (%)	**—**	0.13
Total	**0.98**	2.02
Impairment (releases)/losses		
ECL (release)/charge		
Stage 1	**(14)**	(2)
Stage 2	**(11)**	55
Stage 3	**(9)**	(12)
Of which: individual	***(6)***	*(3)*
Of which: collective	***(3)***	*(9)*
Third party	**(34)**	41
Inter-Group	**(1)**	1
Total	**(35)**	42
Amounts written-off	**67**	11
Of which: individual	***43***	*11*

(1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.2 million (2020 – £1.2 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(3) 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 £16.6 billion (2020 – £15.8 billion) and debt securities of £8.4 billion (2020 – £8.7 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.

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 by sector, asset quality and geographical region based on the country of operation of the customer. The tables below report only third party exposures and related ECL provisions, charges and write-offs.

2021	Property £m	Corporate £m	FI (1) £m	Sovereign £m	Total £m
Loans by geography	122	773	7,353	299	8,547
- UK	*43*	*172*	*2,780*	*54*	*3,049*
- Other Europe	*78*	*447*	*1,374*	*174*	*2,073*
- RoW	*1*	*154*	*3,199*	*71*	*3,425*
Loans by stage	122	773	7,353	299	8,547
- Stage 1	*107*	*614*	*7,284*	*296*	*8,301*
- Stage 2	*—*	*81*	*66*	*—*	*147*
- Stage 3	*15*	*78*	*3*	*3*	*99*
of which: individual	*12*	*73*	*3*	*3*	*91*
of which: collective	*3*	*5*	*—*	*—*	*8*
Weighted average life*					
- ECL measurement (years)	1	4	4	1	3
Weighted average 12 months PDs*					
- IFRS 9 (%)	0.20	0.97	0.12	0.02	0.18
- Basel (%)	0.66	1.83	0.15	0.02	0.28
ECL provisions by geography	9	65	7	3	84
- UK	*6*	*10*	*3*	*1*	*20*
- Other Europe	*3*	*5*	*2*	*—*	*10*
- RoW	*—*	*50*	*2*	*2*	*54*
ECL provisions by stage	9	65	7	3	84
- Stage 1	*—*	*—*	*5*	*1*	*6*
- Stage 2	*—*	*1*	*2*	*—*	*3*
- Stage 3	*9*	*64*	*—*	*2*	*75*
of which: individual	*7*	*59*	*—*	*2*	*68*
of which: collective	*2*	*5*	*—*	*—*	*7*
ECL provisions coverage (%)	7.38	8.41	0.10	1.00	0.98
- Stage 1 (%)	*—*	*—*	*0.07*	*0.34*	*0.07*
- Stage 2 (%)	*—*	*1.23*	*3.03*	*—*	*2.04*
- Stage 3 (%)	*60.00*	*82.05*	*—*	*66.67*	*75.76*
ECL (release)/charge - Third party	—	(8)	(25)	(1)	(34)
Amounts written-off	—	39	28	—	67
Other financial assets by asset quality (2)	55	—	3,563	21,465	25,083
- AQ1-AQ4	*—*	*—*	*3,181*	*21,465*	*24,646*
- AQ5-AQ8	*55*	*—*	*382*	*—*	*437*
- AQ9	*—*	*—*	*—*	*—*	*—*
Off-balance sheet	270	4,954	6,453	37	11,714
- Loan commitments	*251*	*4,857*	*5,864*	*37*	*11,009*
- Financial guarantees	*19*	*97*	*589*	*—*	*705*
Off-balance sheet by asset quality (2)	270	4,954	6,453	37	11,714
- AQ1-AQ4	*190*	*4,204*	*6,102*	*37*	*10,533*
- AQ5-AQ8	*78*	*737*	*348*	*—*	*1,163*
- AQ9	*—*	*—*	*—*	*—*	*—*
- AQ10	*2*	*13*	*3*	*—*	*18*

*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	Property £m	Corporate £m	FI (1) £m	Sovereign £m	Total £m
Loans by geography	190	958	8,208	180	9,536
- UK	*50*	*167*	*3,726*	*66*	*4,009*
- Other Europe	*140*	*577*	*1,573*	*44*	*2,334*
- RoW	*—*	*214*	*2,909*	*70*	*3,193*
Loans by stage	190	958	8,208	180	9,536
- Stage 1	*127*	*629*	*6,933*	*110*	*7,799*
- Stage 2	*45*	*182*	*1,272*	*67*	*1,566*
- Stage 3	*18*	*147*	*3*	*3*	*171*
of which: individual	*15*	*141*	*3*	*3*	*162*
of which: collective	*3*	*6*	*—*	*—*	*9*
Weighted average life*					
- ECL measurement (years)	2	4	4	—	3
Weighted average 12 months PDs*					
- IFRS 9 (%)	0.61	2.22	1.29	0.98	1.34
- Basel (%)	0.75	2.08	1.04	0.03	1.10
ECL provisions by geography	11	124	55	3	193
- UK	*7*	*5*	*7*	*1*	*20*
- Other Europe	*4*	*62*	*42*	*—*	*108*
- RoW	*—*	*57*	*6*	*2*	*65*
ECL provisions by stage	11	124	55	3	193
- Stage 1	*1*	*1*	*9*	*1*	*12*
- Stage 2	*—*	*6*	*43*	*—*	*49*
- Stage 3	*10*	*117*	*3*	*2*	*132*
of which: individual	*7*	*112*	*3*	*2*	*124*
of which: collective	*3*	*5*	*—*	*—*	*8*
ECL provisions coverage (%)	5.79	12.94	0.67	1.67	2.02
- Stage 1 (%)	*0.79*	*0.16*	*0.13*	*0.91*	*0.15*
- Stage 2 (%)	*—*	*3.30*	*3.38*	*—*	*3.13*
- Stage 3 (%)	*55.56*	*79.59*	*100.00*	*66.67*	*77.19*
ECL (release)/charge - Third party	(1)	(2)	43	1	41
Amounts written-off	1	9	1	—	11
Other financial assets by asset quality (2)	98	107	2,905	21,251	24,361
- AQ1-AQ4	*—*	*107*	*2,648*	*21,231*	*23,986*
- AQ5-AQ8	*98*	*—*	*257*	*20*	*375*
- AQ9	*—*	*—*	*—*	*—*	*—*
Off-balance sheet	478	6,421	6,204	37	13,140
- Loan commitments	*446*	*6,291*	*5,591*	*37*	*12,365*
- Financial guarantees	*32*	*130*	*613*	*—*	*775*
Off-balance sheet by asset quality (2)	478	6,421	6,204	37	13,140
- AQ1-AQ4	*420*	*5,288*	*5,766*	*37*	*11,511*
- AQ5-AQ8	*52*	*1,101*	*432*	*—*	*1,585*
- AQ9	*1*	*—*	*—*	*—*	*1*
- AQ10	*5*	*32*	*6*	*—*	*43*

*Not within audit scope.

(1) Financial institutions (FI) includes transactions, such as securitisations, where the underlying assets may be in other sectors.
(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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for key sectors that continue to be affected by COVID-19.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Loan commitments	Contingent liabilities	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Property	**107**	**—**	**15**	**122**	**251**	**19**	**—**	**—**	**9**	**9**
Financial institutions	**7,284**	**66**	**3**	**7,353**	**5,864**	**589**	**5**	**2**	**—**	**7**
Sovereign	**296**	**—**	**3**	**299**	**37**	**—**	**1**	**—**	**2**	**3**
Corporate	**614**	**81**	**78**	**773**	**4,857**	**97**	**—**	**1**	**64**	**65**
Of which:										
Airlines and aerospace	***—***	***—***	***7***	***7***	***163***	***44***	***—***	***—***	***6***	***6***
Automotive	***10***	***39***	***—***	***49***	***686***	***—***	***—***	***1***	***—***	***1***
Health	***27***	***—***	***2***	***29***	***150***	***—***	***—***	***—***	***1***	***1***
Land transport and logistics	***74***	***1***	***—***	***75***	***230***	***1***	***—***	***—***	***—***	***—***
Leisure	***—***	***3***	***—***	***3***	***304***	***—***	***—***	***—***	***—***	***—***
Oil and gas	***252***	***—***	***17***	***269***	***39***	***1***	***—***	***—***	***4***	***4***
Retail	***—***	***—***	***—***	***—***	***289***	***4***	***—***	***—***	***—***	***—***
Total	***8,301***	***147***	***99***	***8,547***	***11,009***	***705***	***6***	***3***	***75***	***84***
2020										
Property	127	45	18	190	446	32	1	—	10	11
Financial institutions	6,933	1,272	3	8,208	5,591	613	9	43	3	55
Sovereign	110	67	3	180	37	—	1	—	2	3
Corporate	629	182	147	958	6,291	130	1	6	117	124
Of which:										
Airlines and aerospace	—	*23*	*10*	*33*	*312*	*44*	—	—	*9*	*9*
Automotive	*11*	*38*	—	*49*	*863*	—	—	*1*	—	*1*
Health	*22*	—	*2*	*24*	—	—	—	—	*1*	*1*
Land transport and logistics	*85*	*1*	*1*	*87*	*451*	*6*	—	—	—	—
Leisure	—	*50*	—	*50*	*472*	—	—	*1*	—	*1*
Oil and gas	*11*	*3*	*50*	*64*	*374*	*3*	—	—	*35*	*35*
Retail	—	—	*10*	*10*	*342*	*5*	—	—	*10*	*10*
Total	7,799	1,566	171	9,536	12,365	775	12	49	132	193

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

Forbearance

The table below shows forbearance, Heightened Monitoring and Risk of Credit Loss by sector. This table show current exposure but reflects risk transfers where there is a guarantee by another customer.

2021	FI £m	Property £m	Sovereign £m	Other corporate £m	Total £m
Forbearance (flow)	**1**	**5**	**—**	**5**	**11**
Forbearance (stock)	**1**	**5**	**—**	**62**	**68**
Heightened Monitoring and Risk of Credit Loss	**15**	**22**	**—**	**5**	**42**
2020					
Forbearance (flow)	—	8	—	114	121
Forbearance (stock)	—	8	—	155	163
Heightened Monitoring and Risk of Credit Loss	—	29	—	295	324

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 exposure	ECL	Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
2021	£bn	£bn	Total £bn	Stage 3 £bn	Financial (1) £bn	Property £bn	Other (2) £bn	Total £bn	Stage 3 £bn	Total £bn	Stage 3 £bn
Financial assets											
Cash and balances at central banks	**16.6**	**—**	**16.6**	**—**	**—**	**—**	**—**	**—**	**—**	**16.6**	**—**
Loans - amortised cost (3)	**8.5**	**0.1**	**8.4**	**—**	**0.7**	**—**	**—**	**0.7**	**—**	**7.7**	**—**
Debt securities	**8.4**	**—**	**8.4**	**—**	**—**	**—**	**—**	**—**	**—**	**8.4**	**—**
Total financial assets	**33.5**	**0.1**	**33.4**	**—**	**0.7**	**—**	**—**	**0.7**	**—**	**32.7**	**—**
Contingent liabilities and commitments	**11.7**	**—**	**11.7**	**—**	**1.3**	**—**	**—**	**1.3**	**—**	**10.4**	**—**
Total off-balance sheet	**11.7**	**—**	**11.7**	**—**	**1.3**	**—**	**—**	**1.3**	**—**	**10.4**	**—**
Total exposure	**45.2**	**0.1**	**45.1**	**—**	**2.0**	**—**	**—**	**2.0**	**—**	**43.1**	**—**
2020											
Financial assets											
Cash and balances at central banks	15.8	—	15.8	—	—	—	—	—	—	15.8	—
Loans - amortised cost (3)	9.5	0.2	9.3	—	2.2	—	—	2.2	—	7.1	—
Debt securities	8.6	—	8.6	—	—	—	—	—	—	8.6	—
Total financial assets	33.9	0.2	33.7	—	2.2	—	—	2.2	—	31.5	—
Contingent liabilities and commitments	13.1	—	13.1	—	2.0	—	—	2.0	—	11.1	—
Total off-balance sheet	13.1	—	13.1	—	2.0	—	—	2.0	—	11.1	—
Total exposure	47.0	0.2	46.8	—	4.2	—	—	4.2	—	42.6	—

(1) Includes cash and securities collateral.
(2) Includes guarantees and charges over trade debtors.
(3) NWM Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property; charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWM Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.

Credit risk – Banking activities continued

Flow statement (audited)

The flow statement that follows shows the main ECL and related income statement movements. It also shows 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 impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 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 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.

	Stage 1		Stage 2		Stage 3		Total	
NWM Group	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
At 1 January 2021	**33,327**	**12**	**1,671**	**49**	**167**	**132**	**35,165**	**193**
Currency translation and other adjustments	**(799)**	**—**	**(38)**	**(1)**	**(3)**	**(9)**	**(840)**	**(10)**
Inter-group transfers	**(105)**	**—**	**—**	**—**	**—**	**—**	**(105)**	**—**
Transfers from Stage 1 to Stage 2	**(881)**	**(1)**	**881**	**1**	**—**	**—**	**—**	**—**
Transfers from Stage 2 to Stage 1	**1,762**	**9**	**(1,762)**	**(9)**	**—**	**—**	**—**	**—**
Transfers to Stage 3	**—**	**—**	**(1)**	**—**	**1**	**—**	**—**	**—**
Net re-measurement of ECL on stage transfer		**(7)**		**4**		**—**		**(3)**
Changes in risk parameters		**(7)**		**(9)**		**(2)**		**(18)**
Other changes in net exposure	**79**	**—**	**(530)**	**(8)**	**(27)**	**(3)**	**(478)**	**(11)**
Other (P&L only items)		**—**		**2**		**(4)**		**(2)**
Income statement (releases)/charges		**(14)**		**(11)**		**(9)**		**(34)**
Amounts written-off	**—**	**—**	**(24)**	**(24)**	**(43)**	**(43)**	**(67)**	**(67)**
At 31 December 2021	**33,383**	**6**	**197**	**3**	**95**	**75**	**33,675**	**84**
Net carrying amount	**33,377**		**194**		**20**		**33,591**	
At 1 January 2020	32,877	10	188	4	184	132	33,249	146
2020 movements	450	2	1,483	45	(17)	—	1,916	47
At 31 December 2020	33,327	12	1,671	49	167	132	35,165	193
Net carrying amount	33,315		1,622		35		34,972	

- Consistent with other Wholesale portfolios, Stage 1 and Stage 2 ECL reduced due to the improved economic outlook which led to a reduction in underlying PDs and LGDs.
- The Stage 2 population reduced materially with the improved economic outlook improving credit metrics and resulting in migration of assets into Stage 1.

Pension risk

Definition

Pension risk is the risk to NWM 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 NWM 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

NWM Group has exposure to pension risk through its defined benefit schemes worldwide. The two largest NWM Group schemes are the AA and the NatWest Markets sections of The NatWest Group Pension Fund with a combined £1.4 billion of assets and £1.1 billion of liabilities at 31 December 2021 (2020 – £1.5 billion of assets and £1.1 billion of liabilities). Refer to Note 5 to the financial statements, for further details on NWM 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. NWM 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, NWM 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 NWM Group's exposure to pension risk during the year, and the overall positions of the main defined benefit schemes that NWM Group sponsors remained broadly stable or improved.
- The triennial actuarial valuations for the two largest NWM Group schemes, with an effective date of 31 December 2020, were completed on 14 December 2021. As both schemes were in surplus at this date, no deficit repair contributions were required, although there remain ongoing contributions due in respect of future service benefits and scheme expenses.

Governance

The Pension Committee, chaired by the Chief Financial Officer, reviews and monitors risk management, asset and liability strategy and financing issues on behalf of NWM Group. As part of its remit, the Committee:

- Considers the financial strategy, risk management and policy implications of NWM Group pension schemes.
- Reviews and recommends NWM Group pension risk appetite to the NWM Group Executive Risk Committee and the NWM Group Board Risk Committee.
- Reviews the pension impact on the capital plan for NWM Group and escalates any concerns to the NWM Group Assets & Liabilities Committee.

The performance of NatWest Group's material pension funds (including those sponsored by NWM Group) is reviewed by NatWest Group's Assets & Liabilities Committee.

For further information on governance, refer to page 44.

Risk appetite

NWM Group maintains an independent view of the risk inherent in its pension funds. NWM 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 NWM 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 NWM Group Executive Risk Committee and the NWM Group Board Risk Committee by way of the monthly Risk Management Report.

Stress tests are carried out each year on NWM Group's material defined benefit pension schemes. 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 NWM Group's balance sheet, income statement and capital position are incorporated into NWM Group's and overall NatWest Group stress test results.

Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the AA and the NatWest Markets sections of the NatWest Group Pension Fund are now well protected against interest rate and inflation risks and are being run on a low investment risk basis with relatively small equity risk exposure. The AA and the NatWest Markets sections of the NatWest Group Pension Fund also use 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 pension schemes. 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 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 NWM 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 NWM 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.

Compliance & conduct risk continued

Sources of risk

Compliance and conduct risks exist across all stages of NWM Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential inside information. As set out in Note 25 to the financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2021

- There was significant focus on a programme of work to enhance first and second line surveillance functionality.
- Risk appetite statements and measures were updated with an enhanced focus to provide better visibility of key risks across NWM Group.
- Strategic oversight and advice was provided to NatWest Group's LIBOR transition programme.

Governance

NWM 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 NWM Group including 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 NWM 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 NWM Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NWM 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 NWM Group. Independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

Definition

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

Sources of risk

Financial crime risk may be presented if NWM Group's customers, employees or third parties undertake or facilitate financial crime, or if NWM 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

- There was a significant focus on the financial crime control environment – including activity designed to strengthen customer due diligence standards and controls – across NatWest Group in 2021.
- NWM Group is fully engaged with NatWest Group's multi-year transformation plan. The plan has been developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible. As part of this, NWM Group implemented the first two phases of a new external contextual transaction monitoring system. A final phase is scheduled for implementation.
- NWM Group is represented on the new NatWest Group-wide Financial Crime Executive Steering Committee to provide oversight of the transformation plan and its implementation, and is part of NatWest Group's Transformation Committee, Financial Crime Performance Committee and Customer Due Diligence Executive Steering Group.

Governance

The Financial Crime Risk Committee (FCRC), which is chaired by the Head of Compliance & Financial Crime, is NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally, NWM Group is represented on NatWest Group's Financial Crime Executive Steering Group, which oversees financial crime risk management, operational performance, and transformation matters across NatWest Group.

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. NWM 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.

NWM 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.

Financial crime risk continued

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to NWM 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 within NatWest Group is available to detect and disrupt threats to NWM 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. NWM 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. NWM 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 NWM Group's competitiveness, profitability, or reputation damage.

Key developments in 2021

- NWM Group adopted the NatWest Group's principles-based climate risk policy, approved in April 2021.
- A number of first-generation quantitative climate risk appetite measures were approved by NatWest Group Board in December 2021. These will enable reporting of climate risk appetite and link business-as-usual risk management to NatWest Group's strategic goals and priorities.
- NWM Group contributed to NatWest Group's submission to the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise. This helped to strengthen climate scenario analysis capabilities 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.
- Qualitative assessment of climate risk was made mandatory for the majority of the wholesale credit risk 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.

Risk governance

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

The Chief Risk Officer shares accountability with the CEO under the Senior Managers & 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 the Group can identify, measure, monitor, manage, and report on its exposure to these risks.

A Climate Change Executive Steering Group is in place at NatWest Group and is responsible for overseeing the direction of and progress against climate-related commitments, including activities in NWM Group. During 2021, the Executive Steering Group focused on overseeing the Group Climate Change Programme (GCCP), which was tasked with continuing to deliver both the Group-wide climate strategy and the climate-related mandatory change agenda before the activity transitions into business-as-usual operations. The NatWest Group Climate Centre of Excellence supports the Executive Steering Group as it supervises strategic implementation and delivery, including within NWM Group.

Risk appetite

NWM Group's climate ambition is underpinned by activity to reduce the climate impact of its financing activity by at least 50% by 2030 and to do what is necessary to achieve alignment with the 2015 Paris Agreement.

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.

Risk monitoring and measurement

NWM 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 NWM 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.

NWM Group participated in NatWest Group's submission to the Bank of England's 2021 CBES exercise.

Climate risk continued

NWM 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 including the Securities Industry & Financial Markets Association and Asia Securities Industry & Financial Markets Association Sustainable Finance working groups.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2021

- Aligned to the implementation of the enterprise-wide risk management framework, a new operational risk policy was approved in April 2021. The new policy sets out the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk-taking for operational risk.
- 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 NWM Group and its supply chain continued to be closely monitored. During 2021, NatWest Group further invested in its defences in response to the evolving threat. There was also continued focus on assuring the security of the supply chain.
- There was a sustained focus on reducing the risks associated with data use, particularly in terms of assuring data quality. This was aligned to the NatWest Group data strategy, designed to identify and implement enhancements to the effective use of data across NatWest Group.

Governance

The 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. The Operating Committee discusses operational risk matters relating to the control environment, NWM's implementation of the enterprise-wide risk management framework, risk identification and oversight of return-to-appetite plans. Significant issues are escalated to the Board Risk Committee.

Risk appetite

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

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Markets as well as the senior executives of NatWest Group's other 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 are reported to Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting, 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 NWM 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.

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

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

Operational risk continued

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

Operational resilience

NWM 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 NatWest Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of a Group Notifiable Event Process. All financial impacts associated with an operational risk event are reported in NatWest Group's Annual Report and Accounts.

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. NWM 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

NWM Group uses a variety of models in the course of its business activities. Examples include the use of model outputs to support measuring and assessing risk exposures (including credit and market risk), as well as for valuation of positions and for calculating regulatory capital and liquidity requirements. The models used for stress-testing purposes also play a key role in ensuring NWM Group holds sufficient capital, even in stressed market scenarios.

Key developments in 2021

- A number of model improvements were made to ensure the model portfolio was operating within appetite. Enhancement work remains a key focus.
- There was further embedding and enhancement of frameworks and governance relating to model risk.

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. Escalations are made to senior management through the NWM Group Model Risk Committee. The committee also considers whether a model can be approved for use. Models used for regulatory reporting may additionally require regulatory approval before implementation. Further escalation can also be made to the NatWest Group Model Risk Oversight Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWM Group is willing to accept in the course of its business activities. NWM Group has defined limits and triggers that align with the NatWest Group's model risk appetite statement. The first line is responsible for monitoring performance against appetite, reporting on the model population and carrying out any necessary remediation for positions outside appetite.

Risk controls

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

Monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating that is 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 NWM 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.

Mitigation

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 NWM Group's values and the public agenda; and contagion (when NWM 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 NWM Group. The NWM Reputational Risk Committee reviews relevant issues at an individual business or entity level, while the NatWest Group Reputational Risk Committee – which has delegated authority from the NatWest Group Executive Risk Committee – opines on cases, issues, sectors and themes that represent a material reputational risk. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite

NWM Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NWM 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 NWM 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 NWM Group Reputational Risk Committee and escalated, where appropriate, to NatWest Group's Reputational Risk Committee, Board Risk Committee or 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.

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:

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Group structure

NatWest Markets Plc ('NWM Plc') is a wholly-owned subsidiary of NatWest Group plc ('NWG plc' or 'the holding company'). The NatWest Markets Group ('NWM Group') comprises NWM Plc and its subsidiary and associated undertakings. The term 'NatWest Group' comprises NWG plc and its subsidiary and associated undertakings. NWG plc is incorporated in the UK and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWM Plc's principal subsidiary undertakings and their activities are shown in Note 31 on the accounts. A full list of related undertakings of NWM Plc is shown in Note 34 on the accounts.

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

Activities

NWM Group is engaged principally in providing financing, risk management and trading solutions to customers.

Results and dividends

The loss attributable to the ordinary shareholders of NWM Group for the year ended 31 December 2021 was £593 million compared with a loss of £328 million for the year ended 31 December 2020, as set out in the consolidated income statement on page 105.

Total dividends paid to NatWest Group plc during the year amounted to £1 billion.

On 17 February 2022, the Board approved an interim dividend of £250 million, declared and payable to NatWest Group plc on 18 February 2022.

Employees

At 31 December 2021, NWM Group employed 1,600 people (excluding temporary staff). Details of all related costs are included in Note 3 to the consolidated accounts.

Corporate Governance statement

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new statutory reporting requirements for financial years beginning on or after 1 January 2019. As a result of these new requirements, the directors of the company are required to provide a statement in the Directors' report stating which corporate governance code, if any, the company followed during the year; how it applied the code and any part of the code it did not follow. For the financial year ended 31 December 2021, the company has chosen to report against the Wates Corporate Governance Principles for Large Companies (the Wates Principles) and the disclosures below explain how the company has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

Purpose

NatWest Group's purpose is established by the NWG plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWM Group. Further information on NatWest Group's purpose can be found in the NatWest Group plc 2021 Annual Report and Accounts.

Strategy

NatWest Group's strategy is set and approved by the NWG plc Board. The NWM Plc Board (the Board) reviews and sets the strategic direction of NWM Plc and, as appropriate, the strategies for each of its businesses within the parameters set by the NWG plc Board. It subsequently oversees the execution of the strategy and holds management to account for its delivery.

Culture

The NWG plc Board is supported in monitoring culture across NatWest Group by the Group Sustainable Banking Committee and the Group Board Risk Committee. NatWest Group is on a journey towards a generative risk culture whereby risk is simply part of the way people work and think.

Building a healthy culture that embodies Our Values is a core priority for NatWest Group.

Our Values, which guide the way NatWest Group identifies the right people to serve customers well, and how to manage, engage and reward colleagues, are at the heart of Our Code (the NatWest Group-wide Code of Conduct).

There is regular reporting to the Board on culture, so as to provide appropriate oversight of culture matters. More specifically, with regards to risk culture, significant progress has been made towards addressing historical conduct issues, including risk appetite enhancements, increased monitoring of conduct risk, and a new risk appetite measure for Golden Rule breaches. This supports our ambition to create a positive culture and strengthen 'good conduct' outcomes for clients.

2. Board Composition

The Board

The Board has seven directors comprising; the Chairman, two executive directors (being the Chief Executive Officer and Chief Financial Officer) and four independent non-executive directors. The size of the Board is considered appropriate, taking into account the size and scale of NWM Plc's business.

The Chairman

The role of Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the Chief Executive Officer who manages the business day-to-day. The Chairman is also a member of the NWG plc Board which provides an appropriate linkage to the wider NatWest Group and ensures alignment and awareness in respect of NatWest Group-wide matters.

Non-Executive Directors

The majority of the Board comprises independent non-executive Directors. Their role is to challenge and scrutinise the performance of management and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the firm's risk profile. The non-executive directors combine broad business and commercial expertise and bring experience from a wealth of areas including audit, banking, finance, human resources, technology, and telecommunications.

The Board periodically undertakes an independence assessment of the non-executive directors. With the exception of the Chairman, who is a member of the NWG plc Board, all non-executive directors are considered to be independent and there are no relationships or circumstances that are likely to affect their judgment.

Induction Training
All new directors undergo a formal induction programme upon joining the Board which is coordinated by the Company Secretary and tailored to their individual needs. This includes meetings with other directors, senior executives and business heads. Meetings with the external auditor, legal counsel and other key stakeholders are arranged as appropriate. Directors also receive comprehensive guidance from the Company Secretary on NWM Plc's corporate governance framework and associated policies, including their duties as directors.

Continuous Development.
Non-executive directors discuss their professional development annually with the Chairman. Directors maintain their knowledge and familiarity with NWM Plc through regular meetings with senior management (including representatives of NatWest Group) and participate in scheduled Board training and other external sessions as appropriate.

During 2021, climate and teach-in sessions on the integration of NatWest's purpose-led strategy as well as on Capital Markets and Large Corporates was arranged for the directors. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

Board Diversity
The Board is committed to promoting diversity and inclusion in the boardroom and aims to meet industry targets and recommendations wherever possible. The Board has agreed a Boardroom Inclusion Policy which aims to promote diversity and inclusion in the composition of the Board of Directors and in the nomination and appointment process. The Policy reflects the values of the wider NatWest Group, its Inclusion Policy and relevant legal, regulatory or best practice requirements.

Committees
The responsibilities of the Board are executed, in part, through its committees (namely, the Audit Committee, the Board Risk Committee, the Performance and Remuneration Committee and the Nominations and Governance Committee). All matters that the Board has specifically delegated to these committees are set out in their terms of reference (ToRs). All other matters, including responsibility for the day-to-day operation of NWM Plc (that are not specifically reserved for the Board or delegated to a committee) are delegated to the NWM Plc Chief Executive Officer (CEO) in accordance with such policies and directions as the Board determines appropriate, including the NWM Plc CEO's role profile.

Succession
The Board is responsible for ensuring that NWM Plc has in place succession plans for the Board and senior management so as to maintain an appropriate balance of skills and experience. The NatWest Group Nominations and Governance Committee is also required to approve all appointments to the Board, reflecting the company's position as a subsidiary of NatWest Group

Board Effectiveness
The effectiveness of the Board, including the Chairman, individual directors and Board committees, is assessed periodically. The Board considers such assessments to play an important role in the identification of areas for further improvement, focus and for strengthening its overall performance.

The Company Secretary
In fulfilling its role, the Board is supported by the Company Secretary. The Company Secretary is responsible for ensuring good information flows between the Board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development of non-executive directors, as required. The directors may also seek independent, professional advice, where necessary, at NWM Plc's expense.

3. Director Responsibilities
Policy & Framework
NatWest Group has in place a Corporate Governance Framework, including a Corporate Governance Policy. All directors of NWM Plc are required to ensure that they are familiar with the Corporate Governance Framework and that NWM Plc complies with it. NWM Plc also produces and maintains a document called 'Our Governance' which sets out the high-level governance framework for NWM plc at both regional and global levels.

The Board has a programme of seven scheduled meetings every year. The Board's ToRs include a formal schedule of matters specifically reserved for the Board which are reviewed at least annually. Each director has a role profile which clearly articulates their responsibilities and accountabilities. Similarly, any additional regulatory responsibilities and accountabilities where any of the directors undertake a Senior Manager Function (as defined under the Prudential Regulation Authority's and Financial Conduct Authority's 'Senior Manager Regimes') are set out in their Statement of Responsibilities.

To support them in the discharge of their duties, all directors receive regular and timely information on all key aspects of the business including financial performance, strategy, key risks, and market conditions.

Conflicts of Interest
The Board follows NatWest Group's guidance relating to directors' conflicts of interest.

The Board has the power to authorise any actual or potential conflicts of interest in accordance with the Companies Act 2006 and NWM Plc's Articles of Association. The company maintains a register of directors' interests and appointments and there is discussion of directors' conflicts in Board meetings, as required. During the year, none of the directors declared any material interest, directly or indirectly, in any contract of significance with any company within NatWest Group.

All directors were reminded of their obligations in respect of transacting in NWM Plc securities (Personal Account Dealing) and all directors have confirmed that they have complied with their obligations.

Board Committees
In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities:

The Audit Committee comprises at least two independent non-executive directors, one of whom is the Chairman of the Board Risk Committee. The Committee assists the Board in discharging its responsibilities for monitoring the integrity of the financial statements. It reviews the accounting policies, financial reporting and regulatory compliance practices of NWM Plc, its system and standards of internal controls, and monitors the processes for internal audit and external audit.

The Board Risk Committee comprises at least two independent non-executive directors, one of whom is the Chairman of the Audit Committee. The Committee provides oversight and advice to the Board in relation to current and potential future risk exposures and future risk profile, including determination of risk appetite, the effectiveness of the risk management framework and (in conjunction with the Audit Committee) internal controls required to manage risk. The Committee also reviews compliance with NatWest Group Policy Framework and reviews the performance of NWM Plc relative to risk appetite.

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

The Nominations and Governance Committee comprises the Chairman and at least two other 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.

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

The Board reviews and approves risk appetite for strategic and material risks in accordance with NatWest Group's risk appetite framework; monitors performance against risk appetite for NWM Plc; and considers any material risks and approves (as appropriate) recommended actions escalated by the NWM Plc Board Risk Committee.

NWM Plc's risk strategy is informed and shaped by an understanding of the risk landscape including a range of significant risks and uncertainties in the external economic, political and regulatory environments.

NWM Plc complies with NatWest Group's risk appetite framework, which is approved annually by the NWG plc Board, in line with NatWest Group's risk appetite statements, frameworks and policies. NatWest Group risk appetite is set in line with overall strategy.

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

NWM Plc also complies with the NatWest Group Policy Framework, the purpose of which is to ensure that NatWest Group establishes and maintains NatWest Group-wide policies that adequately address the material inherent risks it faces in its business activities.

Further information on NWM Plc's risk management framework including risk culture, risk governance, risk appetite, risk controls and limits, and risk identification and measurement can be found in the capital and risk management section of this report.

5. Remuneration
NatWest Group Remuneration Policy provides a consistent policy across all companies in NatWest Group and ensures compliance with regulatory requirements. The policy is aligned with the business strategy, objectives, values and long-term interests of the company. 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.

The Performance and Remuneration Committee (RemCo) reviews remuneration for executives of the company 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 at NWM Plc level.

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 employees on how their contribution links to NatWest Group's ambition and all employees have goals set 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. This clarity and certainty on how pay is delivered is also helping to improve employees' financial wellbeing, which is a priority. Employees are provided with flexibility in terms of how they wish to receive pay to suit their circumstances. Pay is benchmarked against the external market so that pay and benefits are competitive.

NatWest Group is a fully accredited Living Wage Employer in the UK with rates of pay that continue to exceed the Living Wage Foundation Benchmarks.

NatWest Group ensures colleagues have a common awareness of the financial and economic factors affecting its performance through quarterly 'Results Explained' communications and Workplace Live events with the Group Chief Executive Officer and Chief Financial Officer.

Further information on the remuneration policy can be found in the Directors' remuneration report (DRR) of the NatWest Group plc 2021 Annual Report and Accounts along with the steps being taken to build an inclusive and engaged workforce. The DRR also contains details of pay ratios for NatWest Group. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2021 Annual Report and Accounts.

6. Stakeholder relationships and engagement
NWM Plc is committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages the sustainability of its supply chain.

The Board recognises the importance of engaging with stakeholders and discussions at Board meetings are focused around the impact that NWM Plc's activities may have on key stakeholder groups. A new Board reporting style has also been introduced with a specific section focussing on the stakeholder impacts to support decision-making.

For further details on the Board's engagement with employees, customers, suppliers and others, and how these stakeholders' interests have influenced one of the Board's principal decisions, see page 18 of the Strategic report.

Internal control over financial reporting

The internal controls over financial reporting for NWM Group are consistent with those at NatWest Group level. NWM 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'. As part of the assessment, management have considered the additional activities required for its internal control over financial reporting during the year, such as oversight on controls performed on NWM Group's behalf, to better reflect the size, scale and overall materiality of the business profile compared to the NatWest Group framework. Any deficiencies identified are reported to NWM Group Audit Committee along with management's remediation plans

Directors' interests

Where directors of NWM Plc are also directors of NWG plc, their interests in the shares of the ultimate holding company at 31 December 2021 are shown in the Annual report on remuneration section of the NatWest Group plc 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 NWM Plc or any of its subsidiaries, during the period from 1 January 2021 to 17 February 2022.

Directors' indemnities

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

Going concern

NWM Plc'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 Financial review. NWM Plc's regulatory capital resources and significant developments in 2021, and anticipated future developments are detailed in the Capital, liquidity and funding sections. These sections also describe NWM Plc's funding and liquidity profile, including changes in key metrics and the build-up of liquidity reserves.

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

Political donations

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

Directors' disclosure to auditors

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

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

(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that NWM Plc's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors

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

By order of the Board

Scott Gibson
Company Secretary
17 February 2022
NatWest Markets Plc
is registered in Scotland No. SC090312

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 95 to 104.

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NWM 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 NWM Plc and NWM 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 Report of the directors, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with UK adopted International Accounting Standards, International Financial Reporting Standards as issued by the International Accounting Standards Board and IFRS as adopted European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of NWM Plc and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Report of the directors (incorporating the Financial review) includes a fair review of the development and performance of the business and the position of NWM Plc 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

Frank Dangeard
Chairman

Robert Begbie
Chief Executive Officer

David King
Chief Financial Officer

17 February 2022

Board of directors

Chairman
Frank Dangeard

Executive directors
Robert Begbie
David King

Non-executive directors
Vivek Ahuja
Tamsin Rowe
Anne Simpson
Sarah Wilkinson

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Independent auditor's report to the members of NatWest Markets Plc

Opinion

In our opinion:

- The financial statements of NatWest Markets Plc (the 'Bank') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2021 and of the Group's loss for the year then ended;
- The Group financial statements have been properly prepared in accordance with UK adopted international accounting standards and International Financial Reporting Standards ('IFRS') as adopted by the European Union and IFRS as issued by the International Accounting Standards Board ('IASB');
- The Bank's 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 Group and the Bank for the year ended 31 December 2021 which comprise:

Group	Bank
–Consolidated balance sheet as at 31 December 2021; –Consolidated income statement for the year then ended; –Consolidated statement of comprehensive income for the year then ended; –Consolidated statement of changes in equity for the year then ended; –Consolidated cash flow statement for the year then ended; –Accounting Policies; –Related notes 1 to 34 to the financial statements; and –Risk and capital management section 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; –Accounting Policies; and –Related notes 1 to 34 to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards, and as regard to the group financial statements, IFRS as adopted by the European Union and IFRS as issued by the IASB, and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of the director's going concern assessment process. We engaged with management early to ensure key factors were considered in the assessment;
- We evaluated the directors' going concern assessment which included reviewing their evaluation of long-term business and strategic plans on the future capital adequacy, liquidity and funding positions of the Group and Bank. Management also assessed these positions considering internal stress tests which included consideration of top and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, climate risk, compliance and conduct risk, and operational risk;
- We further evaluated their assessment by considering the Group and Bank's ability to continue as a going concern under different scenarios considering 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; and
- We reviewed the Group's going concern disclosures included in the Annual Report and Accounts in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

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

An overview of the scope of NatWest Markets Plc 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 component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as the results from internal audits 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, we identified five components based on size and risk which represent the principal reporting legal entities within the Group and the Group's central functions.

Of the five components listed below, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For two components ("specific scope component"), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. We also instructed one location to perform specified procedures over certain aspects of selected accounts.

Component	Scope	Key locations
NatWest Markets Plc	Full	United Kingdom, United States, India and Poland
NatWest Markets N.V.	Full	United Kingdom, India, Poland and the Netherlands
NatWest Markets Securities Inc.	Specific	United States
NatWest Markets Securities Japan Limited	Specified procedures	Japan
Central Functions*	Specific	United Kingdom

*Central functions comprise EY functional component teams focused on the audit of specific balances across in scope legal entity components.

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

	Full scope	Specific scope	Specified procedures	Other procedures*	Total
Total assets	90%	9%	<1%	1%	100%
Total equity	99%	-	-	1%	100%
Total income (absolute)	78%	18%	-	4%	100%

*Other procedures: considered in analytical procedures.

As a result of the continued impact of the COVID-19 pandemic and resulting lockdown restrictions for part of the year in countries where full or specific scope audit procedures have been performed, we 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 audit, 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. During the current year's audit cycle, due to continued COVID-19 restrictions, the visits undertaken by the primary audit team were necessarily virtual visits. These visits involved video call meetings with local management and discussions on the audit approach with the component team and any issues arising from their work. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

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

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

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

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

Key audit matters

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

Risk	Our response to the risk
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
At 31 December 2021 the company held financial instruments with higher risk characteristics, including (but not limited to) reported level 3 assets of £2.0 billion (2020: £1.7 billion) and level 3 liabilities of £0.6 billion (2020: £0.9 billion) whose value is dependent upon unobservable inputs, as reported in note 10 of the financial statements The valuation of those financial instruments with higher risk characteristics can include both significant judgement and the risk of inappropriate revenue recognition through incorrect pricing as outlined below. The fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on inputs where there is limited market observability. Management's estimates which required significant judgement include: – Complex models: Complex model-dependent valuations of financial instruments, which include interest rate swaps linked to pre-payment behaviour and interest rate and foreign exchange options with exotic features; – Illiquid inputs: Pricing inputs and calibrations for illiquid instruments, including debt securities and loans. Additionally, the valuation of derivative instruments is dependent on discount rates associated with complex collateral arrangements; – Fair value adjustments: The appropriateness and completeness of fair value adjustments made to derivatives valuations including Funding Valuation Adjustments (FVA), Credit Valuation Adjustments (CVA), and material product and deal specific adjustments on long dated derivative portfolios; and – The manipulation of revenue recognition is most likely to arise through the inappropriate valuation of these instruments given the level of judgment involved.	Controls testing: We evaluated the design and operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, valuation models governance, collateral management, income statement analysis, and the associated controls over relevant information technology systems. We also observed the Valuation Committees where valuation inputs, assumptions and adjustments were discussed and approved. We involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following: – Complex models: Testing complex model-dependent valuations by performing independent revaluation to assess the appropriateness of models and the adequacy of assumptions and inputs used by the Group. – Illiquid inputs: Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources where available, to evaluate management's valuation. – Fair value adjustments: Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of emerging market practice and changes in the risk profile of the underlying portfolio; and revaluing a sample of counterparty level FVA and CVA, comparing funding spreads to third party data and independently challenging illiquid CVA inputs. Throughout our audit procedures we considered the appropriateness of modelling changes in relation to IBOR transition and impact of climate change on the valuation of financial instruments, particularly in relation to long-dated illiquid positions. In addition, we assessed whether there were any indicators of aggregate bias in financial instrument marking and methodology assumptions. We performed back-testing analysis of recent trade activity and asset disposals to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We performed an analysis of significant collateral discrepancies with counterparties to assess the potential impact on the fair value of the underlying (and similar) financial instruments.

Key observations communicated to the Group Audit Committee

We are satisfied that the assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income is reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:

– Complex-model dependent valuations were appropriate based on the output of our independent revaluations, analysis of trade activity, assessment of the output of the independent price verification process, inspection of collateral disagreements and peer benchmarking;
– The fair value estimates of hard-to-price financial instruments appropriately reflected pricing information available at 31 December 2021; and
– Valuation adjustments applied to derivative portfolios for credit, funding and other risks were recorded in accordance with the requirements of IFRS considering trade activity for positions with common risk characteristics, analysis of market data and peer benchmarking.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Accounting policies
Note 10 on the financial statements

Risk	Our response to the risk
Provisions for conduct, litigation and regulatory matters	
At 31 December 2021, the Group has reported £0.26 billion (2020: £0.33 billion) of provisions for conduct, 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 judgement in determining appropriate provisions and disclosures. Management judgement is needed to determine whether a present obligation existed, and a provision should be recorded as at 31 December 2021 in accordance with the accounting criteria set out under IAS 37. Management's estimates which required significant judgement include: – Assumptions: The selection and use of assumptions in the estimation of material provisions. There is a risk of management bias in the determination of whether an outflow in respect of identified material conduct or legal matters is probable and can be estimated reliably; and – Disclosure: The assessment of the adequacy of disclosures of provision for contingent liabilities given the underlying estimation uncertainty in the provisions.	Controls testing: We evaluated the design and operating effectiveness of key controls over the identification, estimation, monitoring and disclosure of provisions considering the potential for management override of controls. The controls tested included those designed and operated by management to identify and monitor claims, and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory and legal correspondence: We examined relevant regulatory and legal correspondence to assess developments in certain matters. For matters which were settled during the period, we compared the actual outflows with the provision that had been recorded and considered whether further risk existed. Inquiry of legal counsel: For legal matters that we identified as having a higher likelihood of material misstatement, 'significant legal matters', we received confirmations from the Group's external legal counsel to assist us in evaluating the existence of an obligation and in assessing management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel in respect of the existence of any legal obligations and related provisions. We performed procedures to identify unrecorded provisions to determine if there were any cases not considered in the provision by assessing against external legal confirmations, discussing with internal counsel and analysing legal costs. Testing of assumptions: For the provisions related to significant legal matters we understood and assessed the provisioning methodology. We tested the underlying data and assumptions used in the determination of the provisions recorded, legal costs, and the timing of settlement. We considered the accuracy of management's historical estimates by comparing the actual settlement to the provision and considered peer bank settlement in similar cases where appropriate. We assessed management's conclusion by evaluating the underlying information used in estimating the provisions including the consideration of alternate sources. Disclosure: We evaluated the disclosures of contingent liabilities and provisions for litigation and other regulatory provisions to assess whether they complied with accounting standards.

Key observations communicated to the Group Audit Committee

We are satisfied that the provisions for conduct, litigation and other regulatory matters are reasonable and recognised in accordance with IFRS. We concur with the level of disclosure in the financial statements. We did not identify any material unrecorded provisions.

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Accounting policies
Notes 20 and 25 to the financial statements

Risk	Our response to the risk
Expected Credit Losses ('ECL') provisions under IFRS 9	
At 31 December 2021 the Group reported total gross loans of £9.3 billion (2020: £10.3 billion) and £84 million of expected credit loss provisions under IFRS 9 (2020: £194 million) as detailed in note 14 of the financial statements. Management's judgements 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 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 impacted by COVID-19 including any change to scenarios required through 31 December 2021; and – Individual provisions: Measurement of individually assessed provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies and time to collect.	Controls testing: We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgements and estimates noted, involving specialists to assist us in performing our procedures where appropriate. These included, among others, controls 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; – individual provisions; and – production of journal entries and disclosures. In evaluating the governance process, we observed the Group Provisions Committee and Metrics Oversight Committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved. 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 portfolio, risk profile, credit risk management practices and the impact of COVID-19 and climate change on customers. Staging: We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the assets in stage 1, 2 and 3, and assessed if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL. 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, focussing our testing on high risk industries. We also assessed whether the credit reviews performed by management appropriately considered risk factors by considering independent publicly available information. Model estimations: We performed a risk assessment on all models used in the calculation of ECL to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and model implementation. We also considered the results of the 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. Economic scenarios: We involved EY economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and considered contrary evidence by comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to COVID-19 as at 31 December 2021. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment rate and interest rates. With the support of our EY modelling specialists we assessed the correlation and the overall impact of the macroeconomic factors to the ECL. 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. The sample was based on a number of factors, including higher risk sectors and materiality. Disclosure: We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.

Key observations communicated to the Group Audit Committee

We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the Group Audit Committee:
– Our testing on the staging criteria did not identify material differences and overall, we concluded that the stage allocation at 31 December 2021 was reasonable;
– Our testing of models and model assumptions did not highlight material differences; and
– Our testing of individually assessed impairments did not highlight any material differences

Relevant references in the Annual Report and Accounts

Report of the Group Audit Committee
Credit Risk section of the Risk and capital management section
Accounting policies
Note 14 to the financial statements

Risk	Our response to the risk
IT systems and controls impacting financial reporting	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations on a daily basis with extensive reliance on automated controls. 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. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.	Controls testing: 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 COVID-19 pandemic had caused material changes in IT processes or controls. We tested user access by assessing the controls in place for in-scope applications, in particular those pertaining to the addition and periodic recertification of users' access. We tested change management controls in relation to amendments to applications. We tested IT application and controls over data interfaces between applications. As part of our user access testing, we assessed the core access management processes. We tested controls over approvals, user entitlement reviews, and managements approval process over role combinations. For relevant external cloud and system migrations completed in 2021, we performed procedures to evaluate the governance structure and key controls in place to manage the key risks associated with these migrations. 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.

Key observations communicated to the Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the Group Audit Committee:
– Where control issues were noted in relation to access management, these were remediated by 31 December 2021 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 and the Bank to be £73 million (2020: £91 million), which is 1% (2020: 1%) of shareholder's equity of the Bank.

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 judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £36 million (2020: £46 million). We have set performance materiality at this percentage (which is at the lowest end of the acceptable range of our audit methodology) based on various considerations including the past history of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was between £15.5 million and £36 million (2020: £8 million and £46 million).

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

We agreed with the Group Audit Committee that we would report to them all uncorrected audit differences in excess of £4 million (2020: £4 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information
The other information comprises the information included in the Annual Report and Accounts (including the Strategic Report, Financial Review, Report of the directors, Statement of directors' responsibilities, Risk Factors and Forward-looking statements and Non-IFRS financial measures) other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and 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 Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group, the Bank 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), the Financial Conduct Authority (FCA) and the 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. Other areas of risk that we identified included manual override of controls, unauthorised trading 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 NatWest Holdings Audit Committee we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements of the Group and the Bank for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is six 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 Bank and we remain independent of the Group and Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the Group Audit Committee.

Use of our report

This report is made solely to the Group's and the Bank'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 Group's and the Bank'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 Group and the Bank and the Group's and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Manprit Dosanjh (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
17 February 2022

Consolidated income statement for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Interest receivable		**343**	531
Interest payable		**(335)**	(591)
Net interest income	1	**8**	(60)
Fees and commissions receivable		**262**	386
Fees and commissions payable		**(104)**	(287)
Income from trading activities		**263**	1,088
Other operating income		**(28)**	31
Non-interest income	2	**393**	1,218
Total income		**401**	1,158
Staff costs		**(498)**	(670)
Premises and equipment		**(110)**	(107)
Other administrative expenses		**(522)**	(629)
Depreciation and amortisation		**(20)**	(25)
Operating expenses	3	**(1,150)**	(1,431)
Loss before impairment releases/(losses)		**(749)**	(273)
Impairment releases/(losses)	14	**35**	(42)
Operating loss before tax		**(714)**	(315)
Tax credit/(charge)	7	**223**	(12)
Loss for the year		**(491)**	(327)
Attributable to:			
Ordinary shareholders		**(593)**	(328)
Paid-in equity holders		**63**	68
Non-controlling interests		**39**	(67)
		(491)	(327)

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

	2021 £m	2020 £m
Loss for the year	**(491)**	(327)
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	**36**	(21)
(Loss) on fair value of credit in financial liabilities designated as at fair value through profit or loss (FVTPL) due to own credit risk	**(29)**	(52)
FVOCI financial assets	**2**	(210)
Tax	**(10)**	42
	(1)	(241)
Items that do qualify for reclassification		
FVOCI financial assets	**(2)**	2
Cash flow hedges	**(206)**	92
Currency translation	**(124)**	62
Tax	**45**	(28)
	(287)	128
Other comprehensive loss after tax	**(288)**	(113)
Total comprehensive loss for the year	**(779)**	(440)
Attributable to:		
Ordinary shareholders	**(885)**	(459)
Paid-in equity holders	**63**	68
Non-controlling interests	**43**	(49)
	(779)	(440)

The accompanying notes on pages 115 to 177, the accounting policies on pages 110 to 114 and the audited sections of the Financial review and Risk and capital management on pages 37 to 88 form an integral part of these financial statements.

Balance sheet as at 31 December 2021

	Note	NWM Group 2021 £m	NWM Group 2020 £m	NWM Plc 2021 £m	NWM Plc 2020 £m
Assets					
Cash and balances at central banks	9	**16,645**	15,771	**12,294**	11,736
Trading assets	12	**59,101**	68,689	**41,222**	52,169
Derivatives	13	**105,550**	165,619	**103,042**	164,104
Settlement balances	9	**2,139**	2,296	**795**	1,084
Loans to banks - amortised cost	9	**962**	1,003	**712**	701
Loans to customers - amortised cost	9	**7,471**	8,444	**6,810**	7,477
Amounts due from holding company and fellow subsidiaries	9	**1,479**	1,587	**6,723**	7,606
Other financial assets	15	**8,786**	9,041	**7,743**	8,043
Investment in group undertakings	16	**—**	—	**2,481**	2,600
Other assets	17	**878**	688	**732**	562
Total assets		**203,011**	273,138	**182,554**	256,082
Liabilities					
Bank deposits	9	**1,808**	1,808	**1,808**	1,762
Customer deposits	9	**2,268**	2,618	**1,510**	1,469
Amounts due to holding company and fellow subsidiaries	9	**6,126**	8,134	**10,978**	16,189
Settlement balances	9	**2,068**	2,248	**1,028**	604
Trading liabilities	12	**64,482**	72,252	**47,119**	56,916
Derivatives	13	**98,497**	157,332	**95,096**	153,754
Other financial liabilities	18	**19,255**	18,170	**16,877**	15,370
Other liabilities	20	**1,055**	1,234	**789**	866
Total liabilities		**195,559**	263,796	**175,205**	246,930
Owners' equity	21	**7,455**	9,388	**7,349**	9,152
Non-controlling interests		**(3)**	(46)	**—**	—
Total equity		**7,452**	9,342	**7,349**	9,152
Total liabilities and equity		**203,011**	273,138	**182,554**	256,082

Owners' equity of NWM Plc as at 31 December 2021 includes the loss for the year of £527 million (2020 loss - £212 million).

The accompanying notes on pages 115 to 177, the accounting policies on pages 110 to 114 and the audited sections of the Financial review and Risk and capital management on pages 37 to 88 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:

Frank Dangeard Chairman	Robert Begbie Chief Executive Officer	David King Chief Financial Officer	NatWest Markets Plc Registration No. SC090312

Statement of changes in equity for the year ended 31 December 2021

	NWM Group 2021 £m	NWM Group 2020 £m	NWM Plc 2021 £m	NWM Plc 2020 £m
Called-up share capital - at 1 January and 31 December	**400**	400	**400**	400
Share premium - at 1 January	**1,759**	1,759	**1,759**	1,759
Redemption of preference shares	**187**	—	**187**	—
At 31 December	**1,946**	1,759	**1,946**	1,759
Paid-in equity - at 1 January and 31 December	**904**	904	**904**	904
FVOCI reserve - at 1 January	**34**	(134)	**14**	(149)
Unrealised (losses)/gains	**(1)**	(221)	**3**	(221)
Realised losses (1)	**1**	389	**2**	385
Tax	**(1)**	—	**(1)**	(1)
At 31 December	**33**	34	**18**	14
Cash flow hedging reserve - at 1 January	**201**	137	**201**	137
Amount recognised in equity	**(207)**	18	**(208)**	18
Amount transferred from equity to earnings	**1**	74	**1**	74
Tax	**52**	(28)	**52**	(28)
At 31 December	**47**	201	**46**	201
Foreign exchange reserve - at 1 January	**121**	77	**(192)**	(168)
Retranslation of net assets	**(158)**	98	**(27)**	(29)
Foreign currency gains/(losses) on hedges of net assets	**20**	(31)	**1**	—
Tax	**(6)**	—	**—**	—
Recycled to profit or loss on disposal of businesses	**10**	(23)	**—**	5
At 31 December	**(13)**	121	**(218)**	(192)
Retained earnings - at 1 January	**5,969**	6,764	**6,066**	6,748
Loss attributable to ordinary shareholders and other equity holders	**(530)**	(260)	**(527)**	(212)
Ordinary dividends paid	**(1,000)**	—	**(1,000)**	—
Paid-in equity dividends paid	**(63)**	(68)	**(63)**	(68)
Redemption of preference shares	**(188)**	—	**(188)**	
Realised losses on FVOCI equity shares (1)				
- gross	**—**	(376)	**(2)**	(373)
- tax	**—**	35	**—**	35
Remeasurement of retirement benefit schemes				
- gross	**36**	(21)	**35**	(21)
- tax	**(13)**	(1)	**(13)**	(1)
Changes in fair value of credit in financial liabilities designated at FVTPL				
- gross	**(29)**	(52)	**(11)**	(30)
- tax	**3**	8	**3**	8
Share based payments (2)	**(47)**	(42)	**(47)**	(42)
Distribution	**—**	(40)	**—**	—
Capital contribution	**—**	22	**—**	22
At 31 December	**4,138**	5,969	**4,253**	6,066
Owners' equity at 31 December	**7,455**	9,388	**7,349**	9,152
Non-controlling interests - at 1 January	**(46)**	3	**—**	—
Currency translation adjustments and other movements	**4**	18	**—**	—
Profit/(loss) attributable to non-controlling interests	**39**	(67)	**—**	—
At 31 December	**(3)**	(46)	**—**	—
Total equity at 31 December	**7,452**	9,342	**7,349**	9,152
Attributable to:				
Ordinary shareholders	**6,551**	8,484	**6,445**	8,248
Paid-in equity holders	**904**	904	**904**	904
Non-controlling interests	**(3)**	(46)	**—**	—
	7,452	9,342	**7,349**	9,152

(1) During 2020 NWM Plc sold its entire equity holding in Saudi British Bank (SABB) leading to a realised loss of £337 million after tax which was recognised through other comprehensive income and reclassified to retained earnings.
(2) Share-based payments includes a tax credit of £4 million.

The accompanying notes on pages 115 to 177, the accounting policies on pages 110 to 114 and the audited sections of the Financial review and Risk and capital management on pages 37 to 88 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2021

	Note	NWM Group 2021 £m	NWM Group 2020 £m	NWM Plc 2021 £m	NWM Plc 2020 £m
Cash flows from operating activities					
Operating loss before tax		**(714)**	(315)	**(702)**	(205)
Adjustments for:					
Impairment (releases)/losses		**(35)**	42	**(36)**	17
Amortisation of discounts and premiums of other financial assets		**4**	17	**4**	16
Depreciation and amortisation		**20**	25	**9**	11
Write-down of investments in subsidiaries		**—**	—	**95**	347
Change in fair value taken to profit or loss of other financial assets		**80**	(43)	**80**	(43)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		**(180)**	132	**(147)**	80
Elimination of foreign exchange differences		**738**	(841)	**529**	(713)
Other non-cash items		**(1)**	99	**5**	69
Income receivable on other financial assets		**(130)**	(198)	**(146)**	(216)
Loss on sale of other financial assets		**2**	13	**—**	12
Dividends receivable from subsidiaries		**—**	—	**(65)**	(529)
Profit on sale of subsidiaries and associates		**—**	(64)	**—**	—
Loss on sale of other assets and net assets/liabilities		**—**	3	**5**	3
Interest payable on MRELs and subordinated liabilities		**204**	329	**166**	307
Loss on sale of MRELs and subordinated liabilities		**26**	16	**26**	16
Charges and release on provisions		**(7)**	106	**43**	33
Defined benefit pension schemes		**4**	10	**4**	5
Net cash flows from trading activities		**11**	(669)	**(130)**	(790)
Decrease in trading assets		**7,664**	4,127	**8,117**	1,601
Decrease/(increase) in derivative assets		**59,861**	(16,905)	**60,854**	(16,628)
Decrease in settlement balance assets		**157**	2,043	**289**	2,269
Increase in net loans to banks		**(122)**	(137)	**(122)**	(125)
Decrease/(increase) in net loans to customers		**1,003**	(152)	**688**	(599)
Decrease)/(increase) in amounts due from holding company and subsidiaries		**351**	(179)	**1,366**	(307)
Decrease in other financial assets		**41**	212	**37**	203
(Increase)/decrease in other assets		**(10)**	40	**(14)**	37
(Decrease)/increase in bank deposits		**—**	(281)	**46**	(276)
(Decrease)/increase in customers deposits		**(350)**	(1,085)	**41**	(778)
(Decrease)/increase in amounts due to holding company and fellow subsidiaries		**(394)**	40	**(3,597)**	(464)
(Decrease)/increase in settlement balance liabilities		**(180)**	(1,774)	**424**	(2,044)
(Decrease)/increase in trading liabilities		**(7,771)**	(1,584)	**(9,797)**	3,340
(Decrease)/increase in derivatives liabilities		**(58,835)**	13,190	**(58,658)**	11,364
Increase/(decrease) in other financial liabilities		**1,199**	(297)	**1,597**	(2,057)
Decrease in other liabilities		**(154)**	(506)	**(141)**	(323)
Changes in operating assets and liabilities		**2,460**	(3,248)	**1,130**	(4,787)
Income taxes received/(paid)		**28**	(73)	**55**	(12)
Net cash flows from operating activities [1]		**2,499**	(3,990)	**1,055**	(5,589)

For notes to this table refer to the following page.

	Note	NWM Group 2021 £m	NWM Group 2020 £m	NWM Plc 2021 £m	NWM Plc 2020 £m
Cash flows from investing activities					
Sale and maturity of other financial assets		**4,523**	10,735	**3,842**	10,354
Purchase of other financial assets		**(4,617)**	(8,020)	**(3,822)**	(7,337)
Income received on other financial assets		**130**	198	**146**	216
Net movement in business interests	26	**4**	358	**4**	269
Dividends received from subsidiaries		**—**	—	**65**	529
Sale of property, plant and equipment		**1**	2	**(4)**	2
Purchase of property, plant and equipment		**(1)**	(2)	**—**	(1)
Net cash flows from investing activities		**40**	3,271	**231**	4,032
Cash flows from financing activities					
Movement in MRELs		**(1,234)**	(191)	**(1,234)**	(191)
Movement in subordinated liabilities		**(378)**	(548)	**(339)**	(515)
Dividends paid		**(1,063)**	(68)	**(1,063)**	(68)
Capital contribution		**—**	22	**—**	22
Net cash flows from financing activities		**(2,675)**	(785)	**(2,636)**	(752)
Effects of exchange rate on cash & cash equivalents		**(994)**	841	**(721)**	636
Net decrease in cash and cash equivalents		**(1,130)**	(663)	**(2,071)**	(1,673)
Cash and cash equivalents at 1 January		**26,380**	27,043	**21,285**	22,958
Cash and cash equivalents at 31 December	28	**25,250**	26,380	**19,214**	21,285

(1) NWM Group includes interest received of £419 million (2020 - £671 million) and interest paid of £330 million (2020 - £632 million), and NWM Plc includes interest received of £438 million (2020 - £693 million) and interest paid of £353 million (2020 - £635 million).

The accompanying notes on pages 115 to 177, the accounting policies on pages 110 to 114 and the audited sections of the Financial review and Risk and capital management on pages 37 to 88 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

NatWest Markets Plc (NWM Plc) is incorporated in the UK and registered in Scotland. The financial statements are presented in the functional currency, pounds sterling.

NWM Plc consolidated financial statements incorporate the results of NWM Plc and the entities it controls. Control arises when NWM Plc has the power to direct the activities of an entity so as to affect the return from the entity. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. A subsidiary is included in the consolidated financial statements from the date it is controlled by NWM Group until the date NWM Group ceases to control it through a sale or a significant change in circumstances. Changes in NWM Group's interest in a subsidiary that do not result in NWM Group ceasing to control that subsidiary are accounted for as equity transactions.

The consolidated financial statements are prepared under consistent accounting policies.

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

The audited financial statements are set out on pages 105 to 177 and the audited sections of the Risk and capital management on pages 42 to 88. 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 89) and in accordance with UK adopted International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union. The significant accounting policies and related judgments are set out below.

Except for certain financial instruments as described in Accounting policies 8 and 11, 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 NWM 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. Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

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

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

3. Held for sale and Disposal group

An asset or disposal group (assets and liabilities) is classified as held for sale if NWM 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.

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 NWM Group. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NWM Group or in ordinary shares of NatWest Group plc. NWM Group operates a number of share-based compensation schemes (which NWM 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 NatWest Group pays fixed contributions and there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

Defined benefit pension scheme

A scheme that defines the benefit an employee will receive on retirement and is dependent on one or more factors such as age, salary, and years of service. The net of the recognisable scheme assets and obligations is reported on the balance sheet in other assets or other liabilities. The defined benefit obligation is measured on an actuarial basis. The charge to the income statement for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability due to changes in actuarial measurement assumptions) are recognised in other comprehensive income in full in the period in which they arise, and not subject to recycling to the income statement. The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised on the balance sheet if the criteria the asset celling test are met. This requires the net defined benefit surplus to be limited to the present value of any economic benefits available to NWM Group in the form of refunds from the plan or reduced contributions to it.

NWM 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 NWM Group only include contributions that are substantively or contractually agreed and do not include discretionary features, including dividend-linked contributions.

5. 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.

6. Provisions and contingent liabilities

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

NWM 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 NWM 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.

7. 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 NWM Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual NatWest Group company or on NatWest Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgmental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. NWM 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.

8. 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 NWM 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.

9. 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 - 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 NWM 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 NWM 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.

Business loans are generally written off within five years.

10. Financial guarantee contracts

Under a financial guarantee contract, NWM Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with ECL Accounting policy. Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

11. 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 NWM 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.

12. Netting

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

13. Capital instruments

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

The consideration for any ordinary shares of NWM Plc purchased by NWM Group (known as treasury shares or own shares held) is deducted from equity. On the cancellation of treasury shares their nominal value is removed from equity and any excess of consideration over nominal value is treated in accordance with the capital maintenance provisions of the Companies Act 2006.

On the sale or re-issue of treasury shares the consideration received and related tax are credited to equity, net of any directly attributable incremental costs.

14. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value.

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

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships are recognised in the income statement in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

Hedge accounting

NWM 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.

15. Investment in Group undertakings

NWM Plc's investments in its Group undertakings (subsidiaries) are stated at cost less any impairment.

Critical accounting policies and key sources of estimation uncertainty

The reported results of NWM 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 NWM Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of 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 NWM 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 NWM Group would affect its reported results. Estimation uncertainty continues to be affected by the COVID-19 pandemic. The COVID-19 pandemic continued to cause significant economic and social disruption during 2021. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the UK and other countries or greater economic effect as countries and companies implement plans to counter climate risks.

How Climate risk affects our accounting judgments and estimates

NWM Group makes use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators. It also includes the effect on NWM Group's competitiveness and profitability. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period.

Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate related terms prevent the instrument cashflows being solely payments of principal and interest.
- The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. NWM Group's assessment of sector specific risks, and whether additional adjustments are required, include expectations on the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.
- The assessment of asset impairment and deferred tax are based upon value in use. This represents the value of future cashflows and uses the NWM Group's five-year forecast and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability, including near term effects on climate transition risk. The long term growth rate reflects external indicators which will include market expectations on climate risk. NWM Group did not consider any additional adjustments to this indicator.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

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

Critical accounting policy	Note
Deferred tax	7
Fair value - financial instruments	10
Loan impairment provisions	14
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).

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

Notes to the financial statements

1 Net interest income

	2021 £m	2020 £m
Loans to banks - amortised cost	**39**	86
Loans to customers - amortised cost	**207**	277
Amounts due from holding company and fellow subsidiaries	**14**	—
Other financial assets	**83**	168
Interest receivable	**343**	531
Balances with banks	**64**	81
Customer deposits	**7**	34
Amounts due to holding company and fellow subsidiaries	**169**	282
Other financial liabilities	**95**	194
Interest payable	**335**	591
Net interest income	**8**	(60)

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.

For accounting policy information see Accounting policies note 2.

2 Non-interest income

	2021 £m	2020 £m
Net fees and commissions	**158**	99
Income from trading activities		
Foreign exchange	**191**	425
Interest rate	**(17)**	648
Credit	**83**	3
Changes in fair value of own debt attributable to own credit risk - debt securities in issue and derivative liabilities	**6**	(24)
Equities and other	**—**	36
	263	1,088
Other operating income		
Loss on redemption of own debt	**(26)**	(16)
Operating lease and other rental income	**2**	2
Changes in fair value of financial assets and liabilities designated at fair value through profit or loss (1)	**(8)**	(54)
Hedge ineffectiveness	**(10)**	(5)
Profit/(loss) on disposal of amortised cost assets	**10**	(2)
Loss on disposal of fair value through other comprehensive income assets	**(1)**	(13)
Dividend income	**4**	29
Profit/(loss) on disposal of subsidiaries and associates	**—**	64
Other income (2)	**1**	26
	(28)	31
Total	**393**	1,218

(1) Including related derivatives.
(2) Includes income from activities other than banking.

For accounting policy information see Accounting policies note 2.

3 Operating expenses

	2021 £m	2020 £m
Wages, salaries and other staff costs	358	476
Temporary and contract costs	12	17
Social security costs	36	54
Bonus awards	72	93
Pension costs	20	30
- defined benefit schemes (see Note 5)	4	10
- defined contribution schemes	16	20
Staff costs	498	670
Premises and equipment	110	107
Depreciation and amortisation	20	25
Other administrative expenses (1,2)	522	629
Administrative expenses	652	761
	1,150	1,431

(1) Includes recharges from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.
(2) Includes litigation and other regulatory 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, in continuing operations during the year, excluding temporary staff, was 1,900 (2020 – 3,600). The number of persons employed by NWM Group in continuing operations at 31 December 2021, excluding temporary staff, was as follows:

	2021	2020
UK	1,000	1,100
USA	300	300
India	—	100
Poland	—	300
Rest of the World	300	300
Total (1)	1,600	2,100

(1) During the year, as part of the transformation programme, the front office and support functions operating models were reorganised to focus on NatWest Group's customers and some roles have been transferred from NWM Group to NatWest Holdings Limited.

Bonus awards

The following tables analyse NWM Group's bonus awards.

	2021 £m	2020 £m	Change %
Non-deferred cash awards (1)	3	4	(25)
Deferred cash awards	52	39	33
Deferred share awards	22	47	(53)
Total deferred bonus awards	74	86	(14)
Total bonus awards (2)	77	90	(14)

Reconciliation of bonus awards to income statement charge	2021 £m	2020 £m
Bonuses awarded	77	90
Less: deferral of charge for amounts awarded for current year	(30)	(38)
Income statement charge for amounts awarded in current year	47	52
Add: current year charge for amounts deferred from prior years	36	45
Less: forfeiture of amounts deferred from prior years	(11)	(4)
Income statement charge for amounts deferred from prior years	25	41
Income statement charge for bonus awards (2)	72	93

(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:

NatWest Markets offers its customers global market access, providing them with trading, risk management and financing solutions through its trading hubs in London, Amsterdam, Singapore and Stamford and sales offices across key locations in the UK, EU, US and Asia.

Central items & other includes corporate functions and other activity not managed in the NatWest Markets segment. In 2021 and 2020, this substantially comprised of litigation and conduct costs.

2021	NatWest Markets £m	Central items & other £m	Total £m
Interest receivable	343	—	343
Interest payable	(335)	—	(335)
Net fees and commissions	158	—	158
Other non-interest income	243	(8)	235
Total income	409	(8)	401
Depreciation and amortisation	(20)	—	(20)
Other operating expenses	(1,137)	7	(1,130)
Impairment release	35	—	35
Operating loss	(713)	(1)	(714)
2020			
Interest receivable	529	2	531
Interest payable	(591)	—	(591)
Net fees and commissions	99	—	99
Other non-interest income	1,081	38	1,119
Total income	1,118	40	1,158
Depreciation and amortisation	(25)	—	(25)
Other operating expenses	(1,292)	(114)	(1,406)
Impairment losses	(40)	(2)	(42)
Operating loss	(239)	(76)	(315)

	Total revenue (1)					
	2021			2020		
	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
Total	848	(8)	840	1,995	41	2,036

(1) Total revenue comprises interest receivable, fees and commissions receivable, income from trading activities and other operating income.

Analysis of net fees and commissions	31 December 2021 £m	31 December 2020 £m
Fees and commissions receivable		
- Lending and financing	74	86
- Brokerage	41	93
- Underwriting fees	127	183
- Other	20	24
Total	262	386
Fees and commissions payable	(104)	(287)
Net fees and commissions	158	99

	2021			2020		
Total assets and liabilities	NatWest Markets £m	Central items & other £m	Total £m	NatWest Markets £m	Central items & other £m	Total £m
Assets	203,010	1	203,011	273,124	14	273,138
Liabilities	195,560	(1)	195,559	263,773	23	263,796

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	UK £m	USA £m	Europe £m	RoW £m	Total £m
Total revenue	**594**	**91**	**132**	**23**	**840**
Interest receivable	**262**	**20**	**56**	**5**	**343**
Interest payable	**(269)**	**(2)**	**(62)**	**(2)**	**(335)**
Fees and commissions receivable	**168**	**17**	**77**	**—**	**262**
Fees and commissions payable	**(236)**	**11**	**79**	**42**	**(104)**
Income from trading activities	**190**	**53**	**2**	**18**	**263**
Other operating income	**(27)**	**2**	**(3)**	**—**	**(28)**
Total income	**88**	**101**	**149**	**63**	**401**
Operating (loss)/profit before tax	**(802)**	**48**	**39**	**1**	**(714)**
Total assets	**158,100**	**21,823**	**20,668**	**2,420**	**203,011**
Total liabilities	**158,137**	**23,330**	**12,820**	**1,272**	**195,559**
Contingent liabilities and commitments	**6,482**	**—**	**5,450**	**18**	**11,950**
2020					
Total revenue	1,405	211	291	129	2,036
Interest receivable	418	—	95	18	531
Interest payable	(488)	—	(103)	—	(591)
Fees and commissions receivable	29	63	191	103	386
Fees and commissions payable	(208)	(31)	(42)	(6)	(287)
Income from trading activities	923	170	(15)	10	1,088
Other operating income	35	(22)	20	(2)	31
Total income	709	180	146	123	1,158
Operating (loss)/profit before tax	(313)	(84)	35	47	(315)
Total assets	225,345	25,452	20,108	2,233	273,138
Total liabilities	223,405	26,942	12,332	1,117	263,796
Contingent liabilities and commitments	6,768	—	6,299	—	13,067

5 Pensions

Defined contribution schemes

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

Defined benefit schemes

NWM Group sponsors a number of pension schemes in the UK and overseas, including the AA and NatWest Markets (NWM) sections of the NatWest Group Pension Fund which operate under UK trust law and are managed and administered on behalf of their members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although current members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NWM Group.

The corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc. 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).

Investment strategy

The assets of the AA section, which is typical of other group schemes, represent 78% of all plan assets at 31 December 2021 (2020 – 77% of plan assets) and are invested as shown below.

The AA and NWM sections employ both physical and derivative instruments to achieve a desired asset class exposure and to reduce the schemes' interest rate, inflation and currency risk. This means that the net funding positions are considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation. In particular, the Trustee hedges movements in interest rates and inflation.

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparty banks, including NWB Plc.

Major classes of plan assets as a percentage of total plan assets of the AA section	2021 Quoted %	2021 Unquoted %	2021 Total %	2020 Quoted %	2020 Unquoted %	2020 Total %
Equities	**2.4**	**0.6**	**3.0**	2.1	1.1	3.2
Index linked bonds	**40.8**	**—**	**40.8**	39.0	—	39.0
Government bonds	**4.3**	**—**	**4.3**	5.2	—	5.2
Corporate and other bonds	**15.5**	**10.1**	**25.6**	20.0	11.0	31.0
Real estate	**—**	**2.0**	**2.0**	—	1.9	1.9
Derivatives	**—**	**6.5**	**6.5**	—	5.8	5.8
Cash and other assets	**—**	**17.8**	**17.8**	—	13.9	13.9
	63.0	**37.0**	**100.0**	66.3	33.7	100.0

5 Pensions continued

The schemes do not invest directly in NWM Group but can have exposure to NWM Group. The trustees are responsible for ensuring that indirect investments in NWM Group do not exceed the 5% regulatory limit.

	AA section			All schemes (3)			
Changes in value of net pension (asset)/liability	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Net pension (asset)/ liability £m	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension (asset)/ liability £m
At 1 January 2020	1,088	825	(263)	1,419	1,116	95	(208)
Currency translation and other adjustments	—	—	—	—	(9)	—	(9)
Income statement	22	18	(4)	27	36	1	10
Statement of comprehensive income	96	107	11	114	148	(13)	21
Contributions by employer	2	—	(2)	11	—	—	(11)
Contributions by plan participants and other scheme members							
Benefits paid	(44)	(44)	—	(68)	(68)	—	—
Transfers to/from fellow subsidiaries	—	—	—	—	(4)	—	(4)
At 1 January 2021	**1,164**	**906**	**(258)**	**1,503**	**1,219**	**83**	**(201)**
Currency translation and other adjustments	**(1)**	**—**	**1**	**(11)**	**(13)**	**2**	**—**
Income statement							
Net interest expense	**16**	**12**	**(4)**	**21**	**19**	**1**	**(1)**
Current service cost	**—**	**1**	**1**	**—**	**5**	**—**	**5**
	16	**13**	**(3)**	**21**	**24**	**1**	**4**
Statement of comprehensive income							
Return on plan assets excluding recognised interest income	**21**	**—**	**(21)**	**18**	**—**	**—**	**(18)**
Experience gains and losses	**—**	**12**	**12**	**—**	**16**	**—**	**16**
Effect of changes in actuarial financial assumptions	**—**	**(28)**	**(28)**	**—**	**(35)**	**—**	**(35)**
Effect of changes in demographic assumptions	**—**	**—**	**—**	**—**	**7**	**—**	**7**
Asset ceiling adjustments	**—**	**—**	**—**	**—**	**—**	**(6)**	**(6)**
	21	**(16)**	**(37)**	**18**	**(12)**	**(6)**	**(36)**
Contributions by employer	**1**	**—**	**(1)**	**7**	**—**	**—**	**(7)**
Benefits paid	**(48)**	**(48)**	**—**	**(65)**	**(65)**	**—**	**—**
Transfers to/from fellow subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2021	**1,153**	**855**	**(298)**	**1,473**	**1,153**	**80**	**(240)**

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) In recognising the net surplus or deficit of a pension scheme, the funded status of each scheme is adjusted to reflect any minimum funding requirement imposed on the sponsor and any ceiling on the amount that the sponsor has an unconditional right to recover from a scheme.
(3) Includes the NWM Section which has a net pension asset of nil at 31 December 2021 (2020: net pension asset of nil). This scheme has plan assets of £287 million, a defined benefit obligation of £208 million and an asset ceiling of £80 million (2020: £308 million, £225 million and £83 million respectively).
(4) NWM Group expects to make contributions to the AA section of £2.2 million and to the NWM section of £4.5 million in 2022.

	All schemes	
Amounts recognised on the balance sheet	**2021 £m**	2020 £m
Fund assets at fair value	**1,473**	1,503
Present value of fund liabilities	**1,153**	1,219
Funded status	**320**	284
Asset ceiling/minimum funding	**80**	83
	240	201

Net pension asset/(liability) comprises	**2021 £m**	2020 £m
Net assets of schemes in surplus (included in Other assets, Note 17)	**306**	264
Net liabilities of schemes in deficit (included in Other liabilities, Note 20)	**(66)**	(63)
	240	201

5 Pensions continued

Funding and contributions by NWM Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations at least every three years. The trustees and the sponsoring company, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and determine future funding 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 NWM Group sponsors defined benefit pension schemes.

The triennial funding valuation of the AA and NWM sections as at 31 December 2020 was completed during 2021. This determined the funding level to be 108% and 111% respectively, based on pension liabilities of £1,071 million and £267 million. No further deficit contributions are due.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on a gilt yield curve plus 0.4% per annum, and mortality assumptions, which result in life expectancies of 28.3/30.1 years for males/females who are currently age 60 and 30.2/31.8 years from age 60 for males/females who are currently aged 40.

Accounting assumptions

Placing a value on NWM Group's defined benefit pension schemes' liabilities requires NWM 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 AA 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	**2.9**	2.2
Rate of increase in pensions in payment	**2.9**	2.8
Lump sum conversion rate at retirement	**18**	18
Longevity at age 60:	**years**	years
Current pensioners		
Males	**27.9**	28.2
Females	**29.7**	29.8
Future pensioners, currently aged 40		
Males	**29.5**	29.5
Females	**31.1**	31.5

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 determines 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 table below shows how the present value of the net pension asset of the AA section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

2021	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	**(55)**	**(35)**	**(20)**
0.25% increase in inflation	**44**	**25**	**19**
0.25% increase in credit spreads	**—**	**(35)**	**35**
Longevity increase of one year	**—**	**37**	**(37)**
0.25% additional rate of increase in pensions in payment	**—**	**32**	**(32)**
Increase in equity values of 10% (1)	**4**	**—**	**4**
2020			
0.25% increase in interest rates/discount rate	(55)	(47)	(8)
0.25% increase in inflation	52	31	21
0.25% increase in credit spreads	—	(47)	47
Longevity increase of one year	—	43	(43)
0.25% additional rate of increase in pensions in payment	—	36	(36)
Increase in equity values of 10% (1)	4	—	4

(1) Includes both quoted and private equity.

The funded status is most sensitive to movements in credit spreads and longevity. The table below shows the combined change in the funded status of the AA section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
2021		-2 years £m	-1 years £m	No change £m	+1 year £m	+2 years £m
Change in credit spreads	+50 bps	**135**	**102**	**70**	**37**	**(4)**
	No change	**75**	**37**	**—**	**(37)**	**(76)**
	-50 bps	**4**	**(39)**	**(82)**	**(127)**	**(172)**
2020						
Change in credit spreads	+50 bps	159	124	88	52	15
	No change	83	42	—	(43)	(86)
	-50 bps	(2)	(50)	(99)	(149)	(201)

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

Membership category	2021 %	2020 %
Active members	**0.2**	2.8
Deferred members	**56.2**	64.1
Pensioners and dependants	**43.6**	33.1
	100.0	100.0

The experience history of the AA section is shown below:

History of defined benefit schemes	2021 £m	2020 £m
Fair value of plan assets	**1,153**	1,164
Present value of plan obligations	**855**	906
Net surplus	**298**	258
Experience gains/(losses) on plan liabilities	**(12)**	10
Experience gains/(losses) on plan assets	**21**	96
Actual return on plan assets	**37**	118
Actual return on plan assets	**3.2%**	10.8%

6 Auditor's remuneration

Amounts payable to the NWM Group's auditors for statutory audit and other services are set out below:

	2021 £m	2020 £m
Fees payable for:		
- the audit of the NWM Group's annual accounts	**6.4**	6.6
- the audit of NWM Plc's subsidiaries	**2.9**	3.0
- audit-related assurance services	**0.6**	0.6
Total audit and audit-related assurance services fees	**9.9**	10.2
Corporate finance services	**0.3**	0.1
Total other services	**0.3**	0.1

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

7 Tax

	2021 £m	2020 £m
Current tax		
Credit/(charge) for the year	**171**	(92)
Over/(under) provision in respect of prior years	**1**	(36)
	172	(128)
Deferred tax		
Credit for the year	**17**	150
UK tax rate change impact (1)	**(21)**	(22)
Net increase/(decrease) in the carrying value of deferred tax assets in respect of UK and Netherlands losses	**39**	(22)
Over provision in respect of prior years (2)	**16**	10
Tax credit/(charge) for the year	**223**	(12)

(1) It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021.

(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

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

	2021 £m	2020 £m
Expected tax credit	**136**	60
Losses and temporary differences in year where no deferred tax asset recognised	**(18)**	(1)
Foreign profits taxed at other rates	**(5)**	(12)
Items not allowed for tax:		
- losses on disposal and write-downs	**—**	(2)
- UK bank levy	**(3)**	(6)
- regulatory and legal actions	**(1)**	(20)
- other disallowable items	**(7)**	(18)
Non-taxable items	**12**	15
Unrecognised losses brought forward and utilised	**8**	12
(Decrease)/increase in the carrying value of deferred tax assets in respect of:		
- UK losses	**(9)**	(22)
- Netherlands losses	**48**	—
Banking surcharge	**54**	20
Tax on paid-in equity	**12**	10
UK tax rate change impact	**(21)**	(22)
Adjustments in respect of prior years	**17**	(26)
Actual tax credit/(charge)	**223**	(12)

For accounting policy information see Accounting policies note 7.

Judgment: tax contingencies

NWM Group's corporate income tax credit 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. NWM 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 corporate income tax charges in the period when the matter is resolved.

7 Tax continued

Deferred tax

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Deferred tax asset (included in Other assets, Note 17)	(48)	(2)	—	(2)
Deferred tax liability (included in Other liabilities, Note 20)	374	417	352	380
Net deferred tax liability	326	415	352	378

Net deferred tax liability/(asset) comprised:

	NWM Group						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	72	399	(39)	132	(75)	11	500
Acquisitions and disposals of subsidiaries	—	3	1	—	—	—	4
Charge/(credit) to income statement:	1	(142)	15	(4)	13	1	(116)
Charge/(credit) to other comprehensive income	6	—	—	30	—	(8)	28
Currency translation and other adjustments	—	—	—	—	—	(1)	(1)
At 31 December 2020	79	260	(23)	158	(62)	3	415
Charge/(credit) to income statement	1	(1)	(2)	(5)	(43)	(1)	(51)
Charge/(credit) to other comprehensive income	18	—	(4)	(53)	—	—	(39)
Currency translation and other adjustments	—	—	—	—	1	—	1
At 31 December 2021	98	259	(29)	100	(104)	2	326

	NWM Plc						
	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments £m	Tax losses carried forward £m	Other £m	Total £m
At 1 January 2020	73	388	(39)	117	(75)	(2)	462
Acquisitions and disposals of subsidiaries	—	3	—	—	—	—	3
(Credit)/charge to income statement	—	(144)	16	(5)	13	6	(114)
Charge/(credit) to other comprehensive income	6	(1)	—	30	—	(7)	28
Currency translation and other adjustments	—	—	—	—	—	(1)	(1)
At 31 December 2020	79	246	(23)	142	(62)	(4)	378
Charge/(credit) to income statement	1	4	(2)	2	6	2	13
Charge/(credit) to other comprehensive income	18	—	(4)	(53)	—	—	(39)
At 31 December 2021	98	250	(29)	91	(56)	(2)	352

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 below.

	2021 £m	2020 £m
UK tax losses carried forward		
- NWM Plc	56	62
Total	56	62
Overseas tax losses carried forward		
- NWM N.V.	48	—
	104	62

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax liability of £374 million at 31 December 2021 (2020 – liability of £417 million) includes a deferred tax asset on losses of £56 million. The deferred tax asset recognised on UK and overseas tax losses is recognised to the extent that it is probable that there will be future taxable profits to recover it.

Judgment - NWM Group has considered the carrying value of deferred tax assets and management considers that sufficient taxable profits will be generated in future years to recover the remaining deferred tax asset.

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 NWM Plc 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 NWM Plc 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. NWM 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 liability position in NWM Group has increased by £25 million, with a £21 million tax charge included in the income statement (refer to reconciling item above), and a £4 million tax charge included in other comprehensive income.

It was subsequently announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was substantively enacted on 2 February 2022. Had this rate reduction been substantively enacted as at the balance sheet date, the estimated rate change impact would not have been material.

NWM Plc - NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2021 of £56 million (2020 - £62 million) in respect of tax losses amounting to £254 million will be recovered by the end of 2027. The movement in the current financial year reflects a £13 million decrease in the carrying value of the deferred tax asset, offset by a £7 million increase due to the UK tax rate change impact. Of the losses remaining, £5,311 million have not been recognised in the deferred tax balance at 31 December 2021; such losses will be available to offset 25% of future taxable profits in excess of those forecast in the closing deferred tax asset.

Overseas tax losses

NWM N.V. – A deferred tax asset of £48 million has been recognised in respect of previously unrecognised tax losses and credits of £187 million of total tax losses and credits of £2,785 million carried forward at 31 December 2021. NWM N.V. Group expects the deferred tax asset to be utilised against future taxable profits by the end of 2026. NWM N.V. Group's Dutch fiscal unit has reported taxable profits in the period since the adoption of the new business model and repurposing of NWM N.V.'s banking license in 2019. In addition, NatWest Group strategic review of NWM Group has been largely completed in 2021, which has removed material uncertainties around the future business of NWM N.V.. As a result, NWM N.V. Group now considers it to be probable, based on its 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised.

NWM N.V. Group's evaluation of alternative assumptions revealed that the recognition of the deferred tax asset is highly sensitive to the significant assumptions used in the assessment and therefore subject to high estimation uncertainty. Due to the uncertainty associated with the underlying forecast of probable taxable income, the final outcome of the utilisation of the deferred tax asset may vary significantly. This can lead to a material increase or decrease of the deferred tax assets depending on the result of the strategic decisions made in 2021 and to be made in future periods.

Unrecognised deferred tax

Deferred tax assets of £3,340 million (2020 - £3,078 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £12,125 million (2020 - £12,171 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other deductible temporary differences, £77 million expire within five years and £4,288 million thereafter. The balance of tax losses and other deductible temporary differences carried forward has no expiry date.

There are no unrecognised deferred tax liabilities in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches.

8 Profit/(loss) dealt with in the accounts of NWM Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for NWM Plc has been presented as a primary financial statement.

9 Financial instruments - classification

The following tables analyse NWM Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

	NWM Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			**16,645**		**16,645**
Trading assets	**59,101**				**59,101**
Derivatives (1)	**105,550**				**105,550**
Settlement balances			**2,139**		**2,139**
Loans to banks - amortised cost (2)			**962**		**962**
Loans to customers - amortised cost			**7,471**		**7,471**
Amounts due from holding company and fellow subsidiaries	**649**	**—**	**731**	**99**	**1,479**
Other financial assets	**80**	**5,590**	**3,116**		**8,786**
Other assets				**878**	**878**
31 December 2021	**165,380**	**5,590**	**31,064**	**977**	**203,011**
Cash and balances at central banks			15,771		15,771
Trading assets	68,689				68,689
Derivatives (1)	165,619				165,619
Settlement balances			2,296		2,296
Loans to banks - amortised cost (2)			1,003		1,003
Loans to customers - amortised cost			8,444		8,444
Amounts due from holding company and fellow subsidiaries	766	—	754	67	1,587
Other financial assets	166	6,300	2,575		9,041
Other assets				688	688
31 December 2020	235,240	6,300	30,843	755	273,138

	NWM Group				
	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (3)			**1,808**		**1,808**
Customer deposits			**2,268**		**2,268**
Amounts due to holding company and fellow subsidiaries	**348**	**—**	**5,607**	**171**	**6,126**
Settlement balances			**2,068**		**2,068**
Trading liabilities	**64,482**				**64,482**
Derivatives (1)	**98,497**				**98,497**
Other financial liabilities		**2,374**	**16,881**		**19,255**
Other liabilities			**57**	**998**	**1,055**
31 December 2021	**163,327**	**2,374**	**28,689**	**1,169**	**195,559**
Bank deposits (3)			1,808		1,808
Customer deposits			2,618		2,618
Amounts due to holding company and fellow subsidiaries	636	—	7,240	258	8,134
Settlement balances			2,248		2,248
Trading liabilities	72,252				72,252
Derivatives (1)	157,332				157,332
Other financial liabilities		3,196	14,974		18,170
Other liabilities			81	1,153	1,234
31 December 2020	230,220	3,196	28,969	1,411	263,796

(1) Includes net hedging derivative assets of £132 million (2020 - £267 million) and net hedging derivative liabilities of £119 million (2020 - £107 million).
(2) Includes items in the course of collection from other banks of £38 million (2020 - £119 million).
(3) Includes items in the course of transmission to other banks of £28 million (2020 - £10 million).

9 Financial instruments – classification continued

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 principle 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 principle 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 8, 11, 12 and 14.

Amounts due from/to holding company and fellow subsidiaries are as below:

	NWM Group					
	2021			2020		
	Holding company £m	Fellow subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Total £m
Assets						
Trading assets	**252**	**397**	**649**	542	224	766
Loans to banks - amortised cost	**—**	**612**	**612**	—	624	624
Loans to customers - amortised cost	**113**	**6**	**119**	112	18	130
Other assets	**—**	**99**	**99**	—	67	67
Amounts due from holding company and fellow subsidiaries	**365**	**1,114**	**1,479**	654	933	1,587
Derivatives (1)	**407**	**529**	**936**	594	774	1,368
Liabilities						
Bank deposits - amortised cost	**—**	**120**	**120**	—	145	145
Customer deposits - amortised cost	**—**	**155**	**155**	—	144	144
Trading liabilities	**—**	**348**	**348**	—	636	636
Other financial liabilities - subordinated liabilities	**1,464**	**—**	**1,464**	1,753	—	1,753
MREL instruments issued to NatWest Group plc	**3,858**	**—**	**3,858**	5,181	—	5,181
Other liabilities	**—**	**181**	**181**	—	275	275
Amounts due to holding company and fellow subsidiaries	**5,322**	**804**	**6,126**	6,934	1,200	8,134
Derivatives (1)	**658**	**339**	**997**	1,120	425	1,545

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

9 Financial instruments - classification continued

The following tables show the bank's financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9.

	NWM Plc				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			12,294		12,294
Trading assets	41,222				41,222
Derivatives (1)	103,042				103,042
Settlement balances			795		795
Loans to banks - amortised cost (2)			712		712
Loans to customers - amortised cost			6,810		6,810
Amounts due from holding company and fellow subsidiaries	2,965		3,646	112	6,723
Other financial assets	79	4,650	3,014		7,743
Investment in group undertakings				2,481	2,481
Other assets				732	732
31 December 2021	147,308	4,650	27,271	3,325	182,554
Cash and balances at central banks			11,736		11,736
Trading assets	52,169				52,169
Derivatives (1)	164,104				164,104
Settlement balances			1,084		1,084
Loans to banks - amortised cost (2)			701		701
Loans to customers - amortised cost			7,477		7,477
Amounts due from holding company and fellow subsidiaries	3,459		3,970	177	7,606
Other financial assets	161	5,347	2,535		8,043
Investment in group undertakings				2,600	2,600
Other assets				562	562
31 December 2020	219,893	5,347	27,503	3,339	256,082

	NWM Plc				
	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits (3)			1,808		1,808
Customer deposits			1,510		1,510
Amounts due to holding company and fellow subsidiaries	3,335		7,471	172	10,978
Settlement balances			1,028		1,028
Trading liabilities	47,119				47,119
Derivatives (1)	95,096				95,096
Other financial liabilities		1,321	15,556		16,877
Other liabilities			15	774	789
31 December 2021	145,550	1,321	27,388	946	175,205
Bank deposits (3)			1,762		1,762
Customer deposits			1,469		1,469
Amounts due to holding company and fellow subsidiaries	5,375		10,393	421	16,189
Settlement balances			604		604
Trading liabilities	56,916				56,916
Derivatives (1)	153,754				153,754
Other financial liabilities		1,792	13,578		15,370
Other liabilities			24	842	866
31 December 2020	216,045	1,792	27,830	1,263	246,930

(1) Includes net hedging derivative assets of £132 million (2020 - £266 million) and net hedging derivative liabilities of £119 million (2020 - £107 million).
(2) Includes items in the course of collection from other banks of £23 million (2020 - £118 million).
(3) Includes items in the course of transmission to other banks of £28 million (2020 - £11 million).

9 Financial instruments - classification continued

Amounts due from/to holding company and fellow subsidiaries are as below:

	NWM Plc							
	2021				2020			
	Holding company £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding company £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Trading assets	252	397	2,316	2,965	542	224	2,693	3,459
Loans to banks - amortised cost	—	480	998	1,478	—	519	1,024	1,543
Loans to customers - amortised cost	—	5	1,121	1,126	—	5	1,487	1,492
Settlement balances	—	—	546	546	—	—	222	222
Other financial assets	—	—	496	496	—	—	713	713
Other assets	—	87	25	112	—	32	145	177
Amounts due from holding company and fellow subsidiaries	252	969	5,502	6,723	542	780	6,284	7,606
Derivatives (1)	407	529	1,845	2,781	594	774	2,056	3,424
Liabilities								
Bank deposits - amortised cost	—	119	51	170	—	132	240	372
Customer deposits - amortised cost	—	151	1,421	1,572	—	144	2,098	2,242
Trading liabilities	—	348	2,987	3,335	—	636	4,739	5,375
Settlement balances	—	—	397	397	—	—	830	830
Other financial liabilities - subordinated liabilities	1,464	—	—	1,464	1,753	—	—	1,753
MREL instruments issued to NatWest Group plc	3,858	—	—	3,858	5,181	—	—	5,181
Other liabilities	—	169	13	182	—	270	166	436
Amounts due to holding company and fellow subsidiaries	5,322	787	4,869	10,978	6,934	1,182	8,073	16,189
Derivatives (1)	658	339	2,240	3,237	1,120	425	2,782	4,327

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

9 Financial instruments - classification continued

Interest rate benchmark reform

The NatWest Group IBOR programme successfully delivered the conversion of the vast majority of the IBOR exposures to risk free rates (RFR) in advance of the cessation date. This encompasses loans, deposits, capital instruments and derivatives, which have been converted using fallback provisions, switch provisions or as part of market-wide conversion events in the case of derivatives subject to clearing. These instruments will convert at the first repricing date post cessation.

The total amount of exposure for NWM Group at 31 December 2021 subject to above conversion provisions is £1,904 million of assets, £425 million of liabilities, £726 million of loan commitments and £460.8 billion of derivative notionals. The exposure for NWM Plc at 31 December 2021 subject to above conversion provisions is £1,912 million of assets, £916 million of liabilities, £720 million of loan commitments and £456.4 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:

	NWM Group			
	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR (1) £m	Other IBOR £m	Total £m
Trading assets	**62**	**90**	**—**	**152**
Loans to banks - amortised cost	**—**	**11**	**—**	**11**
Loans to customers - amortised cost	**36**	**1,390**	**—**	**1,426**
Other financial assets	**120**	**730**	**—**	**850**
Bank deposits	**—**	**37**	**—**	**37**
Customer deposits	**—**	**—**	**—**	**—**
Trading liabilities	**31**	**166**	**—**	**197**
Other financial liabilities	**—**	**56**	**33**	**89**
Subordinated liabilities	**—**	**—**	**—**	**—**
Amounts due to holding company and fellow subsidiaries	**—**	**2,700**	**—**	**2,700**
Loan commitments (3)	**133**	**1,506**	**—**	**1,639**
Derivatives notional (£bn)	**3.6**	**1,141.0**	**—**	**1,144.6**

For the notes to this table refer to page 132.

At 31 December 2021 NWM Group held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 2021, but not the entire contract. These include currency swaps of GBP LIBOR of £8.4 billion, USD IBOR £7.9 billion and Other IBOR £0.5 billion; currency swaps of USD IBOR of £117.1 billion, GBP LIBOR £91.9 billion and Other IBOR £25.2 billion; currency swaps of EUR LIBOR of £0.1 billion and GBP LIBOR £0.1 billion; currency swaps of Other IBOR of £0.4 billion and USD IBOR £0.4 billion.

9 Financial instruments - classification continued

	NWM Group				
	Rates subject to IBOR reform				
2020	GBP LIBOR £m	USD IBOR (1) £m	EURIBOR (2) £m	Other IBOR £m	Total £m
Trading assets	75	60	348	1	484
Loans to banks - amortised cost	—	—	—	—	—
Loans to customers - amortised cost	1,017	1,266	566	6	2,855
Other financial assets	1,504	266	304	—	2,074
Bank deposits	—	367	—	107	474
Customer deposits	—	—	—	4	4
Trading liabilities	54	414	269	2	739
Other financial liabilities	—	361	314	88	763
Subordinated liabilities	—	—	268	—	268
Amounts due to holding company and fellow subsidiaries	—	3,890	2,823	—	6,713
Loan commitments (3)	1,163	1,811	5,253	—	8,227
Derivatives notional (£bn)	1,309.0	1,359.9	2,345.3	288.9	5,303.1

For the notes to this table refer to page 132.

At 31 December 2020 NWM Group held currency swaps with corresponding legs subject to IBOR reform of GBP LIBOR of £5.2 billion, USD IBOR £2.0 billion, EURIBOR £2.9 billion and Other IBOR £0.3 billion. Currency swaps of USD IBOR of £231.7 billion, GBP LIBOR £98.5 billion, EURIBOR £85.8 billion and Other IBOR £47.4 billion. Currency swaps of EURIBOR of £5.1 billion with GBP LIBOR £2.3 billion, USD IBOR £1.8 billion and Other IBOR £1.0 billion. Currency swaps of Other IBOR of £2.2 billion, EURIBOR £0.7 billion, USD IBOR £1.2 billion and Other IBOR £0.3 billion.

Additionally, NWM Group held basis swaps for GBP LIBOR of £97 billion, USD IBOR of £81 billion, EURIBOR of £49 billion and Other IBOR of £10 billion.

9 Financial instruments - classification continued

	NWM Plc			
	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR (1) £m	Other IBOR £m	Total £m
Trading assets	62	87	—	149
Loans to banks - amortised cost	—	11	—	11
Loans to customers - amortised cost	36	1,287	—	1,323
Other financial assets	120	730	—	850
Amounts due from holding company and fellow subsidiaries	—	—	—	—
Bank deposits	—	37	—	37
Customer deposits	—	—	—	—
Trading liabilities	31	166	—	197
Other financial liabilities	—	56	33	89
Subordinated liabilities	—	—	—	—
Amounts due to holding company and fellow subsidiaries	—	2,700	—	2,700
Loan commitments (3)	28	1,448	—	1,476
Derivatives notional (£bn)	3.5	1,140.9	—	1,144.4

At 31 December 2021 NWM Plc held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 2021, but not the entire contract. These include currency swaps of GBP LIBOR of £8.6 billion, USD IBOR of £8.0 billion and Other IBOR of £0.6 billion; currency swaps of USD IBOR of £117.2 billion, GBP LIBOR of £91.9 billion and Other IBOR of £25.3 billion; currency swaps of EURIBOR of £0.2 billion with GBP LIBOR of £0.2 billion; currency swaps of Other IBOR of £0.3 billion with USD IBOR of £0.3 billion.

	NWM Plc				
	Rates subject to IBOR reform				
2020	GBP LIBOR £m	USD IBOR (1) £m	EURIBOR (2) £m	Other IBOR £m	Total £m
Trading assets	75	58	348	1	482
Loans to banks - amortised cost	—	—	—	—	—
Loans to customers - amortised cost	903	1,130	185	—	2,218
Other financial assets	1,504	266	254	—	2,024
Amounts due from holding company and fellow subsidiaries	—	—	1,107	477	1,584
Bank deposits	—	367	—	107	474
Customer deposits	—	—	—	4	4
Trading liabilities	54	409	269	2	733
Other financial liabilities	—	361	314	88	763
Subordinated liabilities	—	—	268	—	268
Amounts due to holding company and fellow subsidiaries	499	3,890	2,823	528	7,740
Loan commitments (3)	1,071	1,690	469	—	3,230
Derivatives notional (£bn)	1,035.0	1,359.2	1,707.9	195.8	4,297.9

(1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of publishing NWM Plc's Annual Report & Accounts, this date was expected to be 31 December 2021.
(2) In 2021 management concluded that EU IBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended. 31 December 2020 data includes EURIBOR exposure as subject to reform.
(3) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

At 31 December 2020 NWM Plc held currency swaps with corresponding legs subject to IBOR reform of GBP LIBOR of £5.2 billion, USD IBOR of £2.0 billion, EURIBOR of £2.9 billion and Other IBOR of £0.3 billion. Currency swaps of USD IBOR of £231.9 billion, GBP LIBOR of £98.6 billion, EURIBOR of £85.8 billion and Other IBOR of £47.4 billion. Currency swaps of EURIBOR of £5.1 billion and GBP LIBOR of £2.3 billion, USD IBOR of £1.8 billion and Other IBOR of £1 billion. Currency swaps of Other IBOR of £2.2 billion, EURIBOR of £0.7 billion, USD IBOR of £1.2 billion and Other IBOR of £0.3 billon.

9 Financial instruments - classification continued

Additionally, NWM Plc held basis swaps for GBP LIBOR of £79.3 billion, USD IBOR of £80.6 billion, EURIBOR of £39.2 billion and Other IBOR of £9.7 billion.

AT1 Issuances

NWM Plc has issued certain capital instruments (AT1) under which reset clauses are linked to IBOR rates subject to reform. Where under the contractual terms of the instrument the coupon subject to IBOR rates and are shown in Note 21. As part of its capital management activities NWM Plc has acquired an equity instrument ($250 million EURIBOR) issued by its subsidiary. EURIBOR has been reformed however this instrument has been reported within the scope of the IBOR reform in 2020 in investment in group undertakings.

Financial instruments – financial assets and liabilities that can be offset

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.

	NWM Group								
	Instruments which can be offset			Potential to offset not recognised by IFRS					
2021	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities £m	Net amount after the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	104,691	—	104,691	(84,226)	(15,282)	(2,428)	2,755	859	105,550
Derivative liabilities	97,733	—	97,733	(84,226)	(10,304)	(1,070)	2,133	764	98,497
Net position	6,958	—	6,958	—	(4,978)	(1,358)	622	95	7,053
Trading reverse repos	44,529	(24,422)	20,107	(900)	—	(19,136)	71	635	20,742
Trading repos	42,664	(24,422)	18,242	(900)	—	(17,341)	1	1,147	19,389
Net position	1,865	—	1,865	—	—	(1,795)	70	(512)	1,353
Non trading reverse repos	332	—	332	—	—	(331)	1	15	347
Non trading repos	522	—	522	—	—	(522)	—	—	522
Net position	(190)	—	(190)	—	—	191	1	15	(175)
2020									
Derivative assets	164,766	—	164,766	(135,711)	(20,174)	(5,053)	3,828	853	165,619
Derivative liabilities	156,754	—	156,754	(135,711)	(15,523)	(2,487)	3,033	578	157,332
Net position	8,012	—	8,012	—	(4,651)	(2,566)	795	275	8,287
Trading reverse repos	43,907	(24,866)	19,041	(929)	—	(18,039)	73	363	19,404
Trading repos	42,202	(24,866)	17,336	(929)	—	(16,407)	—	1,700	19,036
Net position	1,705	—	1,705	—	—	(1,632)	73	(1,337)	368
Non trading reverse repos	1,899	—	1,899	—	—	(1,899)	—	—	1,899
Non trading repos	200	—	200	—	—	(200)	—	—	200
Net position	1,699	—	1,699	—	—	(1,699)	—	—	1,699

9 Financial instruments - classification continued

	NWM Plc								
	Instruments which can be offset			Potential to offset not recognised by IFRS					
2021	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities £m	Net amount after the effect of netting agreements and and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	**106,616**	**(4,361)**	**102,255**	**(83,716)**	**(14,121)**	**(1,979)**	**2,439**	**787**	**103,042**
Derivative liabilities	**100,191**	**(5,751)**	**94,440**	**(83,716)**	**(8,069)**	**(764)**	**1,891**	**656**	**95,096**
Net position (1)	**6,425**	**1,390**	**7,815**	**—**	**(6,052)**	**(1,215)**	**548**	**131**	**7,946**
Trading reverse repos	**21,970**	**(13,071)**	**8,899**	**(580)**	**—**	**(8,319)**	**—**	**347**	**9,246**
Trading repos	**16,865**	**(13,071)**	**3,794**	**(580)**	**—**	**(3,214)**	**—**	**1,146**	**4,940**
Net position	**5,105**	**—**	**5,105**	**—**	**—**	**(5,105)**	**—**	**(799)**	**4,306**
Non trading reverse repos	**332**	**—**	**332**	**—**	**—**	**(331)**	**1**	**15**	**347**
Non trading repos	**522**	**—**	**522**	**—**	**—**	**(522)**	**—**	**—**	**522**
Net position	**(190)**	**—**	**(190)**	**—**	**—**	**191**	**1**	**15**	**(175)**
2020									
Derivative assets	167,067	(3,801)	163,266	(135,490)	(19,291)	(5,003)	3,482	838	164,104
Derivative liabilities	159,329	(6,186)	153,143	(135,490)	(13,284)	(1,641)	2,728	611	153,754
Net position (1)	7,738	2,385	10,123	—	(6,007)	(3,362)	754	227	10,350
Trading reverse repos	24,951	(13,972)	10,979	(604)	—	(10,373)	2	92	11,071
Trading repos	18,200	(13,972)	4,228	(604)	—	(3,624)	—	1,700	5,928
Net position	6,751	—	6,751	—	—	(6,749)	2	(1,608)	5,143
Non trading reverse repos	1,898	—	1,898	—	—	(1,898)	—	—	1,898
Non trading repos	200	—	200	—	—	(200)	—	—	200
Net position	1,698	—	1,698	—	—	(1,698)	—	—	1,698

(1) The net IFRS offset balance of £1,390 million (2020 - £2,385 million) relates to variation margin netting reflected on other balance sheet lines.

10 Financial instruments - valuation

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(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.

NWM 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 8 and 14.

10 Financial instruments – valuation continued

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.

Valuation techniques

NWM 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 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.

10 Financial instruments – valuation continued

Valuation control

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

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

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

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

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

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 NWM 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.

10 Financial instruments – valuation continued

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

	NWM Group							
	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Trading assets								
Loans	**—**	**33,425**	**721**	**34,146**	—	39,249	225	39,474
Securities	**19,563**	**5,371**	**21**	**24,955**	21,535	7,599	81	29,215
Derivatives	**—**	**104,484**	**1,066**	**105,550**	—	164,296	1,323	165,619
Amounts due from holding company and fellow subsidiaries	**—**	**649**	**—**	**649**	—	766	—	766
Other financial assets								
Loans	**—**	**19**	**118**	**137**	—	21	71	92
Securities	**4,507**	**988**	**38**	**5,533**	5,107	1,247	20	6,374
Total financial assets held at fair value	**24,070**	**144,936**	**1,964**	**170,970**	26,642	213,178	1,720	241,540
As a % of total fair value assets	**14%**	**85%**	**1%**		11%	88%	1%	
Liabilities								
Amounts due to holding company and fellow subsidiaries	**—**	**348**	**—**	**348**	—	636	—	636
Trading liabilities								
Deposits	**—**	**38,542**	**2**	**38,544**	—	44,058	7	44,065
Debt securities in issue	**—**	**974**	**—**	**974**	—	1,408	—	1,408
Short positions	**20,508**	**4,455**	**1**	**24,964**	19,045	7,734	—	26,779
Derivatives	**—**	**97,883**	**614**	**98,497**	—	156,384	948	157,332
Other financial liabilities								
Deposits	**—**	**568**	**—**	**568**	—	796	—	796
Debt securities in issue	**—**	**1,103**	**—**	**1,103**	—	1,607	—	1,607
Subordinated liabilities	**—**	**703**	**—**	**703**	—	793	—	793
Total financial liabilities held at fair value	**20,508**	**144,576**	**617**	**165,701**	19,045	213,416	955	233,416
As a % of total fair value liabilities	**12%**	**88%**	**0%**		8%	92%	0%	

10 Financial instruments – valuation continued

	NWM Plc							
	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Trading assets								
Loans	**—**	**19,115**	**652**	**19,767**	—	27,749	208	27,957
Securities	**16,272**	**5,165**	**18**	**21,455**	16,640	7,494	78	24,212
Derivatives	**—**	**102,052**	**990**	**103,042**	—	162,878	1,226	164,104
Amounts due from holding company and fellow subsidiaries	**—**	**2,965**	**—**	**2,965**	—	3,459	—	3,459
Other financial assets								
Loans	**—**	**19**	**118**	**137**	—	21	71	92
Securities	**3,942**	**614**	**36**	**4,592**	4,709	694	13	5,416
Total financial assets held at fair value	**20,214**	**129,930**	**1,814**	**151,958**	21,349	202,295	1,596	225,240
As a % of total fair value assets	**13%**	**86%**	**1%**		9%	90%	1%	
Liabilities								
Amounts due to holding company and fellow subsidiaries	**—**	**3,335**	**—**	**3,335**	—	5,375	—	5,375
Trading liabilities								
Deposits	**—**	**22,856**	**2**	**22,858**	—	29,988	7	29,995
Debt securities in issue	**—**	**974**	**—**	**974**	—	1,408	—	1,408
Short positions	**18,908**	**4,378**	**1**	**23,287**	17,955	7,558	—	25,513
Derivatives	**—**	**94,513**	**583**	**95,096**	—	152,839	915	153,754
Other financial liabilities								
Deposits	**—**	**75**	**—**	**75**	—	—	—	—
Debt securities in issue	**—**	**875**	**—**	**875**	—	1,372	—	1,372
Subordinated liabilities	**—**	**371**	**—**	**371**	—	420	—	420
Total financial liabilities held at fair value	**18,908**	**127,377**	**586**	**146,871**	17,955	198,960	922	217,837
As a % of total fair value liabilities	**13%**	**87%**	**0%**		8%	92%	0%	

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

(2) For an analysis of debt securities held at mandatory fair value through profit or loss by issuer as well as ratings and derivatives, by type and contract, refer to Risk and capital management – Credit risk.

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:

NWM Group

	2021 £m	2020 £m
Funding – FVA	**59**	121
Credit – CVA	**389**	388
Bid – Offer	**81**	122
Product and deal specific	**120**	172
	649	803

NWM Plc

	2021 £m	2020 £m
Funding – FVA	**75**	140
Credit – CVA	**283**	275
Bid – Offer	**79**	118
Product and deal specific	**120**	172
	557	705

There was a reallocation of FVA to CVA during the period following an update to the risk management of certain exposures. The net decrease across CVA and FVA was driven by reduced exposures, due to increases in interest rates and trade exit activity. The reduction in bid-offer and product deal specific reserves followed reduced risk due to trade exit activity and LIBOR cessation.

Funding valuation adjustments (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge (positive) or funding benefit (negative).

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the exposure reflects the future valuation of the derivative. For collateralised derivatives, the exposure reflects the difference between the future valuation of the derivative and the level of collateral posted.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that is made to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NWM 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 NWM Group believes it could exit the net risk of the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

Product and deal specific

On initial recognition of financial assets and liabilities valued using valuation techniques which have a significant dependence on information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in the income statement over the life of the transaction; when market data becomes observable; or when the transaction matures or is closed out as appropriate. On 31 December 2021, net gains of £71 million (2020 - £63 million) were carried forward. During the year, net gains of £103 million (2020 - £75 million) were deferred and £94 million (2020 - £100 million) were recognised in the income statement.

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

Own Credit

NWM Group considers the effect of its own credit standing when valuing financial liabilities recorded at fair value. Own credit spread adjustments are made when valuing issued debt held at fair value, including issued structured notes. An own credit adjustment is applied to positions where it is believed that counterparties would consider NWM Group's creditworthiness when pricing trades.

10 Financial instruments – valuation continued

Level 3 additional information

For illiquid assets and liabilities, classified as level 3, additional information is provided on the valuation techniques used and price sensitivity of the products to those inputs. This is to enable the reader to gauge the level of uncertainty that arises from positions with significant unobservable inputs or modelling parameters.

Level 3 ranges of unobservable inputs

The table below provides additional information on level 3 instruments and inputs. This shows the valuation technique used for the fair value calculation, the unobservable input or inputs and input range.

NWM Group

Financial instrument	Valuation technique	Unobservable inputs	Units	2021 Low	2021 High	2020 Low	2020 High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	**—**	**106**	—	105
	Discount cash flow	Credit spreads	bps	**40**	**102**	69	119
	Discount cash flow	Discount margin	bps	**46**	**55**	49	57
Debt securities	Price-based	Price	%	**—**	**240**	—	232
Equity Shares	Price-based	Price	GBP	**—**	**30,378**	—	27,737
		Price	%	**—**	**7**	88	112
	Net asset valuation	Fund NAV	%	**80**	**120**	80	120
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	**6**	**635**	2	500
	Option pricing	Correlation	%	**(15)**	**95**	(50)	95
		Volatility	%	**30**	**108**	27	80
		Upfront points	%	**—**	**100**	—	100
		Recovery rate	%	**—**	**60**	10	40
Interest rate & FX derivatives	Option pricing	Correlation	%	**(50)**	**100**	(50)	100
		Volatility	%	**17**	**77**	17	60
		Constant prepayment rate	%	**2**	**16**	2	18
		Mean reversion	%	**—**	**92**	—	92
		Basis volatility	bps	**8**	**18**	15	21
		Inflation volatility	%	**1**	**2**	1	2
		Inflation rate	%	**2**	**3**	1	2
Equity derivatives	Option pricing	Correlation	%	**—**	**—**	(53)	87

(1) Valuation: for private equity investments, values may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.

(2) NWM 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

NWM Plc							
				2021		2020	
Financial instrument	Valuation technique	Unobservable inputs	Units	Low	High	Low	High
Trading assets and Other financial assets							
Loans	Price-based	Price	%	—	106	—	105
	Discount cash flow	Credit spreads	bps	40	102	69	119
	Discount cash flow	Discount margin	bps	46	55	49	57
Debt securities	Price-based	Price	%	—	240	—	232
Equity Shares	Price-based	Price	GBP	—	4,793	—	4,897
		Price	%	—	7	—	80
	Net asset valuation	Fund NAV	%	80	120	80	120
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Credit spreads	bps	6	635	2	500
	Option pricing	Correlation	%	(15)	(95)	(50)	95
		Volatility	%	30	108	27	80
		Upfront points	%	—	100	—	100
		Recovery rate	%	—	60	10	40
Interest rate & FX derivatives	Option pricing	Correlation	%	(50)	100	(50)	100
		Volatility	%	17	77	17	60
		Constant prepayment rate	%	2	16	2	18
		Mean reversion	%	—	92	—	92
		Basis volatility	bps	8	18	15	21
		Inflation volatility	%	1	2	1	2
		Inflation rate	%	2	3	1	2
Equity derivatives	Option pricing	Correlation	%	—	—	(53)	87

(1) Valuation: for private equity investments, values may be estimated by looking at past prices of similar stocks and from valuation statements where valuations are usually derived from earnings measures such as EBITDA or net asset value (NAV). Similarly for equity or bond fund investments, prices may be estimated from valuation or credit statements using NAV or similar measures.

(2) NWM Plc 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

Level 3 sensitivities

The level 3 sensitivities presented below are calculated at a trade or low-level portfolio basis rather than an overall portfolio basis. As individual sensitivities are aggregated with no reflection of the correlated nature between instruments, the overall portfolio sensitivity may not be accurately reflected. For example, some portfolios may be negatively correlated to others, where a downwards movement in one asset would produce an upwards movement in another. However, due to the additive presentation of the above figures this correlation impact cannot be displayed. As such, the actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the below table.

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information considering consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, the uncertainty of these inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios and issued debt.

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

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

NWM Group						
	2021			2020		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Trading assets						
Loans	721	10	(10)	225	10	—
Securities	21	—	—	81	—	—
Derivatives	1,066	90	(110)	1,323	120	(100)
Other financial assets						
Loans	118	10	(10)	71	10	(10)
Securities	38	—	—	20	—	—
	1,964	110	(130)	1,720	140	(110)
Liabilities						
Trading liabilities						
Deposits	2	—	—	7	—	—
Short positions	1	—	—	—	—	—
Derivatives	614	30	(30)	948	50	(40)
Other financial liabilities - debt securities in issue	—	—	—	—	—	—
	617	30	(30)	955	50	(40)

NWM Plc						
	2021			2020		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Trading assets						
Loans	652	10	(10)	208	10	—
Securities	18	—	—	78	—	—
Derivatives	990	80	(110)	1,226	100	(90)
Other financial assets						
Loans	118	10	(10)	71	10	(10)
Securities	36	—	—	13	—	—
	1,814	100	(130)	1,596	120	(100)
Liabilities						
Trading liabilities						
Deposits	2	—	—	7	—	—
Short positions	1	—	—	—	—	—
Derivatives	583	30	(30)	915	50	(40)
Other financial liabilities - debt securities in issue	—	—	—	—	—	—
	586	30	(30)	922	50	(40)

10 Financial instruments – valuation continued

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.

	NWM Group							
	2021				2020			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	**1,629**	**91**	**1,720**	**955**	2,415	88	2,503	1,389
Amounts recorded in the income statement (1)	**(184)**	**(28)**	**(212)**	**(117)**	192	(14)	178	(68)
Amounts recorded in the statement of comprehensive income	**—**	**11**	**11**	**—**	—	2	2	—
Level 3 transfers in	**125**	**—**	**125**	**20**	165	—	165	188
Level 3 transfers out	**(104)**	**—**	**(104)**	**(168)**	(139)	(3)	(142)	(368)
Purchases/originations (4)	**966**	**449**	**1,415**	**305**	441	259	700	128
Settlements/other decreases	**(48)**	**(363)**	**(411)**	**(28)**	(293)	(153)	(446)	(59)
Sales	**(574)**	**(4)**	**(578)**	**(347)**	(1,154)	(88)	(1,242)	(256)
Foreign exchange and other	**(2)**	**—**	**(2)**	**(3)**	2	—	2	1
At 31 December	**1,808**	**156**	**1,964**	**617**	1,629	91	1,720	955
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	**(184)**	**(28)**	**(212)**	**(117)**	194	(15)	179	(69)

	NWM Plc							
	2021				2020			
	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m	Trading assets (2) £m	Other financial assets (3) £m	Total assets £m	Total liabilities £m
At 1 January	**1,512**	**84**	**1,596**	**922**	2,239	76	2,315	1,361
Amounts recorded in the income statement (1)	**(189)**	**(23)**	**(212)**	**(111)**	257	(15)	242	(71)
Amounts recorded in the statement of comprehensive income	**—**	**12**	**12**	**—**	—	5	5	—
Level 3 transfers in	**119**	**—**	**119**	**20**	165	—	165	187
Level 3 transfers out	**(102)**	**—**	**(102)**	**(162)**	(135)	—	(135)	(362)
Purchases/originations (4)	**912**	**412**	**1,324**	**280**	365	106	471	115
Settlements/other decreases	**(38)**	**(328)**	**(366)**	**(26)**	(229)	—	(229)	(59)
Sales	**(554)**	**(3)**	**(557)**	**(337)**	(1,150)	(88)	(1,238)	(248)
Foreign exchange and other	**—**	**—**	**—**	**—**	—	—	—	(1)
At 31 December	**1,660**	**154**	**1,814**	**586**	1,512	84	1,596	922
Amounts recorded in the income statement in respect of balances held at year end:								
- unrealised	**(189)**	**(23)**	**(212)**	**(111)**	257	(14)	243	(72)

(1) For NWM Group, net losses on trading assets and liabilities of £67 million (2020 – £260 million gains) were recorded in income from trading activities. Net losses on other instruments of £28 million (2020 - £14 million losses) were recorded in other operating income and interest income as appropriate. For NWM Plc, net losses on trading assets and liabilities of £78 million (2020 – £328 million gains) were recorded in income from trading activities. Net losses on other instruments of £23 million (2020 - £15 million losses) were recorded in other operating income and interest income as appropriate.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.
(4) Movement in the period includes new loan originations classified as HTC&S under IFRS 9 and fair valued through other comprehensive income. 2021 purchases include a new leveraged finance loan of £450 million. As a result of its composition and illiquid nature, pricing is based on unobservable inputs and the judgment of valuation experts.

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:

	NWM Group					NWM Plc				
	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Fair value hierarchy level Level 3 £bn	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Fair value hierarchy level Level 3 £bn
2021										
Financial assets										
Cash and balances at central banks	**16.6**					**12.3**				
Settlement balances	**2.1**					**0.8**				
Loans to banks	**0.1**	**0.9**	**0.9**	**0.4**	**0.5**	**—**	**0.7**	**0.7**	**0.3**	**0.4**
Loans to customers		**7.5**	**7.5**	**0.4**	**7.1**		**6.8**	**6.8**	**0.3**	**6.5**
Amounts due from holding company and fellow subsidiaries		**0.7**	**0.7**	**—**	**0.7**	**—**	**3.6**	**3.6**	**—**	**3.6**
Other financial assets - securities		**3.1**	**3.1**	**—**	**3.1**		**3.0**	**3.0**	**—**	**3.0**
2020										
Financial assets										
Cash and balances at central banks	15.8					11.7				
Settlement balances	2.3					1.1				
Loans to banks	0.1	0.9	0.9	0.3	0.6	0.1	0.6	0.6	0.1	0.5
Loans to customers		8.4	8.4	1.9	6.5		7.5	7.4	1.9	5.5
Amounts due from holding company and fellow subsidiaries		0.8	0.8	—	0.8	0.2	3.7	3.7	—	3.7
Other financial assets - securities		2.6	2.6	—	2.6		2.5	2.6	—	2.6

	NWM Group					NWM Plc				
	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Fair value hierarchy level Level 3 £bn	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 2 £bn	Fair value hierarchy level Level 3 £bn
2021										
Financial liabilities										
Bank deposits		**1.8**	**1.8**	**—**	**1.8**		**1.8**	**1.8**	**—**	**1.8**
Customer deposits	**—**	**2.2**	**2.2**	**—**	**2.2**	**—**	**1.5**	**1.5**	**—**	**1.5**
Amounts due to holding company and fellow subsidiaries	**—**	**5.6**	**5.7**	**5.4**	**0.3**	**0.1**	**7.4**	**7.5**	**5.4**	**2.1**
Settlement balances	**2.1**					**1.0**				
Other financial liabilities										
Debt securities in issue		**16.6**	**16.8**	**13.9**	**2.9**		**15.5**	**15.7**	**13.2**	**2.5**
Subordinated liabilities		**0.3**	**0.4**	**0.4**	**—**		**—**	**—**	**—**	**—**
2020										
Financial liabilities										
Bank deposits		1.8	1.8	—	1.8		1.8	1.8	—	1.8
Customer deposits	0.1	2.5	2.6	—	2.6	—	1.5	1.4	—	1.4
Amounts due to holding company and fellow subsidiaries	0.1	7.1	7.2	7.1	0.1	0.9	9.5	9.6	7.1	2.5
Settlement balances	2.2					0.6				
Other financial liabilities										
Debt securities in issue		14.7	15.0	9.4	5.6		13.5	13.8	8.6	5.2
Subordinated liabilities		0.3	0.4	0.4	—		0.1	0.1	0.1	—

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, NWM Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for portfolios where counterparties have external ratings: institutional and corporate lending.
(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

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.

11 Financial instruments - maturity analysis

Remaining maturity

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

	NWM Group					
	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	**16,645**	**—**	**16,645**	15,771	—	15,771
Trading assets	**40,206**	**18,895**	**59,101**	41,736	26,953	68,689
Derivatives	**34,423**	**71,127**	**105,550**	46,232	119,387	165,619
Settlement balances	**2,139**	**—**	**2,139**	2,296	—	2,296
Loans to banks - amortised cost	**714**	**248**	**962**	891	112	1,003
Loans to customers - amortised cost	**3,707**	**3,764**	**7,471**	4,535	3,909	8,444
Amounts due from holding company and fellow subsidiaries (1)	**705**	**675**	**1,380**	1,295	225	1,520
Other financial assets	**3,848**	**4,938**	**8,786**	3,152	5,889	9,041
Liabilities						
Bank deposits	**1,244**	**564**	**1,808**	1,294	514	1,808
Customer deposits	**2,161**	**107**	**2,268**	2,526	92	2,618
Amounts due to holding company and fellow subsidiaries (2)	**1,571**	**4,384**	**5,955**	942	6,934	7,876
Settlement balances	**2,068**	**—**	**2,068**	2,248	—	2,248
Trading liabilities	**41,548**	**22,934**	**64,482**	45,033	27,219	72,252
Derivatives	**34,606**	**63,891**	**98,497**	47,138	110,194	157,332
Other financial liabilities	**8,715**	**10,540**	**19,255**	8,310	9,860	18,170
Lease liabilities	**13**	**40**	**53**	21	50	71

	NWM Plc					
	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	**12,294**	**—**	**12,294**	11,736	—	11,736
Trading assets	**22,355**	**18,867**	**41,222**	29,985	22,184	52,169
Derivatives	**34,259**	**68,783**	**103,042**	46,739	117,365	164,104
Settlement balances	**795**	**—**	**795**	1,084	—	1,084
Loans to banks - amortised cost	**464**	**248**	**712**	589	112	701
Loans to customers - amortised cost	**3,641**	**3,169**	**6,810**	4,440	3,037	7,477
Amounts due from holding company and fellow subsidiaries (1)	**3,862**	**2,749**	**6,611**	4,720	2,709	7,429
Other financial assets	**3,092**	**4,651**	**7,743**	2,632	5,411	8,043
Liabilities						
Bank deposits	**1,244**	**564**	**1,808**	1,248	514	1,762
Customer deposits	**1,448**	**62**	**1,510**	1,406	63	1,469
Amounts due to holding company and fellow subsidiaries (2)	**5,407**	**5,399**	**10,806**	6,714	9,054	15,768
Settlement balances	**1,028**	**—**	**1,028**	604	—	604
Trading liabilities	**24,204**	**22,915**	**47,119**	30,794	26,122	56,916
Derivatives	**34,547**	**60,549**	**95,096**	47,670	106,084	153,754
Other financial liabilities	**7,109**	**9,768**	**16,877**	6,513	8,857	15,370
Lease liabilities	**7**	**3**	**10**	10	6	16

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments of £99 million (2020 – £67 million) for NWM Group and £112 million (2020 - £177 million) for NWM Plc have been excluded from the tables.

(2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £171 million (2020 - £258 million) for NWM Group and £172 million (2020 - £421 million) for NWM Plc have been excluded from the tables.

11 Financial instruments - maturity analysis continued

Assets and liabilities by contractual cash flows up to 20 years

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NWM Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial 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 NWM Group's liquidity position.

MFVTPL assets of £165 billion (2020 - £235 billion) for NWM Group, £147 billion (2020 - £220 billion) for NWM Plc, HFT liabilities of £163 billion (2020 - £230 billion) for NWM Group and £145 billion (2020 - £216 billion) for NWM Plc have been excluded from the following tables.

	NWM Group					
2021	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	**16,645**	**—**	**—**	**—**	**—**	**—**
Derivatives held for hedging	**60**	**7**	**63**	**1**	**3**	**—**
Settlement balances	**2,139**	**—**	**—**	**—**	**—**	**—**
Loans to banks - amortised cost	**691**	**23**	**12**	**—**	**—**	**—**
Loans to customers - amortised cost	**1,689**	**2,094**	**2,830**	**660**	**327**	**70**
Amounts due from holding company and fellow subsidiaries (1)	**459**	**3**	**24**	**7**	**14**	**100**
Other financial assets (2)	**1,872**	**1,986**	**2,885**	**335**	**560**	**732**
Finance lease	**2**	**8**	**9**	**4**	**12**	**24**
	23,557	**4,121**	**5,823**	**1,007**	**916**	**926**
2021						
Liabilities by contractual maturity up to 20 years						
Bank deposits	**825**	**421**	**566**	**—**	**—**	**—**
Customer deposits	**1,279**	**876**	**36**	**69**	**1**	**19**
Amounts due to holding company and fellow subsidiaries (3)	**1,057**	**166**	**3,743**	**—**	**195**	**—**
Settlement balances	**2,068**	**—**	**—**	**—**	**—**	**—**
Derivatives held for hedging	**—**	**10**	**93**	**26**	**—**	**—**
Other financial liabilities	**2,948**	**5,541**	**5,405**	**4,368**	**345**	**546**
Lease liabilities	**4**	**10**	**12**	**9**	**18**	**—**
	8,181	**7,024**	**9,855**	**4,472**	**559**	**565**
Guarantees and commitments notional amount						
Guarantees (4)	**595**	**—**	**—**	**—**	**—**	**—**
Commitments (5)	**9,921**	**—**	**—**	**—**	**—**	**—**
	10,516	**—**	**—**	**—**	**—**	**—**

For notes to the above table refer to page 149.

11 Financial instruments - maturity analysis continued

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
	NWM Group					
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	15,771	—	—	—	—	—
Derivatives held for hedging	52	44	137	27	6	—
Settlement balances	2,296	—	—	—	—	—
Loans to banks - amortised cost	876	16	—	—	1	110
Loans to customers - amortised cost	1,476	3,139	2,541	872	262	126
Amounts due from holding company and fellow subsidiaries (1)	528	1	23	1	4	85
Other financial assets (2)	1,439	2,004	2,871	908	882	525
Finance lease	2	7	8	6	13	46
	22,440	5,211	5,580	1,814	1,168	892
2020						
Liabilities by contractual maturity up to 20 years						
Bank deposits	458	819	498	37	—	—
Customer deposits	1,664	863	84	1	1	20
Amounts due to holding company and fellow subsidiaries (3)	103	204	5,181	889	204	—
Settlement balances	2,248	—	—	—	—	—
Derivatives held for hedging	—	(1)	92	11	—	—
Other financial liabilities	2,419	5,931	5,371	3,371	463	195
Other liabilities- notes in circulation	4	15	21	8	21	2
Lease liabilities	6,896	7,831	11,247	4,317	689	217
Guarantees and commitments notional amount						
Guarantees (4)	638	—	—	—	—	—
Commitments (5)	11,348	—	—	—	—	—
	11,986	—	—	—	—	—

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
	NWM Plc					
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	12,294	—	—	—	—	—
Derivatives held for hedging	60	7	63	1	3	—
Settlement balances	795	—	—	—	—	—
Loans to banks - amortised cost	452	12	11	—	—	—
Loans to customers - amortised cost	1,630	2,087	2,478	454	323	70
Amounts due from holding company and fellow subsidiaries (1)	1,396	72	1,327	549	222	80
Other financial assets (2)	1,790	1,556	2,640	247	530	696
Finance lease	1	4	—	—	—	—
	18,418	3,738	6,519	1,251	1,078	846
2021						
Liabilities by contractual maturity up to 20 years						
Bank deposits	825	421	566	—	—	—
Customer deposits	826	619	11	55	1	3
Amounts due to holding company and fellow subsidiaries (3)	2,367	197	4,047	—	416	—
Settlement balances	1,028	—	—	—	—	—
Derivatives held for hedging	—	10	93	26	—	—
Other financial liabilities	2,522	4,365	5,291	4,364	189	148
Lease liabilities	2	6	2	—	—	—
	7,570	5,618	10,010	4,445	606	151
Guarantees and commitments notional amount						
Guarantees (4)	197	—	—	—	—	—
Commitments (5)	6,152	—	—	—	—	—
	6,349	—	—	—	—	—

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

11 Financial instruments - maturity analysis continued

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
	NWM Plc					
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	11,736	—	—	—	—	—
Derivatives held for hedging	52	44	137	27	6	—
Settlement balances	1,084	—	—	—	—	—
Loans to banks - amortised cost	574	16	—	—	1	110
Loans to customers - amortised cost	1,412	3,090	2,091	483	256	127
Amounts due from holding company and fellow subsidiaries (1)	1,029	738	1,209	689	220	85
Other financial assets (2)	1,429	1,490	2,723	778	765	498
Finance lease	1	4	5	—	—	—
	17,317	5,382	6,165	1,977	1,248	820
2020						
Liabilities by contractual maturity up to 20 years						
Bank deposits	456	775	498	37	—	—
Customer deposits	878	529	61	1	1	3
Amounts due to holding company and fellow subsidiaries (3)	1,672	365	6,379	889	427	—
Settlement balances	604	—	—	—	—	—
Derivatives held for hedging	—	(1)	92	11	—	—
Other financial liabilities	2,086	4,458	5,049	3,276	307	195
Lease liabilities	2	7	7	—	—	—
	5,698	6,133	12,086	4,214	735	198
Guarantees and commitments notional amount						
Guarantees (4)	195	—	—	—	—	—
Commitments (5)	6,678	—	—	—	—	—
	6,873	—	—	—	—	—

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

12 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

	NWM Group		NWM Plc	
	2021	2020	2021	2020
Assets	£m	£m	£m	£m
Loans				
Reverse repos	20,742	19,404	9,246	11,071
Collateral given	11,990	18,459	9,332	15,389
Other loans	1,414	1,611	1,189	1,497
Total loans	34,146	39,474	19,767	27,957
Securities				
Central and local government				
- UK	6,919	4,184	6,919	4,184
- US	3,329	5,149	145	498
- Other	10,929	16,436	10,929	16,390
Financial institutions and Corporate	3,778	3,446	3,462	3,140
Total securities	24,955	29,215	21,455	24,212
Total	59,101	68,689	41,222	52,169
Liabilities				
Deposits				
Repos	19,389	19,036	4,940	5,928
Collateral received	17,619	23,226	16,386	22,267
Other deposits	1,536	1,803	1,532	1,800
Total deposits	38,544	44,065	22,858	29,995
Debt securities in issue	974	1,408	974	1,408
Short positions	24,964	26,779	23,287	25,513
Total	64,482	72,252	47,119	56,916

For accounting policy information see Accounting policies note 8.

13 Derivatives

NWM Group uses derivatives as part of its trading activities or to manage its own risk such as interest rate, foreign exchange, or credit risk.

	NWM Group					
	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	3,162	38,546	39,275	3,331	52,524	54,863
Interest rate contracts	8,601	66,850	58,879	10,412	112,926	102,073
Credit derivatives	14	154	343	15	161	388
Equity and commodity contracts	—	—	—	1	8	8
		105,550	98,497		165,619	157,332

	NWM Plc					
	2021			2020		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	3,169	38,692	39,427	3,362	53,182	55,514
Interest rate contracts	7,383	64,196	55,335	8,606	110,753	97,850
Credit derivatives	14	154	334	15	161	382
Equity and commodity contracts	—	—	—	1	8	8
		103,042	95,096		164,104	153,754

For accounting policy information see Accounting policies 8 and 14.

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

NWM 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.

NWM Group's interest rate hedging relates to the management of NWM Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NWM Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

Suitable larger fixed rate financial instruments are subject to fair value hedging; the remaining exposure, where possible, is hedged by derivatives designated as cash flow hedges.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, which convert variable cash flows into fixed. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rates, most notably LIBOR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWM Group and encompasses the majority of cash flow variability risk.

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

NWM Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWM 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 NWM 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 NWM 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. NWM 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 - NWM 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 Liquidity Clearing House 'big bang' conversion in December 2021. The swaps were restructured to reprice off the appropriate risk free rate from the next repricing date post 31 December 2021 plus a spread adjustment. All impacted hedge accounting relationships had their designations updated to reflect this transition.

USD cash flow and fair value hedges of interest rate risk that mature past 30 June 2023 continue to be directly affected by interest rate benchmark reform.

13 Derivatives continued

Included in the table below are derivatives held for hedging as follows:

	NWM Group							
	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	15.9	179	156	(173)	14.8	392	170	42
Cash flow hedging								
- interest rate contracts	4.8	36	59	(188)	5.6	288	—	61
- exchange rate contracts	1.1	1	109	1	1.2	1	107	(3)
Net investment hedging								
- exchange rate contracts	0.3	6	—	—	—	—	—	—
	22.1	222	324	(360)	21.6	681	277	100
Clearing house settlements		(90)	(205)			(414)	(170)	
		132	119			267	107	

	NWM Plc							
	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	15.8	174	156	(170)	14.7	383	170	39
Cash flow hedging								
Interest rate contracts	4.8	36	59	(188)	5.6	288	—	61
Exchange rate contracts	1.1	1	109	1	1.2	1	107	(3)
Net investment hedging								
Exchange rate contracts	0.3	6	—	—	—	—	—	—
	22.0	217	324	(357)	21.5	672	277	97
Clearing house settlements		(85)	(205)			(406)	(170)	
		132	119			266	107	

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

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

	2021 £bn	2020 £bn
Fair value hedging		
- EURIBOR (1)	—	6.8
- GBP LIBOR	—	0.3
- USD LIBOR (2)	3.9	7.2
- Other currency LIBOR	—	1.0
Cash flow hedging		
- EURIBOR (1)	—	0.1
- GBP LIBOR	—	5.1
- USD LIBOR (2)	0.9	0.9

(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) The notional of hedging instruments for NWM plc affected by interest rate benchmark reform were as above (2020: Fair value hedging £0.1 billion notional less).
(4) The notional of £1 billion cross currency derivative contracts in cash flow hedge relationships will convert to repricing using the relevant risk-free rate at the first repricing date post cessation.

13 Derivatives continued

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

	NWM Group							
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	**0.1**	**0.7**	**2.1**	**0.2**	**—**	**0.1**	**0.1**	**3.3**
Hedging liabilities - interest rate risk	**1.5**	**1.6**	**5.5**	**2.8**	**1.0**	**0.2**	**—**	**12.6**
Cash flow hedging								
Hedging assets - interest rate risk	**0.4**	**0.5**	**1.0**	**1.6**	**1.3**	**—**	**—**	**4.8**
Average fixed interest rate (%)	***2.64***	***0.26***	***0.95***	***0.87***	***0.66***	**—**	**—**	***0.91***
Hedging liabilities - exchange rate risk	**—**	**—**	**0.9**	**0.2**	**—**	**—**	**—**	**1.1**
Net investment hedging								
Exchange rate risk	**0.3**	**—**	**—**	**—**	**—**	**—**	**—**	**0.3**
2020								
Fair value hedging								
Hedging assets - interest rate risk	—	0.5	2.0	0.3	—	0.1	0.2	3.1
Hedging liabilities - interest rate risk	—	0.3	8.0	2.7	0.7	—	—	11.7
Cash flow hedging								
Hedging assets - interest rate risk	0.5	0.2	1.5	2.5	0.9	—	—	5.6
Average fixed interest rate (%)	*2.11*	*3.31*	*2.27*	*1.55*	*0.90*	—	—	*1.75*
Hedging assets - exchange rate risk	—	—	0.1	—	—	—	—	0.1
Hedging liabilities - exchange rate risk	—	—	0.9	0.2	—	—	—	1.1
Net investment hedging								
Exchange rate risk	—	—	—	—	—	—	—	—

	NWM Plc							
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	**0.1**	**0.7**	**2.1**	**0.2**	**—**	**0.1**	**0.1**	**3.3**
Hedging liabilities - interest rate risk	**1.5**	**1.6**	**5.4**	**2.8**	**1.0**	**0.2**	**—**	**12.5**
Cash flow hedging								
Hedging assets - interest rate risk	**0.4**	**0.5**	**1.0**	**1.6**	**1.3**	**—**	**—**	**4.8**
Average fixed interest rate (%)	***2.64***	***0.26***	***0.95***	***0.87***	***0.66***	**—**	**—**	***0.91***
Hedging liabilities - exchange rate risk	**—**	**—**	**0.9**	**0.2**	**—**	**—**	**—**	**1.1**
Net investment hedging								
Exchange rate risk	**0.3**	**—**	**—**	**—**	**—**	**—**	**—**	**0.3**
2020								
Fair value hedging								
Hedging assets - interest rate risk	—	0.5	2.0	0.3	—	0.1	0.2	3.1
Hedging liabilities - interest rate risk	—	0.3	7.9	2.7	0.7	—	—	11.6
Cash flow hedging								
Hedging assets - interest rate risk	0.5	0.2	1.5	2.5	0.9	—	—	5.6
Average fixed interest rate (%)	*2.11*	*3.31*	*2.27*	*1.55*	*0.90*	—	—	*1.75*
Hedging assets - exchange rate risk	—	—	0.1	—	—	—	—	0.1
Hedging liabilities - exchange rate risk	—	—	0.9	0.2	—	—	—	1.1
Net investment hedging								
Exchange rate risk	—	—	—	—	—	—	—	—

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships were USD/GBP 1.22 (2020: 1.22), JPY/GBP 132.93 (2020: 132.93), JPY/EUR: n/a (2020: 120.21) and CNH/GBP 8.74 (2020: n/a) for the main currencies hedged.

For net investment hedging of exchange risk, the average foreign exchange rates applicable were AED/USD 3.67 (2020: n/a) and USD/GBP 1.32 (2020: n/a) for the main currencies hedged.

13 Derivatives continued

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

	2021			2020		
NWM Group	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Carrying value (CV) of hedged assets and liabilities £m	Impact on hedged items included in CV £m	Change in fair value used as a basis to determine ineffectiveness (1) £m
Fair value hedging – interest rate						
Loans to banks and customers - amortised cost	**33**	**—**	**—**	33	—	—
Other financial assets - securities	**3,353**	**92**	**(61)**	3,165	152	89
Total	**3,386**	**92**	**(61)**	3,198	152	89
Other financial liabilities - debt securities in issue	**14,604**	**55**	**231**	13,245	322	(139)
Subordinated liabilities	**102**	**2**	**3**	104	5	(3)
Total	**14,706**	**57**	**234**	13,349	327	(142)
Cash flow hedge – interest rate						
Loans to banks and customers - amortised cost	**4,648**		**172**	5,068		(50)
Other financial assets - securities	**159**		**6**	571		(5)
Total	**4,807**		**178**	5,639		(55)
Cash flow hedge – exchange rate						
Loans to banks and customers - amortised cost	**21**		**—**	112		1
Other financial assets - securities	**2**		**—**	30		—
Total	**23**		**—**	142		1
Other financial liabilities - debt securities in issue	**1,036**		**(1)**	1,036		2
Total	**1,036**		**(1)**	1,036		2
NWM Plc						
Fair value hedging – interest rate						
Loans to banks and customers - amortised cost	**33**	**—**	**—**	33	—	—
Other financial assets - securities	**3,353**	**92**	**(61)**	3,165	152	89
Total	**3,386**	**92**	**(61)**	3,198	152	89
Other financial liabilities - debt securities in issue	**14,604**	**55**	**231**	13,245	322	(139)
Total	**14,604**	**55**	**231**	13,245	322	(139)
Cash flow hedge – interest rate						
Loans to banks and customers - amortised cost	**4,648**		**172**	5,068		(50)
Other financial assets - securities	**159**		**6**	571		(5)
Total	**4,807**		**178**	5,639		(55)
Cash flow hedge – exchange rate						
Loans to banks and customers - amortised cost	**21**		**—**	112		1
Other financial assets - securities	**2**		**—**	30		—
Total	**23**		**—**	142		1
Other financial liabilities - debt securities in issue	**1,036**		**(1)**	1,036		2
Total	**1,036**		**(1)**	1,036		2

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

13 Derivatives continued

The following risk exposures for NWM Group will be affected by interest rate benchmark reform (notional, hedge adjustment):

	2021		2020	
	Notional £bn	Hedged adjustment £m	Notional £bn	Hedged adjustment £m
Fair value hedging				
- EURIBOR (1)	—	—	6.8	(85)
- GBP LIBOR	—	—	0.3	(8)
- USD LIBOR (2)	4.1	7	7.2	(89)
- Other currency LIBOR	—	—	1.0	—
Cash flow hedging				
- EURIBOR (1)	—	—	0.1	3
- GBP LIBOR	—	—	2.5	(30)
- USD LIBOR (2)	0.9	(16)	0.9	(51)
- BOE base rate (3)	—	—	2.6	(126)

(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) The above risk exposures for NWM Plc were the same as above (2020: Fair value hedging £0.1 billion notional and £5 million Hedged adjustment less).
(5) Notional of £150 million GBP LIBOR hedged items will convert to repricing off SONIA at the first repricing date post cessation in NWM Plc.

The following table shows a pre-tax analysis of the cash flow hedge reserve and foreign exchange hedge reserve:

	NWM Group			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(37)	—	229	—
Foreign exchange risk	(4)	8	(4)	4
De-designated				
Interest rate risk	111	—	52	—
Foreign exchange risk	—	(141)	—	(150)
Total	70	(133)	277	(146)

	NWM Plc			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(37)	—	229	—
Foreign exchange risk	(4)	1	(4)	—
De-designated				
Interest rate risk	111	—	52	—
Foreign exchange risk	—	33	—	33
Total	70	34	277	33

13 Derivatives continued

	NWM Group			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	(207)	—	18	—
Foreign exchange risk	—	20	—	(31)
Total	(207)	20	18	(31)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	1	—	73	—
Interest rate risk to non-interest income	—	—	—	—
Foreign exchange risk to net interest income	—	—	1	—
Foreign exchange risk to non-interest income	—	—	—	1
Foreign exchange risk to operating expenses	—	—	—	—
Total	1	—	74	1

	NWM Plc			
	2021		2020	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	(208)	—	18	—
Foreign exchange risk	—	1	—	—
Total	(208)	1	18	—
Amount transferred from equity to earnings				
Interest rate risk to net interest income	1	—	73	—
Interest rate risk to non-interest income	—	—	—	—
Foreign exchange risk to net interest income	—	—	1	—
Foreign exchange risk to non-interest income	—	—	—	—
Foreign exchange risk to operating expenses	—	—	—	—
Total	1	—	74	—

Hedge ineffectiveness recognised in other operating income in continuing operations comprised:

	NWM Group	
	2021 £m	2020 £m
Fair value hedging		
Gains/(losses) on the hedged items attributable to the hedged risk	173	(53)
(Losses)/gains on the hedging instruments	(173)	42
Fair value hedging ineffectiveness	—	(11)
Cash flow hedging		
Interest rate risk	(10)	6
Cash flow hedging ineffectiveness	(10)	6
Total	(10)	(5)

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).

14 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWM Group		NWM Plc	
	31 December 2021	31 December 2020	**31 December 2021**	31 December 2020
	£m	£m	**£m**	£m
Loans - amortised cost				
- Stage 1	**8,301**	7,799	**7,444**	6,819
- Stage 2	**147**	1,566	**104**	1,253
- Stage 3	**99**	171	**61**	99
Of which: individual	***91***	*162*	***53***	*90*
Of which: collective	***8***	*9*	***8***	*9*
- Inter-Group	**731**	755	**2,605**	3,039
Total	**9,278**	10,291	**10,214**	11,210
ECL provisions (1)				
- Stage 1	**6**	12	**6**	11
- Stage 2	**3**	49	**2**	12
- Stage 3	**75**	132	**36**	65
Of which: individual	***68***	*124*	***29***	*57*
Of which: collective	***7***	*8*	***7***	*8*
- Inter-Group	**—**	1	**1**	5
Total	**84**	194	**45**	93
ECL provision coverage (2)				
- Stage 1 (%)	**0.07**	0.15	**0.08**	0.16
- Stage 2 (%)	**2.04**	3.13	**1.92**	0.96
- Stage 3 (%)	**75.76**	77.19	**59.02**	65.66
- Inter-Group (%)	**—**	0.13	**0.04**	0.16
Total	**0.98**	2.02	**0.58**	1.08
Impairment (releases)/losses				
ECL (release)/charge				
- Stage 1	**(14)**	(2)	**(11)**	1
- Stage 2	**(11)**	55	**—**	16
- Stage 3	**(9)**	(12)	**(11)**	(13)
Of which: individual	***(6)***	*(3)*	***(8)***	*(4)*
Of which: collective	***(3)***	*(9)*	***(3)***	*(9)*
- Third party	**(34)**	41	**(22)**	4
- Inter-Group	**(1)**	1	**(1)**	13
Total	**(35)**	42	**(23)**	17
Amounts written off	***67***	11	***13***	6
Of which: individual	***43***	*11*	***10***	*6*

(1) NWM Group's intercompany assets were classified as Stage 1. The ECL for these loans was £0.2 million at 31 December 2021.
(2) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 76 for 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 £16.6 billion (2020 – £15.8 billion) and debt securities of £8.4 billion (2020 – £8.7 billion).

14 Loan impairment provisions continued

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

Accounting policies note 9 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £84 million (2020 - £194 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.

15 Other financial assets

	NWM Group							
	Debt securities							
	Central and local government							
2021	UK £m	US £m	Other £m	Other debt £m	Total £m	Equity shares £m	Loans £m	Total £m
Mandatory fair value through profit or loss	—	—	—	1	1	1	78	80
Fair value through other comprehensive income	360	3,357	884	794	5,395	136	59	5,590
Amortised cost	—	—	—	3,116	3,116	—	—	3,116
Total	360	3,357	884	3,911	8,512	137	137	8,786
2020								
Mandatory fair value through profit or loss	—	—	—	84	84	5	77	166
Fair value through other comprehensive income	212	3,372	1,691	891	6,166	119	15	6,300
Amortised cost	—	—	—	2,575	2,575	—	—	2,575
Total	212	3,372	1,691	3,550	8,825	124	92	9,041

	NWM Plc							
	Debt securities							
	Central and local government							
2021	UK £m	US £m	Other £m	Other debt £m	Total £m	Equity shares £m	Loans £m	Total £m
Mandatory fair value through profit or loss	—	—	—	1	1	—	78	79
Fair value through other comprehensive income	86	3,209	794	459	4,548	43	59	4,650
Amortised cost	—	—	—	3,014	3,014	—	—	3,014
Total	86	3,209	794	3,474	7,563	43	137	7,743
2020								
Mandatory fair value through profit or loss	—	—	—	84	84	—	77	161
Fair value through other comprehensive income	108	3,298	1,497	376	5,279	53	15	5,347
Amortised cost	—	—	—	2,535	2,535	—	—	2,535
Total	108	3,298	1,497	2,995	7,898	53	92	8,043

During 2020 NWM Group disposed of SABB shares valued at £383 million, and a dividend of £15 million was received in the year.

Dividends on FVOCI equity shares include £4 million (2020: £5 million) in relation to the equity holding in OTC Derivative Limited.

For accounting policy information see Accounting policies note 8.

16 Investments in group undertakings

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

	NWM Plc	
	2021 £m	2020 £m
At 1 January	2,600	2,905
Currency translation and other adjustments	(20)	42
Additional investments in Group undertakings	(4)	—
Disposals	—	(97)
Impairment of investments (1)	(95)	(250)
At 31 December	2,481	2,600

(1) Net of impairment reversals.

The 2021 impairment charge consists primarily of impairment of NatWest Markets plc's investments in RBS Asia Financial Services Limited and RBS Holdings NV. The impairment of investments in 2020 was related mainly to RBS Netherlands Holdings BV. £4 million additional investment was driven by fair value hedge designations on existing USD denominated investments. The 2020 disposal was due to the liquidation of RBS Bank (Polska) S.A. in August 2020.

NatWest Markets plc's subsidiaries are assessed for potential impairment of investment based on NAV. Fair value measurement for this purpose was categorised as Level 3 of the fair value hierarchy.

The principal subsidiary undertakings of the company are shown below. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted. All of these subsidiaries are included in NWM Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operation	Group interest
NatWest Markets Securities Inc.	Broker dealer	US	100%
NatWest Markets N.V.	Banking	Netherlands	100%

For accounting policy information see Accounting policies note 15.

Full information on all related undertakings is included in Note 34.

17 Other assets

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Property, plant and equipment	66	106	13	19
Pension schemes in net surplus (Note 5)	306	264	306	264
Assets of disposal groups	20	—	—	—
Accrued income	34	25	27	19
Tax recoverable	332	221	330	207
Deferred tax (Note 7)	48	2	—	2
Other assets	72	70	56	51
Total	878	688	732	562

18 Other financial liabilities

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Customer deposits - designated as at fair value through profit or loss	568	796	75	—
Debt securities in issue				
- designated as at fair value through profit or loss	1,103	1,607	875	1,372
- amortised cost	16,621	14,662	15,512	13,482
Subordinated liabilities				
- designated as at fair value through profit or loss	703	793	371	420
- amortised cost	260	312	44	96
Total	19,255	18,170	16,877	15,370

For accounting policy information see Accounting policies notes 8 and 13.

19 Subordinated liabilities

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Dated loan capital	**919**	1,009	**371**	420
Undated loan capital	**44**	96	**44**	96
Total	**963**	1,105	**415**	516

(1) Excludes amounts due to holding company and fellow subsidiaries of £1,464 million (2020 – £1,753 million) for both NWM Group and NWM Plc which are analysed in the tables below.

The following tables analyse NWM Plc third party subordinated liabilities:

Dated loan capital	Capital treatment	2021 £m	2020 £m
€300 million floating rate notes 2022 (3)	Tier 2	**252**	268
€145.6 million floating rate notes 2023 (3)	Tier 2	**119**	152
Total		**371**	420

(1) In the event of certain changes in tax laws, dated loan capital issues may be redeemed in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.
(2) Except as stated above, claims in respect of NWM Plc's dated loan capital are subordinated to the claims of other creditors. None of NWM Plc's dated loan capital is secured.
(3) Interest on all floating rate subordinated notes is calculated by reference to market rates.

Undated loan capital	Capital treatment	2021 £m	2020 £m
£31 million 7.38% notes (not callable)	Tier 2	**1**	31
£21 million 6.20% notes (callable March 2022)	Tier 2	**22**	23
£16 million 5.63% (callable September 2026)	Tier 2	**20**	22
£19 million 5.63% notes (callable June 2032)	Tier 2	**1**	20
Total		**44**	96

(1) The Company can satisfy interest payment obligations by issuing ordinary shares to appointed Trustees to enable them, on selling these shares, to settle the interest payment.
(2) Except as stated above, claims in respect of NWM Plc's undated loan capital are subordinated to the claims of other creditors. None of NWM Plc's undated loan capital is secured.
(3) In the event of certain changes in tax laws, undated loan capital issues may be redeemed in whole, but not in part, at the option of NWM Plc, at the principal amount thereof plus accrued interest, subject to prior regulatory approval.

Third party redemptions in the period *(values as at date of transaction)*	Capital treatment	2021 £m	2020 £m
US$125.6 million floating rate notes 2020	Tier 2	**—**	97
€15 million 6.00% notes 2020	Tier 2	**—**	11
€145.6 million floating rate dated notes 2023 (partial redemption)	Tier 2	**20**	—
£31 million 7.38% notes (partial redemption)	Tier 2	**29**	—
£19 million 5.63% notes (partial redemption)	Tier 2	**20**	—
Total		**69**	108

(1) There were no third party issuances in 2021 or 2020.

The following tables analyse intercompany subordinated liabilities:

	NWM Group and Bank	
	2021 £m	2020 £m
Dated loan capital	**1,019**	1,093
Undated loan capital	**445**	440
Preference shares	**—**	220
Total	**1,464**	1,753

Dated loan capital	Capital treatment	2021 £m	2020 £m
€950 million 3.26% (redeemable March 2024)	Tier 2	**823**	889
US$250 million subordinated notes 2029	Tier 2	**196**	204
		1,019	1,093
Undated loan capital			
US$600 million floating rate perpetual notes (callable every 5 years from 2013)	Tier 2	**445**	440
Preference shares			
US$300 million 7.25% Series H (callable anytime)	Tier 1	**—**	220
Redemptions in the period *(values as at date of transaction)*			
US$389 million 6.10% notes 2023	Tier 2	**—**	285
US$300 million 7.25% series H (callable anytime)	Tier 1	**220**	—
		220	285

20 Other liabilities

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Lease liabilities	**53**	71	**10**	16
Provisions for liabilities and charges	**342**	448	**220**	238
Retirement benefit liabilities (Note 5)	**66**	63	**57**	54
Accruals	**123**	108	**92**	79
Deferred income	**22**	25	**16**	16
Current tax	**11**	54	**2**	16
Deferred tax (Note 7)	**374**	417	**352**	380
Other liabilities	**64**	48	**40**	67
	1,055	1,234	**789**	866

	NWM Group		
Provisions for liabilities and charges	Litigation and other regulatory £m	Other (1) £m	Total £m
At 1 January 2021	**334**	**114**	**448**
Currency translation and other movements	**—**	**(13)**	**(13)**
Charge to income statement	**38**	**39**	**77**
Releases to income statement	**(72)**	**(12)**	**(84)**
Provisions utilised	**(38)**	**(48)**	**(86)**
At 31 December 2021	**262**	**80**	**342**

	NWM Plc		
Provisions for liabilities and charges	Litigation and other regulatory £m	Other (1) £m	Total £m
At 1 January 2021	**158**	**80**	**238**
Currency translation and other movements	**—**	**(10)**	**(10)**
Charge to income statement	**29**	**23**	**52**
Releases to income statement	**(2)**	**(7)**	**(9)**
Provisions utilised	**(19)**	**(32)**	**(51)**
At 31 December 2021	**166**	**54**	**220**

(1) Materially comprises provisions relating to restructuring costs.

For accounting policy information see Accounting policies note 6.

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 NWM Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- Litigation and other regulatory: NWM 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 25.
- 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. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

21 Share capital and reserves

			Number of shares	
	2021	2020	2021	2020
Allotted, called up and fully paid	£m	£m	000s	000s
Ordinary shares of £1	**400**	400	**399,517**	399,517
Non-cumulative preference shares of US$0.01	**—**	—	**—**	12,000

Ordinary shares

No ordinary shares were issued during 2021 or 2020.

In 2021, NWM plc paid ordinary dividends of £1 billion (2020 – Nil).

Paid-in equity

Comprises equity instruments issued by NWM Plc other than those legally constituted as shares.

Additional Tier 1 instruments issued by NWM Plc having the legal form of debt are classified as equity under IFRS. The coupons on these instruments are non-cumulative and payable at NWM Plc's discretion.

	2021	2020
	£m	£m
Additional Tier 1 instruments		
US$950 million 7.9604% instruments callable August 2025	**749**	749
US$200 million 5.540% instruments callable August 2025	**155**	155
	904	904

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 instruments.

On 30 September 2021, NWM Plc redeemed all 12,000,000 Non-cumulative preference shares of US$0.01 in issue, following approval from the Board of Directors and the Prudential Regulation Authority.

Reserves

NWM Plc optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the parent 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 13.

22 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 NWM Group arranges securitisations to facilitate client transactions and undertakes own-asset securitisations to sell or to fund portfolios of financial assets. NWM Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions. NWM 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.

Covered debt programme

NWM Group has assigned certain loans to customers and other debt instruments to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWM Group. NWM Group retains all of the risks and rewards of these assets and continues to recognise them. The partnerships are consolidated by the NWM Group and the related covered debt included within other financial liabilities. At 31 December 2021, £698 million (2020 - £1,064 million) of loans and other debt instruments provided security for £626 million (2020 – £1,085 million) debt securities in issue and other borrowing by NWM Plc and NWM Group.

Lending of own issued securities

NWM Plc has issued, retained, and lent debt securities under securities lending arrangements. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or re-pledge collateral, subject to returning equivalent securities on maturity of the transaction. NWM Plc retains all of the risks and rewards of own issued liabilities lent under such arrangements and does not recognise them. At 31 December 2021, £1,494 million (2020 - £1,893 million) of secured own issued liabilities have been retained and lent under securities lending arrangements. At 31 December 2021, £1,564 million (2020 - £2,029 million) of loans and other debt instruments provided security for secured own issued liabilities that have been retained and lent under securities lending arrangements.

Unconsolidated structured entities

NWM Group's interests in unconsolidated structured entities are analysed below.

	2021			2020		
	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m	Asset backed securitisation vehicles £m	Investment funds and other £m	Total £m
Trading assets and derivatives						
Trading assets	**490**	**117**	**607**	319	46	365
Derivative assets	**251**	**18**	**269**	441	16	457
Derivative liabilities	**(170)**	**(1)**	**(171)**	(319)	(21)	(340)
Total	**571**	**134**	**705**	441	41	482
Non trading assets						
Loans to customers	**1,680**	**24**	**1,704**	1,376	145	1,521
Other financial assets	**2,681**	**379**	**3,060**	2,409	170	2,579
Total	**4,361**	**403**	**4,764**	3,785	315	4,100
Liquidity facilities/loan commitments	**1,402**	**73**	**1,475**	1,481	132	1,613
Maximum exposure	**6,334**	**610**	**6,944**	5,707	488	6,195

23 Asset transfers

Transfers that do not qualify for derecognition

NWM Group enters into securities financing, reverse repurchase and total return agreements in accordance with normal market practice which includes the provision of additional collateral if necessary. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transaction.

Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if the NWM Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such transactions included on the balance sheet, are set out below. All of these securities could be sold or repledged by the holder.

For accounting policy information see Accounting policies note 11.

	NWM Group		NWM Plc	
	2021	2020	2021	2020
The following assets have failed derecognition (1)	£m	£m	£m	£m
Trading assets	**13,084**	20,526	**9,034**	12,614
Other financial assets	**677**	104	**552**	104
	13,761	20,630	**9,586**	12,718

(1) Associated liabilities were £13,706 million for the NWM Group (2020 - £20,541 million) and £9,523 million for NWM Plc (2020 - £12,660 million).

Assets pledged as collateral

NWM Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

	NWM Group		NWM Plc	
	2021	2020	2021	2020
Assets pledged against liabilities	£m	£m	£m	£m
Trading assets	**23,544**	28,426	**20,886**	26,067
Other financial assets (1)	**1,252**	2,557	**601**	1,453
	24,796	30,983	**21,487**	27,520

(1) Includes pledges for stock borrowing.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWM Plc's balance sheet.

	2021	2020
Asset type	£m	£m
Loans and other debt instruments - covered debt programme (1)	**698**	746
Loans and other debt instruments - own issued retained lent securities (2)	**1,564**	2,029

(1) The associated liabilities for covered debt programme were £626 million (2020 - £857 million).
(2) The associated own issued securities that were retained and lent under securities lending arrangements were £1,494 million (2020 - £1,893 million).

24 Capital resources

Regulatory capital for NWM Plc legal entity is assessed against minimum requirements that are set out under the Capital Requirements Regulation. Transitional arrangements on the phasing in of end-point capital resources are set by the PRA.

The capital resources under the PRA transitional basis for NWM Plc are set out below.

	2021	2020
Shareholders' equity	£m	£m
Shareholders' equity	**7,349**	9,152
Other equity instruments	**(904)**	(904)
	6,445	8,248
Regulatory adjustments and deductions		
Own credit	**47**	43
Defined benefit pension fund adjustment	**(202)**	(174)
Cash flow hedging reserve	**(46)**	(201)
Prudential valuation adjustments	**(227)**	(251)
Expected losses less impairments	**(11)**	(1)
Instruments of financial sector entities where the institution has a significant investment	**(1,685)**	(1,624)
Adjustments under IFRS 9 transitional arrangements	**1**	7
Foreseeable ordinary dividends	**(250)**	(500)
	(2,373)	(2,701)
CET1 capital	**4,072**	5,547
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**904**	904
Qualifying instruments and related share premium subject to phase out	**—**	219
	904	1,123
Tier 1 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(221)**	(237)
Tier 1 capital	**4,755**	6,433
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**1,490**	1,704
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	**(401)**	(406)
Other regulatory adjustments	**26**	22
	(375)	(384)
Tier 2 capital	**1,115**	1,320
Total regulatory capital	**5,870**	7,753

In the management of capital resources, NWM Plc is governed by NatWest Group's policy to maintain a strong capital base 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 4.5%. NWM Plc has complied with the PRA's capital requirements throughout the year. NWM Plc is also subject to a Pillar 2 requirement.

Subsidiaries and sub-groups within NWM 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 is subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

25 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 the NWM Group is exposed to credit risk in the event of a customer's failure to meet its obligations, the amounts shown do not, and are not intended to, provide any indication of NWM Group's expectation of future losses.

For accounting policy information see Accounting policies note 6.

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Contingent liabilities and commitments				
Guarantees and assets pledged as collateral security	**595**	638	**197**	195
Other contingent liabilities	**110**	137	**109**	136
Standby facilities, credit lines and other commitments	**11,245**	12,292	**7,363**	7,534
	11,950	13,067	**7,669**	7,865

(1) In the normal course of business, NWM Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements which are excluded from the table above.

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWM 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 NWM Group's normal credit approval processes.

Guarantees - NWM Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that NWM Group will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that NWM Group could be required to pay under a guarantee is its principal amount as in the table above. NWM 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 NWM 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 NWM 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.

Risk-sharing arrangements

During 2019 NWM Plc and NWM N.V. established limited risk-sharing arrangements that facilitated the smooth provision of services to NatWest Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to £1.0 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2021, the deposits amounted to £0.8 billion and the guarantee fees in the year were £5.5 million.
- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s Legacy portfolio. At 31 December 2021 the exposure at default covered by the guarantees was approximately £0.2 billion (of which £37 million was cash collateralised). Fees of £6.6 million in relation to the guarantees were recognised in the year.

Indemnity deed

- In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ring-fenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

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.

	NWM Group 2021 £m	NWM Group 2020 £m
Contracts to purchase goods or services (1)	**4**	5
	4	5

(1) Of which due within 1 year: £2 million (2020 - £3 million).

25 Memorandum items continued

Litigation and regulatory matters

NWM Plc and its subsidiary and associated undertakings (NWM 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.

NWM 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 NWM 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. NWM 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 NWM 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 NWM 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 NWM Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWM 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.

For a discussion of certain risks associated with NWM Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 198.

Litigation

Residential mortgage-backed securities (RMBS) litigation in the US

NatWest Markets Securities Inc. (NWMSI) and certain affiliates continue to defend RMBS-related claims in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleges that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued. In Q4 2021, NWMSI settled RMBS claims by the State of New Mexico for an amount that was covered by an existing provision. In addition, NWMSI previously agreed to settle a purported RMBS class action entitled New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al. for US$55.3 million. This was paid into escrow pending court approval of the settlement, which was granted in March 2019, but which remains the subject of an appeal by a class member who does not want to participate in the settlement.

London Interbank Offered Rate (LIBOR) and other rates litigation

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that the NWM Group defendants and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. In December 2021, the United States Court of Appeals for the Second Circuit (US Court of Appeals), reversing a December 2016 decision of the SDNY, held that plaintiffs in these cases have adequately asserted the court's personal jurisdiction over NWM Plc and other non-US banks, including with respect to antitrust class action claims on behalf of over-the-counter plaintiffs and exchange-based purchaser plaintiffs. In the same decision, the appellate court affirmed the SDNY's prior decision that plaintiffs who purchased LIBOR-based instruments from third parties (as opposed to the defendants) lack antitrust standing to pursue such claims. The appellate court remanded these matters to the SDNY for further proceedings in light of its rulings. A separate appeal concerning the SDNY's dismissal of a fraud class action on behalf of lender plaintiffs remains pending in the US Court of Appeals. In March 2020, NWM Group defendants finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR).

The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NWM Plc, NatWest Group plc and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The UK proceedings are at the disclosure stage.

25 Memorandum items continued
Litigation and regulatory matters

In addition, there are two class actions relating to JPY LIBOR and Euroyen TIBOR. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and the plaintiffs have commenced an appeal to the US Court of Appeals. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NWM Group companies in September 2021. That dismissal may be the subject of a future appeal.

In addition to the above, five other class action complaints were filed against NWM Group defendants in the SDNY, each relating to a different reference rate. In February 2017, the SDNY dismissed the case relating to Euribor for lack of personal jurisdiction and in August 2019, the SDNY dismissed the case relating to Pound Sterling for various reasons. Plaintiffs' appeals in both cases remain pending. In July 2019, the SDNY dismissed the case relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate ('SIBOR / SOR') but in March 2021, the US Court of Appeals reversed the SDNY's decision, such that the case has returned to the SDNY, where it is the subject of a further motion to dismiss. In the class action relating to the Australian Bank Bill Swap Reference Rate, the SDNY in February 2020 declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but dismissed it as to other members of NWM Group (including NatWest Group plc). The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery. In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amount of the settlement (which was covered by an existing provision) has been paid into escrow pending court approval of the settlement.

NWM Plc is also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service outside the jurisdiction, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of an appeal to Israel's Supreme Court in respect of dismissal of the substantive case against banks that had a presence in Israel.

In January 2019, a class action antitrust complaint was filed in the SDNY alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The defendants include NatWest Group plc, NWM Plc, NWMSI and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. One plaintiff sought to appeal the dismissal, but on 14 February 2022, the US Court of Appeals dismissed the appeal because that plaintiff lacks standing to maintain the appeal.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NWM Plc, NWMSI and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to dismiss, which remains pending.

FX litigation

NWM Plc, NWMSI and/or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business. In 2015, NWM Plc paid US$255 million to settle the consolidated antitrust class action filed in the SDNY on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. In 2018, some members of the settlement class who opted out of that class action settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks. Those opt-out claims are proceeding in discovery.

In April 2019, some of the same claimants in the opt-out case described above, as well as others, served proceedings (which are ongoing) in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the Competition Appeal Tribunal in January 2022.

An FX-related class action, on behalf of 'consumers and end-user businesses', is proceeding in the SDNY against NWM Plc and others. Plaintiffs have filed a motion for class certification, which defendants are opposing.

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUD $0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc and NWMSI have been named in the action as 'other cartel participants', but are not respondents. The claim was served in June 2019 and, after a number of interlocutory pleading disputes, NWM Plc is preparing its defence.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the UK Competition Appeal Tribunal against NatWest Group plc, NWM Plc and other banks. Both applications have been brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. A hearing to determine class certification and which of the applications should be permitted to represent the class took place in July 2021 and judgment is awaited.

In November 2020, proceedings were issued in the High Court of Justice of England and Wales against NWM Plc by a claimant who sought an account of profits and/or damages in respect of alleged historical FX trading misconduct. The claim was served on NWM Plc in March 2021 and discontinued in December 2021.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion to certify, which names The Royal Bank of Scotland plc (now NWM Plc) and several other banks as defendants, was served on NWM Plc in May 2020. NWM Plc has filed a motion challenging the permission to serve the consolidated motion outside the Israeli jurisdiction, which remains pending.

25 Memorandum items continued
Litigation and regulatory matters

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission of 16 May 2019 is unlawful, along with unspecified damages. The claimant has indicated that it may seek to amend its claim to also refer to the December 2021 decision by the EC (described below under "Foreign exchange related investigations"). A hearing is scheduled for June 2022.

Certain other foreign exchange transaction related claims have been or may be threatened. NWM Group cannot predict whether all or any of these claims will be pursued.

Government securities antitrust litigation

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action pending in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to plaintiffs. The complaint was dismissed in March 2021. Plaintiffs have filed an amended complaint, which defendants are again seeking to have dismissed.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. The defendants filed a motion to dismiss this matter, which was granted by the court in respect of NWM Plc and NWMSI in July 2020. Plaintiffs have filed an amended complaint which defendants are seeking to have dismissed.

Swaps antitrust litigation

NWM Plc, NWMSI and NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants include several NatWest Group companies, including NatWest Group plc. Defendants are seeking dismissal.

Odd lot corporate bond trading antitrust litigation

In October 2021, the SDNY granted defendants' motion to dismiss the class action antitrust complaint alleging that, from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. Plaintiffs have commenced an appeal of the dismissal.

Spoofing litigation

In December 2021, three substantially similar class actions complaints were filed in federal court in the United States against NWM Plc and NWMSI alleging Commodity Exchange Act and common law unjust enrichment claims arising from manipulative trading known as spoofing. The complaints refer to NWM Plc's December 2021 spoofing-related guilty plea (described below under "US investigations relating to fixed-income securities") and purport to assert claims on behalf of those who transacted in US Treasury securities and futures and options on US Treasury securities between 2008 and 2018. The three complaints are pending in the United States District Court for the Northern District of Illinois.

Madoff

NWM N.V. is a defendant in two actions filed by the trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court subject to NWM N.V.'s legal and factual defences.

Interest rate hedging products and similar litigation

NWM Group continues to deal with a small number of active litigation claims in the UK relating to the alleged mis-selling of interest rate hedging products.

Separately, NWM Plc is defending claims filed in France by two French local authorities relating to structured interest rate swaps. NWM N.V. is also a defendant in one of the claims. The plaintiffs allege, among other things, that the swaps are void for being illegal transactions, that they were mis-sold, and that information / advisory duties were breached. Both claims have been remitted from the Supreme Court to the Court of Appeal.

EUA trading litigation

NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators (together, 'the Claimants'). The Liquidated Companies previously traded in European Union Allowances (EUAs) in 2009 and were alleged to be VAT defaulting traders within (or otherwise connected to) EUA supply chains of which NWM Plc was a party.

In March 2020, the court held that NWM Plc and Mercuria Energy Europe Trading Limited ('Mercuria') were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009.

25 Memorandum items continued
Litigation and regulatory matters

In October 2020, the High Court quantified total damages against NWM Plc and Mercuria at £45 million plus interest and costs, and permitted the defendants to appeal to the Court of Appeal. In May 2021 the Court of Appeal set aside the High Court's judgment and ordered that a retrial take place before a different High Court judge. The claimants have sought permission from the Supreme Court to appeal. The Court of Appeal also dismissed an appeal by Mercuria against the finding by the High Court that NWM Plc and Mercuria were both vicariously liable. Mercuria has sought permission from the Supreme Court to appeal that decision.

US Anti-Terrorism Act litigation

NWM N.V. and certain other financial institutions are defendants in several actions filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells that committed the attacks, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the US Court of Appeals. Another action, filed in the SDNY in 2017, was dismissed in March 2019 on similar grounds, but remains subject to appeal to the US Court of Appeals. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

Securities underwriting litigation

NWMSI is an underwriter defendant in securities class actions in the US in which plaintiffs generally allege that an issuer of public securities, as well as the underwriters of the securities (including NWMSI), are liable to purchasers for misrepresentations and omissions made in connection with the offering of such securities.

1MDB litigation

A claim for a material sum has been issued, but not served, recently in Malaysia by 1MDB against Coutts & Co Ltd for alleged losses in connection with the 1MDB fund. Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

Regulatory matters (including investigations)

NWM 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. NWM Group companies 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.

NWM Group companies have been providing information regarding a variety of matters, including, for example, offering of securities, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, product mis-selling and various issues relating to the issuance, underwriting, and sales and trading of fixed-income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

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 NWM Group, remediation of systems and controls, public or private censure, restriction of NWM 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 NWM 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.

NWM Group is co-operating fully with the matters described below.

US investigations relating to fixed-income securities

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018.

The 2018 trading occurred during the term of a non-prosecution agreement (NPA) between NWMSI and the United States Attorney's Office for the District of Connecticut (USAO CT), under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA.

The plea agreement reached with the US Department of Justice and the USAO CT resolves both the spoofing conduct and the breach of the NPA.

25 Memorandum items continued
Litigation and regulatory matters

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation and has paid a US$25.2 million criminal fine, approximately US$2.8 million in criminal forfeiture and approximately US$6.8 million in restitution out of existing provisions. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 198.

Foreign exchange related investigations

In recent years, NWM Plc paid significant penalties to resolve investigations into its FX business by the FCA, the Commodity Futures Trading Commission, the US Department of Justice, the Board of Governors of the Federal Reserve System, the European Commission (EC) and others. In December 2021, the EC announced that a settlement had been reached with NatWest Group plc, NWM Plc and other banks in relation to its investigation into past breaches of competition law regarding spot foreign exchange trading. NatWest Group plc and NWM Plc were fined EUR 32.5 million in total relating to conduct that took place between 2011 and 2012. The fine was covered by existing provisions. This concludes the EC's investigations into NatWest Group's past spot foreign exchange trading activity.

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

Following an FCA investigation, commenced in 2017, into potential breaches of the UK Money Laundering Regulations 2007 ('MLR 2007'), NWB Plc pled guilty in October 2021 to three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) between 7 November 2013 and 23 June 2016, and regulations 8(3) and 14(1) between 8 November 2012 and 23 June 2016. These regulations required the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of a UK incorporated customer. In December 2021, NWB Plc was fined £264.8 million, incurred a confiscation order and was ordered to pay costs. This was met by NWB Plc from existing provisions, with a small additional provision taken in Q4 2021.

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.

26 Analysis of the net investment in business interests

	NWM Group		NWM Plc	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Net assets sold	**—**	288	**—**	274
Loss on disposal of net assets	**—**	(5)	**—**	(5)
Sale of subsidiaries and associates	**4**	32	**4**	—
Profit on sale of subsidiaries	**—**	43	**—**	—
Net inflow of cash in respect of disposals	**4**	358	**4**	269
Net inflow of cash	**4**	358	**4**	269

27 Analysis of changes in financing during the year

	NWM Group					
	Share capital, share premium and paid in equity		Subordinated liabilities		MREL	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	**3,063**	3,063	**2,858**	3,156	**5,181**	5,120
Redemption of subordinated liabilities			**(316)**	(409)		
Interest on subordinated liabilities			**(62)**	(139)		
Maturity/redemption of MRELs					**(1,082)**	
Interest on MRELs					**(152)**	(191)
Net cash outflow from financing	**—**	—	**(378)**	(548)	**(1,234)**	(191)
Effects of foreign exchange	**—**	—	**(78)**	31	**(115)**	(6)
Changes in fair value of subordinated liabilities and MRELs			**(61)**	65	**(119)**	67
Loss on sale of subordinated liabilities and MRELs			**—**	16	**—**	—
Interest on subordinated liabilities and MRELs			**60**	138	**144**	191
Loss on redemption of own debt	**—**	—	**26**	—	**—**	—
Redemption of preference shares	**187**	—	**—**	—	**—**	—
At 31 December	**3,250**	3,063	**2,427**	2,858	**3,857**	5,181

	NWM Plc					
	Share capital, share premium and paid in equity		Subordinated liabilities		MREL	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January	**3,063**	3,063	**2,269**	2,610	**5,181**	5,120
Redemption of subordinated liabilities			**(315)**	(398)		
Interest on subordinated liabilities			**(24)**	(117)		
Maturity/redemption of MRELs					**(1,082)**	—
Interest on MRELs					**(152)**	(191)
Net cash outflow from financing	**—**	—	**(339)**	(515)	**(1,234)**	(191)
Effects of foreign exchange	**—**	—	**(71)**	29	**(115)**	(6)
Changes in fair value of subordinated liabilities and MRELs			**(28)**	13	**(119)**	67
Loss on sale of subordinated liabilities and MRELs			**—**	16	**—**	—
Interest on subordinated liabilities and MRELs			**22**	116	**144**	191
Loss on redemption of own debt	**—**	—	**26**	—	**—**	—
Redemption of preference shares	**187**	—	**—**	—	**—**	—
At 31 December	**3,250**	3,063	**1,879**	2,269	**3,857**	5,181

28 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash, loans to banks and treasury bills with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	NWM Group		NWM Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
At 1 January				
- cash	**15,771**	12,729	**11,736**	9,953
- cash equivalents	**10,609**	14,314	**9,549**	13,005
	26,380	27,043	**21,285**	22,958
Net decrease in cash and cash equivalents	**(1,130)**	(663)	**(2,071)**	(1,673)
At 31 December	**25,250**	26,380	**19,214**	21,285
Comprising:				
Cash and balances at central banks	**16,645**	15,771	**12,294**	11,736
Trading assets	**7,130**	9,055	**4,711**	7,540
Other financial assets	**16**	173	**16**	173
Net loans to banks including intragroup balances (1)	**1,459**	1,381	**2,193**	1,836
Cash and cash equivalents	**25,250**	26,380	**19,214**	21,285

(1) NWM Group includes cash collateral posted with bank counterparties in respect of derivative liabilities of £4,286 million (2020 - £7,427 million), and NWM Plc includes cash collateral posted with bank counterparties in respect of derivative liabilities of £3,561 million (2020 - £6,974 million).

Certain members of NatWest Group are required by law or regulation to maintain balances with the central banks in the jurisdictions in which they operate. Natwest Markets N.V. had mandatory reserve deposits with De Nederlandsche Bank N.V of €60 million (2020 - €81 million).

29 Directors' and key management remuneration

Directors' remuneration	2021 £000	2020 £000
Non-executive directors emoluments	**394**	368
Chairman and executive directors emoluments	**2,268**	1,877
	2,662	2,245
Amounts receivable under LTIPs, share option and other plans	**271**	269
Total	**2,933**	2,514

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £1,662,000 (2020 - £1,428,000).

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 the Bank are also directors of NatWest Group, details of their share interests can be found in the 2021 Annual Report and Accounts of the NatWest Group, in line with regulations applying to NatWest Group as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2021 £000	2020 £000
Short term benefits	**15,245**	16,922
Post employment benefits	**595**	278
Share based payments	**703**	2,789
	16,543	19,989

30 Transactions with directors and key management

At 31 December 2021, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NatWest Group, as defined in UK legislation, were £493,712 in respect of loans to one director of the company at any time during the financial period (2020 - £59,894).

For the purposes of IAS 24 Related party disclosures, key management comprises directors of the company and members of the 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	**494**	60
Customer deposits	**1,743**	765

Key management has banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding company.

31 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%.

NWM Group enters into transactions with many of these bodies. Transactions include the payment of: taxes principally UK corporation tax (refer to 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

NWM Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWM Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.406% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England base rate.

Other related parties

(a) In their roles as providers of finance, NWM 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) In accordance with IAS 24, transactions or balances between NWM Group entities that have been eliminated on consolidation are not reported.

(c) NWM Group is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.

(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 NWM Group and fellow subsidiaries of NatWest Group.

	2021 £m	2020 £m
Interest receivable	14	—
Interest payable	(169)	(282)
Fees and commissions receivable	16	13
Fees and commissions payable	(1)	(4)
Other administrative expenses	(33)	(13)
	(173)	(286)

NWM N.V. loan purchases via NWM Plc

In Q4 2021 NWM N.V. started purchasing loans onto the banking book as part of a larger initiative to increase its risk and portfolio diversity. NWM N.V. has identified a list of loans it wishes to purchase which NWM Plc has purchased from market participants on behalf of NWM N.V.. NWM N.V. subsequently purchased the loans at the same price for which NWM Plc had purchased them for and paid a fee to NWM Plc in respect of each loan purchased. As at 31 December 2021, loans of €24 million have moved onto NWM N.V. balance sheet.

32 Ultimate holding company

NWM Group's ultimate 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 NWM Group is consolidated. Copies of the consolidated accounts 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 was therefore the NWM Group's ultimate controlling party.

33 Post balance sheet events

On 17 February 2022, the NWM Plc Board approved an interim dividend of £250 million, or £0.625 per share, to be declared and payable to NatWest Group plc on 18 February 2022. There has been no adjustment to the 31 December 2021 statutory financial statements. For regulatory reporting purposes, a £250 million foreseeable dividend deduction has been applied to the year-end regulatory capital position.

Other than as disclosed in the accounts, there have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change to or additional disclosure.

34 Related undertakings

Legal entities and activities at 31 December 2021

In accordance with the Companies Act 2006, NWM Plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWM Plc or subsidiaries of NWM Plc and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWM 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 NWM Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
280 Bishopsgate Finance Ltd	INV	FC	(1)
Care Homes 1 Ltd	BF	FC	(1)
Care Homes 2 Ltd	BF	FC	(1)
Care Homes 3 Ltd	BF	FC	(1)
Care Homes Holdings Ltd	BF	FC	(1)
Churchill Management Ltd	BF	FC	(1)
Desertlands Entertainment Ltd	BF	FC	(1)
Distant Planet Productions Ltd	BF	FC	(1)
Lombard Corporate Finance (6) Ltd	BF	FC	(1)
Lombard Corporate Finance (7) Ltd	BF	FC	(1)
Lombard Corporate Finance (11) Ltd	BF	FC	(1)
Lombard Corporate Finance (15) Ltd	BF	FC	(1)
Nanny McPhee Productions Ltd	BF	FC	(1)
NatWest Markets Secretarial Services Ltd	SC	FC	(1)
NatWest Markets Secured Funding LLP	BF	FC	(9)
P of A Productions Ltd	BF	FC	(1)
Patalex Productions Ltd	BF	FC	(1)
Patalex V Productions Ltd	BF	FC	(1)
Price Productions Ltd	BF	FC	(1)
Priority Sites Investments Ltd	BF	DE	(1)
Priority Sites Ltd	INV	DE	(1)

Entity name	Activity	Regulatory treatment	Notes
Property Venture Partners Ltd	INV	FC	(2)
R.B. Equipment Leasing Ltd	BF	FC	(1)
R.B. Leasing (April) Ltd	BF	FC	(1)
R.B. Leasing Company Ltd	BF	FC	(2)
R.B.S. Special Investments Ltd	BF	FC	(1)
RB Investments 3 Ltd	OTH	FC	(1)
RBOS (UK) Ltd	BF	FC	(1)
RBS Management Services (UK) Ltd	SC	FC	(1)
RBS Mezzanine Ltd	BF	FC	(2)
RBS Property Developments Ltd	INV	FC	(2)
RBS Property Ventures Investments Ltd	BF	FC	(2)
RBSM Capital Ltd	BF	FC	(2)
RBSSAF (12) Ltd	BF	FC	(1)
RoboScot Equity Ltd	BF	FC	(2)
Royal Bank Investments Ltd	BF	FC	(2)
Royal Bank Ventures Investments Ltd	BF	FC	(2)
West Register (Hotels Number 3) Ltd	INV	DE	(2)
West Register (Property Investments) Ltd	BF	DE	(2)
West Register (Realisations) Ltd	INV	DE	(2)
Winchcombe Finance Ltd	BF	FC	(1)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWM Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
AA Merchant Services B.V.	BF	FC	(6)
Alcover A.G.	BF	DE	(23)
Alternative Investment Fund B.V.	BF	FC	(6)
Candlelight Acquisition LLC	BF	FC	(3)
Coutts & Co Ltd	CI	FC	(22)
Coutts General Partner (Cayman) V Ltd	BF	FC	(19)
Financial Asset Securities Corp.	BF	FC	(3)
KEB Investors, L.P.	BF	FC	(15)
NatWest Markets Group Holdings Corporation	BF	FC	(3)
NatWest Markets N.V.	CI	FC	(6)
NatWest Markets Securities Inc.	INV	FC	(3)
NatWest Markets Securities Japan Ltd	INV	FC	(7)
R.B. Leasing BDA One Ltd	BF	FC	(25)
Random Properties Acquisition Corp. III	INV	FC	(3)
RBS Acceptance Inc.	BF	FC	(3)

Entity name	Activity	Regulatory treatment	Notes
RBS Americas Property Corp.	SC	FC	(3)
RBS Asia Financial Services Ltd	BF	FC	(7)
RBS Assessoria Ltd	SC	FC	(12)
RBS Commercial Funding Inc.	BF	FC	(3)
RBS Employment (Guernsey) Ltd	SC	FC	(21)
RBS Financial Products Inc.	BF	FC	(3)
RBS Group (Australia) Pty Ltd	BF	FC	(10)
RBS Holdings III (Australia) Pty Ltd	BF	FC	(10)
RBS Holdings N.V.	BF	FC	(6)
RBS Holdings USA Inc.	BF	FC	(3)
RBS Hollandsche N.V.	BF	FC	(6)
RBS Investments (Ireland) Ltd	BF	FC	(4)
RBS Netherlands Holdings B.V.	BF	FC	(6)
RBS Nominees (Ireland) Ltd	BF	FC	(4)
RBS Nominees (Netherlands) B.V.	BF	FC	(6)

The following table details active related undertakings incorporated in the UK where NWM Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Higher Broughton (GP) Ltd	BF	AHC	PC	41	(18)
Higher Broughton Partnership LP	BF	AHC	DE	41	(16)

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
NatWest Markets Secured Funding (LM) Ltd	BF	FC	PC	20	(9)
RBS Sempra Commodities LLP	BF	FC	FC	51	(2)

34 Related undertakings continued

The following table details active related undertakings incorporated outside the UK where NWM Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Eris Finance S.R.L.	BF	IA	PC	45	(14)
German Public Sector Finance B.V.	BF	EAJV	PC	50	(17)
Herge Holding B.V.	BF	IA	PC	63	(24)
Lunar Funding VIII Ltd	BF	FC	FC	0	(5)
Lunar Luxembourg SA	BF	FC	DE	0	(26)
Lunar Luxembourg Series 2019- 04	BF	FC	DE	0	(26)
Lunar Luxembourg Series 2019- 05	BF	FC	DE	0	(26)
Lunar Luxembourg Series 2020- 01	BF	FC	DE	0	(26)
Lunar Luxembourg Series 2020- 02	BF	FC	DE	0	(26)
Maja Finance S.R.L.	BF	FC	FC	98	(14)
Natwest Secured Funding DAC	BF	FC	FC	0	(13)
Sempra Energy Trading LLC	BF	FC	FC	51	(3)
Thames Asset Global Securitization No.1 Inc.	BF	FC	FC	0	(11)

The following table details related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Lombard Corporate Finance (13) Ltd	FC	FC	100	(1)
Morar ICC Insurance Ltd	FC	DE	100	(20)
RBSSAF (6) Ltd	FC	FC	100	(1)
West Register Hotels (Holdings) Ltd	FC	FC	100	(2)

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Buchanan Holdings Ltd	FC	FC	100	(1)
Marigold Nominees Ltd	FC	FC	100	(1)
Mulcaster Street Nominees Ltd	FC	FC	100	(8)
N.C. Head Office Nominees Ltd	FC	FC	100	(2)
Project & Export Finance (Nominees) Ltd	FC	FC	100	(1)
RBOS Nominees Ltd	FC	FC	100	(1)
Sixty Seven Nominees Ltd	FC	FC	100	(1)
The Royal Bank of Scotland (1727) Ltd	FC	FC	100	(2)

The following table details the overseas branches of NWM Group

Subsidiary	Geographic location
Coutts & Co Ltd	Switzerland
NatWest Markets N.V.	France, Germany, Italy Republic of Ireland, Spain, Sweden United Kingdom
NatWest Markets Plc	Germany, Hong Kong, Japan, Singapore Turkey, United Arab Emirates

34 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)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ	UK
(3)	251, Little Falls Drive, Wilmington, DE, 19808	USA
(4)	Ulster Bank Head Office, Block B Central Park, Leopardstown, Dublin 18, D18 N153	RoI
(5)	Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 31119	Cayman Islands
(6)	Claude Debussylaan 94, Amsterdam, 1082 MD	Netherlands
(7)	Level 54, Hopewell Centre, 183 Queen's Road East	Hong Kong
(8)	Royal Bank House, 71 Bath Street, St Helier, JE4 8PJ	Jersey
(9)	1 Bartholomew Lane London EC2N 2AX	UK
(10)	Ashurst L26, 181 William Street, Melbourne, VIC, 3000	Australia
(11)	114 West 47th Street, New York, 10036	USA
(12)	254, 13th Floor, Rua Boa Vista, Sao Paulo, 01014-907	Brazil
(13)	5 Harbourmaster Place, Dublin 1, D01 E7E8	RoI
(14)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(15)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(16)	Cornwall Buildings, 45-51 Newhall Street, Birmingham, West Midlands, B3 3QR	UK
(17)	De entree 99 -197, 1101HE Amsterdam Zuidoost	Netherlands
(18)	Inpartnership Ltd, 35 St Paul's Square, Birmingham, West Midlands, B3 1QX	UK
(19)	c/o Maples Corporate Services Ltd, PO Box 309, 121 South Church Street, George Town, Grand Cayman, KY1-1104	Cayman Islands
(20)	PO Box 384, The Albany, South Esplanade, St Peter Port, GY1 4NF	Guernsey
(21)	Regency Court, Glategny Esplanade, St Peter Port, GY1 3AP	Guernsey
(22)	Schuetzengassse 4, CH-8001 Zurich	Switzerland
(23)	Tirolerweg 8, Zug, CH- 6300	Switzerland
(24)	Verlengde Poolseweg 16, Breda, 4818CL	Netherlands
(25)	Victoria Place, 5th Floor, 31 Victoria Street, Hamilton, HM 10	Bermuda
(26)	46A Avenue J.F. Kennedy 1855	Luxembourg

Non-IFRS measures

NWM Group prepares its financial statements in accordance generally accepted accounting principles (GAAP). This document contains a number of adjusted or alternative performance measures, also known as non-GAAP or non-IFRS performance measures. These measures are adjusted for certain items which management believe are not representative of the underlying performance of the business and which distort period-on-period comparison. These non-IFRS financial measures are not measures within the scope of IFRS and are not a substitute for IFRS measures. These measures include:

- Management analysis of the operating expenses shows strategic costs and litigation and conduct costs in separate lines on pages 38. These amounts are included in staff, premises and equipment and other administrative expenses in the statutory analysis. The use of the other expenses performance measure in non-statutory analysis aims to remove more volatile items within strategic costs and litigation and conduct costs.
- Funded assets are defined as total assets less derivative assets. This measure allows review of balance sheet trends exclusive of the volatility associated with derivative fair values.
- Management view of income by business before revenue share and excluding own credit adjustments and asset disposals/strategic risk reduction. This measure is used to show underlying income generation in NWM excluding the impact of disposal losses and own credit adjustments.
- Revenue share refers to income generated by NatWest Markets products from customers that have their primary relationship with other NatWest Group segments, a proportion of which is shared between NatWest Markets and those segments.
- Asset disposals/strategic risk reduction includes the costs of exiting positions, which includes changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into as part of the optimisation of the entity's capital usage, following the strategic announcements of 14 February 2020.
- Own credit adjustments are applied to positions where it is believed that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

Operating expenses analysis

Non-statutory analysis

	Year ended							
	31 December 2021				31 December 2020			
Operating expenses	Strategic costs	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Strategic costs	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
Staff expenses	**135**	**—**	**363**	**498**	121	—	549	670
Premises and equipment	**40**	**—**	**70**	**110**	19	—	88	107
Other administrative expenses	**72**	**(17)**	**467**	**522**	51	134	444	629
Depreciation and amortisation	**1**	**—**	**19**	**20**	—	—	25	25
Total	**248**	**(17)**	**919**	**1,150**	191	134	1,106	1,431

Risk Factors

Principal Risks and Uncertainties
Set out below are certain risk factors that could adversely affect NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement on its own of all potential risks and uncertainties facing NWM Group. The COVID-19 pandemic may exacerbate any of the risks described below.

Economic and political risk

The impact of the COVID-19 pandemic and related uncertainties continue to affect the UK, global economies and financial markets and NWM Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NWM Group.
In many countries, including the UK (NWM Group's most significant market), the COVID-19 pandemic has, at times, resulted in the imposition of strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

Despite widespread COVID-19 vaccination within the geographical regions in which NWM Group operates, the proliferation of COVID-19 variants continues to affect the UK and global economies. Further waves of infection or the spread of new strains may result in renewed restrictions in affected countries and regions. As a result, significant uncertainties remain as to how long the impact of the COVID-19 pandemic will last, and how it will continue to affect the global economy.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK and elsewhere have offered unprecedented levels of support and various schemes to assist impacted businesses and individuals. This has included forms of financial assistance and legal and regulatory initiatives. Many of these support schemes have now been curtailed. However, uncertainty remains as to the impact of the ending or tapering of these schemes and the repayment of the loans involved on customers, the economic environment and NWM Group. Moreover, it is unclear as to how any further measures, such as rising interest rates and inflation, may affect NWM Group's business and performance.

The COVID-19 pandemic has prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working from home. These changes may have long-lasting impacts on asset prices, the economic environment and its customers' financial needs.

Uncertainties relating to the COVID-19 pandemic has made reliance on analytical models, planning and forecasting for NWM Group more complex, and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM Group customers, and the UK and global economies and financial markets remain uncertain.

Any of the above may have a negative impact on NWM Group.

NWM Group faces continued economic and political risks and uncertainty in the UK and global markets.
The value of NWM Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of NWM Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's financial instruments. This may have an adverse effect on NWM Group's results of operations in future periods, or cause inaccurate carrying values for certain financial instruments. Similarly, NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM Group's net trading income or result in a trading loss.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NWM Group's counterparty risk. NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to extreme market moves. However, severe market events have historically been difficult to predict and NWM Group could realise significant losses if extreme market events were to occur.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, societal inequalities and changes, trade barriers and the increased possibility and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies, state and privately sponsored cyber and terrorist acts or threats, efforts to destabilise regimes or armed conflict), changes in inflation and interest rates (including negative interest rates), supply chain disruption, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors.

These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the changing demographics of the populations in the markets that NWM Group serves, increasing inequalities, or rapid change to the economic environment due to the adoption of technology and artificial intelligence. Any of the above developments could adversely impact NWM Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM Group's clients and their banking needs).

In addition, NWM Group is exposed to risks arising out of geopolitical events or political developments, such as exchange controls, and other measures taken by sovereign governments that may hinder economic or financial activity levels.

Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the indirect effect on regional or global trade and/or NWM Group's customers.

NatWest Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may impact NWM Group since NatWest Group plc and other NatWest Group entities (including NWM Plc) are incorporated in Scotland. Any changes to Scotland's relationship with the UK or the EU would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group (including NWM Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes which, any of which could adversely impact NWM Group.

Any of the above may have a negative effect on NWM Group.

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM Group and its operating environment.

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage. However, for financial services, UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover certain services offered by NWM Group. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of most investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding, which has yet to be signed. In late 2021 the European Commission proposed draft legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing "banking services" in the EU. If these proposals become law all "banking services" will be licensable activities in each EU member state and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide "banking services" in the EU. Uncertainty remains as to whether "banking services" will also include investment products. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may have a negative impact on customer engagement and/or may significantly negatively impact the operating model and business operations of NWM Group.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch, where permitted. Where these regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA licensed subsidiary or branch. There is a risk that these EEA licenses may not be granted or may be withdrawn, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain required regulatory permissions or licences in one part of NatWest Group may impact other parts of NatWest Group adversely. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings, would allow NatWest Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. As described in '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*', NWM Group expects that NatWest Group's Transfer Business will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group. Transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or greater than expected costs. The changes to NatWest Group's and NWM Group's operating model have been costly and further changes to its business operations, product offering and customer engagement could result in further costs and operating complexity. Any of the above could, in turn, negatively impact NWM Group.

The long-term effects of Brexit and the uncertainty regarding NWM Group's EU operating model may have a negative impact on NWM Group's business. These may be exacerbated by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the global macro-economic impacts on the UK, the Republic of Ireland ('ROI') and the rest of the EU/EEA.

Significant uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators, whether the proposed EEA licensed subsidiary is granted a banking licence, whether banking services will be harmonised across the EEA and, therefore, what the respective legal and regulatory arrangements will be, under which NWM Group and its subsidiaries will operate. This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NWM Group's EU operating model. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWM Group's businesses, non-UK operations and/or legal entity structure, including attendant operating, compliance and costs, level of

impairments, capital requirements, changes to intragroup arrangements, increased complexity, regulatory environment and tax implications and as a result may adversely impact NWM Group's profitability, competitive position, business model and product offering.

Changes in interest rates have affected and will continue to affect NWM Group's business and results.

NWM Group is affected by interest rate risk. Monetary policy has been accommodative in recent years including initiatives implemented by the Bank of England and HM Treasury, such as the Term Funding Scheme with additional incentives for SMEs ('TFSME'), which have helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, market expectations are currently that benchmark interest rates such as UK base rate, could begin to rise further and faster than had been anticipated previously and that this could be accompanied by other measures to reverse accommodative policy, such as quantitative tightening.

While increases in medium term swap rates may support the yield of NWM Group's equity structural hedge, sharp rises could have macroeconomic effects that lead to adverse outcomes for the business or customers. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could have an adverse effect on NWM Group's business, results of operations and outlook. Conversely, decreases in interest rates and/or continued sustained low, zero or negative interest rates would be expected to put pressure on NWM Group's interest income and profitability.

Unexpected moves in interest rates will also affect valuations of assets and liabilities that are recognised at fair value on the balance sheet. Changes in these valuations may be adverse. Unexpected movements in spreads between key benchmark rates could have adverse impacts and also adversely affect NWM Group's financial position. Finally, changes in interest rates and inflation may adversely affect the income from NWM Group's dealing activity.

Changes in foreign currency exchange rates may affect NWM Group's results and financial position.

Decisions of major central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden variations in foreign exchange rates. As part of NatWest Group's strategy, NWM Group is now the markets business for NatWest Group, and is engaged principally in offering risk management, trading solutions and debt financing to financial institutions and UK and European corporate customers. NWM Group entities issue instruments in foreign currencies that assist in meeting their respective capital and/or MREL requirements. In addition, NWM Plc has exposure to foreign exchange movements from the provision of foreign currency products to its clients and particularly to euro movements via its subsidiary, NWM NV, USD via its subsidiary NWMSI in addition to further investments in other currencies in overseas operations. In its day-to-day operations, NWM Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency rates. Nevertheless, changes in currency rates, particularly in the sterling-US dollar and euro-sterling exchange rates, can adversely affect the value of assets, liabilities (including the total amount of MREL-eligible instruments), foreign exchange dealing activity, income and expenses, RWAs and hence the reported earnings and financial condition of NWM Group.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.

In its March 2021 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025-2026. As a result of a directed buyback of NatWest Group plc shares by NatWest Group plc from UK Government Investments Limited ('UKGI') in March 2021, sales of NatWest Group plc shares by UKGI by accelerated bookbuild in May 2021 and purchases made under NatWest Group plc's on-market buyback program announced in July 2021, as at 11 February 2022, the UK Government held 50.94% of the issued share capital with voting rights of NatWest Group plc. In addition to the £750 million on-market buyback announced on 18 February 2022, NatWest Group may participate in further directed or on-market buybacks in the future. The timing, extent and continuation of UKGI's sell-downs is uncertain, which could result in a prolonged period of increased price volatility on NatWest Group plc's ordinary shares.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWM Group) will continue to have its own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's, as the largest single shareholder, and UKGI (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over the election of directors and appointment of senior management, NatWest Group's (including NWM Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's operations, amongst others. HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as the largest single shareholder of NatWest Group could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWM Group.

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM Group's parent may differ from the interests of NWM Group or of potential investors in NWM Group's securities.

Strategic risk

NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change.

In February 2020, NatWest Group announced its 'purpose-led strategy', which is focused on becoming a purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. This strategy has required, and continues to require, changes in NWM Group's business, including an increased focus on serving NatWest Group's corporate and institutional customer base. To date, NWM Group has implemented this strategy through its 'NWM Refocusing' initiative by simplifying its operating model and technology platform, as well as reducing its cost base and capital requirements. The implementation of the NWM Refocusing has been a complex process and although substantial progress has been

made, the risk remains that this strategy may not result in the contemplated business outcome.

On 27 January 2022, NatWest Group announced that, in order to further support its customers' growth ambitions and deliver on the next phase of its strategy, it is evolving its Commercial, NatWest Markets and RBS International businesses to form a single franchise to best support its customers across the full non-personal customer lifecycle. The transition is expected to begin over the coming months and be effective from July 2022. Any of the above may result in material execution, commercial and operational (including compliance with the UK ring-fencing regime) risks for NWM Group and NWM Group may continue to be subject to significant structural and other change.

As part of the NWM Refocusing, NWM Group has directed resources to emphasising and growing product capability in the areas of importance to NatWest Group's corporate and institutional customers, including the Fixed Income and Capital Markets businesses, and has refocused its Rates business to best serve its core customers. As a result of focusing further on NatWest Group core corporate customers, NWM Group's prospects are becoming further dependent on the success and strategy of NatWest Group.

In addition, to improve efficiencies and best serve customers, including in light of Brexit planning, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group (including NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities) (the 'Transfer Business'), will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group on a rolling basis, subject to certain regulatory and customer requirements. The timing and quantum of such transfers remains uncertain and NWM Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM Group's business, results of operations and outlook could be adversely affected.

NWM Group's ability to serve its customers may be diminished by the changed business strategy as a result of the NWM Refocusing. In addition, customer reactions to the changed nature of NWM Group's business model may be more adverse than expected and previously anticipated revenue and profitability levels (including, for example, in relation to income from the Rates business) may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment, including due to the COVID-19 pandemic, heightened inflation and rising interest rates, continued political and regulatory uncertainty, market volatility and/or strong market competition may also pose significant challenges to the achievement of the anticipated targets and goals of the NWM Refocusing.

As part of the NWM Refocusing, NWM Group has accepted a number of financial, capital and operational targets and expectations, which entail further reductions to its wider cost base. In addition to requiring cost reductions within NWM Group, this could affect the cost and scope of NatWest Group's provision of services to NWM Group, which individually or collectively may impact NWM Group's competitive position and its ability to meet its other targets.

The financial, operational and capital targets and expectations envisaged by the NWM Refocusing may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgments, any of which may prove to be inaccurate. The significant scale and scope of the changes implemented (and those that remain to be implemented) as a result of the NWM Refocusing may continue to entail operational, IT system, culture, conduct, business and financial risks to NWM Group.

The NWM Refocusing requires NWM Group to meet cost reduction targets, including through head-count reductions and redirecting investment from certain business areas to others, which could affect NWM Group's long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised in full if IT capabilities are not delivered in line with assumptions. These risks are expected to continue to last for at least the medium term.

The NWM Refocusing is expected to result in, and the refocused NWM Group continues to face, increased people risk through the loss of key staff, the recalibration of roles and loss of institutional knowledge. This, combined with the prolonged COVID-19 pandemic, continues to impact NWM Group's culture and morale. The remaining parts of the NWM Refocusing and other structural changes may continue to be resource-intensive and disruptive, and may divert management resources. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group may not be successful in maintaining such governance and control frameworks and IT systems. Moreover, whether the NWM Refocusing and further structural changes are successful will depend on how the NWM resulting business is perceived by NWM Group's customers, regulators, rating agencies, stakeholders and the wider market, how it impacts its business, and NWM Group's ability to retain employees required to deliver its go-forward strategic priorities.

NWM Group has implemented a shared services model and entered into revenue share agreements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. A failure of NWM Group to receive these services (on a cost-effective basis or at all) may result in operational risk. See, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses*'.

The changed nature of NWM Group's business may also adversely affect the credit rating assigned to NWM Plc and certain of its subsidiaries (including NWM NV) or any of their respective debt securities, which could adversely affect the availability and cost of funding for NWM Group and negatively impact NWM Group's liquidity position.

Each of the risks identified in this risk factor, individually or collectively could adversely impact NWM Group's products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's ability to deliver its strategy and the anticipated benefits thereof and meet its targets and guidance. Any of the above could in turn have a material adverse effect on NWM Group's business, results of operations and outlook.

While NWM Group has made substantial progress in implementing the NWM Refocusing, aspects of the NWM Refocusing and other structural changes that are still to be implemented entail further execution, commercial, operational and other risks. As a result, there is a risk that the NWM Refocusing and other structural change may not be successful, or that the business resulting from the NWM Refocussing and other structural changes may not be a viable, competitive or profitable business.

Trends relating to the COVID-19 pandemic may adversely affect NWM Group's strategy and impair its ability to meet its targets and strategic objectives.

The trajectory of the COVID-19 pandemic's impact on the UK and global economy and NWM Group remain uncertain. If trends relating to the COVID-19 pandemic negatively impact the UK and global economy, NWM Group may be unable to meet its financial, capital and operational targets and expectations.

Whilst NWM Group, as part of NatWest Group, remains committed to its cost reduction targets, achieving the planned reductions in an environment affected by the COVID-19 pandemic may be more challenging and may require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within NWM Group and which may have an adverse effect on NWM Group.

It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic, causing significant wider societal changes. For example, one of the most notable effects of the COVID-19 pandemic has been its disproportionate impact on the most vulnerable groups of society and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, automation, e-commerce and agile working, each of which has resulted in significant market volatility in asset prices. There is also increased investor, regulatory and customer scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management. Any failure or delay by NWM Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes, and to manage emerging climate, environmental, social and other sustainability-related risks and opportunities, may have a material adverse impact on NWM Group's reputation, business, results of operations, outlook and the value of NWM Group's securities. See also, '*— Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks*' and '*— A failure to adapt NWM Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM Group, its reputation, business, results of operations and outlook*'.

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, the fiscal, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry. This could negatively impact NWM Group if it is not able to adapt or compete effectively.

Financial resilience risk

NWM Group may not meet the targets it communicates, generate returns or implement its strategy effectively.

As part of NatWest Group's purpose-led strategy and the NWM Refocusing, NWM Group has set a number of internal and external financial, capital and operational targets including in respect of: balance sheet and cost reductions, CET1 ratio targets (for NWM Plc and NWM N.V.), MREL targets, leverage ratio targets (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets) and customer satisfaction targets.

NWM Group's ability to meet its targets and to successfully implement its strategy is subject to various internal and external factors and risks. These include but are not limited to, the impact of the COVID-19 pandemic, client and staff behaviour and actions, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWM Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues) and the NWM Refocusing. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'.

A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact NWM Plc and NWM NV's ability to maintain their current CET1 ratio targets, including impairments, the extent of organic capital generation or the reduction of RWAs. NWM Plc may incur disposal losses as part of the process of exiting positions to reduce RWAs. Some of these losses may be recognised ahead of the actual disposals and the losses overall may be higher than currently anticipated.

NWM Group's ability to meet its planned reductions in annual costs may vary considerably from year to year. Furthermore, the focus on meeting balance sheet and cost reduction targets may result in limited investment in other areas which could affect NWM Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

In addition, challenging trading conditions may have an adverse impact on NWM Group's business and may adversely affect its ability to achieve its targets and execute its strategy.

There is a risk that NWM Group's strategy may not be successfully executed, that it will not meet its targets and expectations, or that it will not be a viable, competitive or profitable banking business.

NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for capital.

NWM Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources. Adequate capital provides NWM Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK operations.

NWM Plc's target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress). NWM NV's target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress). As at 31 December 2021, NWM Plc's solo CET1 ratio was 17.9%. NWM Plc's current capital strategy is based on the management of RWAs and other capital management initiatives (including the reduction of RWAs and the periodic payment of dividends to NatWest Group plc, NWM Plc's parent company).

Other factors that could influence NWM Plc and NWM NV's CET1 ratios include, amongst other things (See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'):

- a depletion of NWM Plc or NWM NV's capital resources through losses (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM Plc's or NWM NV's RWAs, stemming from exceeding target RWA levels, the NWM Refocusing, regulatory adjustments (for example, from additional market risk backtesting exceptions), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs. An increase in RWAs would lead to a reduction in the CET1 ratio (and increase the amount of internal MREL required for NWM Plc);
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM Plc (as regulated by the Prudential Regulation Authority ('PRA')) or NWM NV (as regulated by the De Nederlandsche Bank ('DNB')), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- further developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
- further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
- the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM NV

Management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, its credit ratings, its ability to operate its businesses and pursue its current strategies and strategic opportunities, any of which may negatively impact investor confidence and the value of NWM Group's securities. See also, '*— NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options*' and '*NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities*'.

NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.

NatWest Markets Plc's funding plan currently anticipates that in 2022, it will issue £4-5 billion of public benchmark issuance in order to meet its near-term debt refinancing and funding requirements, based on its current and anticipated business activities. NWM Group therefore has significant anticipated funding requirements and is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. Such access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in the NWM Group if it cannot finance its activities and risk a ratings downgrade, which could be impeded by a number of internal or external factors, including, those referred to above in '*NWM Group faces continued economic and political risks and uncertainty in the UK and global markets*', '*Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM Group and its operating environment*', '*Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding*' and '*NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group*'.

In addition, NWM Plc receives capital and funding from NatWest Group plc. NWM Plc has set target levels for different tiers of capital and for the internal minimum requirements for own funds and eligible liabilities ('MREL'), as percentages of its RWAs. The level of capital and funding required for NWM Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM Plc and this may vary over time.

NWM Plc's internal MREL comprises the regulatory value of capital instruments and loss-absorbing senior funding issued by NWM Plc to its parent, NatWest Group plc, in all cases with a residual maturity of at least one year. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWM Plc. NWM Plc is therefore dependent not only on NatWest Group plc to fund its internal capital targets, but also on NatWest Group plc's ability to source appropriate funding. NWM Plc is also dependent on NatWest Group plc to continue to fund NWM Plc's internal MREL targets over time and its ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWM Plc is required to fund the internal capital and MREL requirements of its subsidiaries.

Any inability of NWM Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital and MREL may adversely affect NWM Group, such that NWM Group may not constitute a viable banking business and/or NWM Plc or NWM NV may fail to meet their respective regulatory capital and/or MREL requirements (at present, NWM NV does not yet have its own MREL requirements) (see also, '*The effects of the COVID-19 pandemic could affect NWM Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements*').

NWM Group may not be able to adequately access sources of liquidity and funding.

NWM Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2021, NWM Group held £4.1 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM Group's control. These factors include: loss of investor confidence (including in individual NWM Group entities or the UK banking sector or the banking sector as a whole), sustained low or negative interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*NWM Group has significant exposure to counterparty and borrower risk*'.

An inability to grow, roll-over, or any material decrease in, NWM Group's deposits, short-term wholesale funding and short-term liability financing could, particularly if accompanied by one of the other factors described above, materially affect NWM Group's ability to satisfy its liquidity needs.

NWM Group engages from time to time in 'fee based borrow' transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such 'fee based borrow' transactions are unwound whilst used to support the financing of parts of NWM Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM Group would be unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have an adverse effect on NWM Group. In addition, because 'fee base borrow' transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of or perceived lack of creditworthiness may adversely affect NWM Group.

The effects of the COVID-19 pandemic, current economic uncertainties and any significant market volatility, could affect NWM Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM Group and its subsidiaries could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which could have a negative effect on NWM Group.

As at 31 December 2021, NWM Group reported a liquidity coverage ratio of 205%. If its liquidity position were to come under stress and if NWM Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected. This would mean that NWM Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. NWM Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM Group's funding plans. In a time of reduced liquidity or market stress, NWM Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case could negatively affect NWM Group's results.

NWM Group entities independently manage liquidity risk on a stand-alone basis, including through holding their own liquidity portfolios. They have restricted access to liquidity or funding from other NatWest Group entities. NWM Group entities' management of their own liquidity portfolios and the structure of capital support are subject to operational and execution risk.

The effects of the COVID-19 pandemic could affect NWM Group's ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.

The COVID-19 pandemic has at times caused significant market volatility. Should further market volatility arise from COVID-19 pandemic-related uncertainties and the impact on capital and RWAs, NWM Group and its subsidiaries may be required to adapt their funding plans in order to satisfy their respective capital and funding requirements, which may have a negative impact on NWM Group. In addition, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM Plc's capital base, and/or that of its subsidiaries. If NatWest Group Plc is unable to issue securities externally as planned, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc.

Furthermore, significant fluctuation in foreign currency exchange rates may affect capital deployed in NWM Plc's foreign subsidiaries, branches and joint arrangements, securities issued by NWM Plc and/or its subsidiaries in foreign currencies or the respective values of assets, liabilities, income, RWAs, capital base, expenses and reported earnings.

In addition, increased income as a result of higher levels of customer flow activity and balance sheet growth (as a result of increases in corporate deposits and derivative valuations) may not be sustained in the future. Furthermore, market volatility may result in increases to leverage exposure.

Any downgrading to the credit ratings and/or outlooks assigned to NWM Group, its subsidiaries and their respective debt securities as a result of the economic impact of the COVID-19 pandemic could exacerbate funding and liquidity risk, which could have a negative effect on NWM Group.

NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc's applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM Plc's recovery plan, and in turn may prompt consideration of NatWest Group's recovery plan. If, under stressed conditions, the liquidity, capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM Plc could undertake that may or may not be sufficient to restore adequate liquidity, capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to

support NWM Plc's capital and leverage requirements.

NatWest Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc. NatWest Group's (and NWM Plc's) regulator may also request that NWM Group carry out additional capital management actions. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as the UK resolution authority, the Bank of England also has the power to execute the 'bail-in' of certain securities of NWM Group without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of NWM Group's securities. See also, '— *NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities*'. In addition, if NWM Plc or NWM NV's liquidity position were to be adversely affected, this may require unencumbered assets to be liquidated or may result in higher funding costs, which may adversely impact NWM Group's operating performance.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time, including: the credit rating agency's assessment of NWM Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries in which NWM Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWM Group's key markets (including the impact of the COVID-19 pandemic and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWM Plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM Group's financial resilience could significantly affect NWM Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect NWM Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM Group (and, in particular, with NWM Plc). This could in turn adversely impact NWM Group's competitive position and threaten its prospects in the short to medium-term.

NWM Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The markets in which NWM Group operates are highly competitive, and competition may intensify in response to various changes. These include: evolving customer behaviour, technological changes (including digital currencies, stablecoins and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors. Innovations such as biometrics, artificial intelligence, the cloud, blockchain, cryptocurrencies and quantum computing may also rapidly facilitate industry transformation.

Increasingly many of the products and services offered by NWM Group are, and will become, more technology intensive. NWM Group's ability to develop such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM Group's client businesses across its geographical footprint. There can be no certainty that NWM Group's innovation strategy (which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and partnerships with third party technology providers) will be successful or that it will allow NWM Group to continue to grow such services in the future.

In addition, certain of NWM Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients. These competitors may be better able to attract and retain clients and key employees, may have better IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM Group. Although NWM Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands. The development of innovative products depends on NWM Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWM Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its activities and lose opportunities for growth. In this context, NWM Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, inadequate or is not fully integrated into NWM Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWM Group.

In addition, NatWest Group's purpose-led strategy, as well as employee remuneration constraints, may also have an impact on NWM Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM Group's ability to provide satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWM Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors. Any of the above may negatively affect NWM Group.

NWM Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.

NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NWM NV and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

The impact of the COVID-19 pandemic on the credit quality of NWM Group's counterparties may negatively impact NWM Group.

The effects of the COVID-19 pandemic have adversely affected the credit quality of some of NWM Group's borrowers and other counterparties, and government support schemes may delay the effects of defaults by such counterparties. As government support schemes reduce, defaults are expected to rise with more customers moving from IFRS 9 Stage 2 to Stage 3. As a result, NWM Group may continue to experience elevated exposure to credit risk and demands on its funding, and the long-term effects remain uncertain. If borrowers or counterparties face increasing levels of debt and default or suffer deterioration in credit, this increases impairment charges, write-downs, regulatory expected loss and impacts credit reserves. An increase in drawings upon committed credit facilities may also increase NWM Plc's and/or its subsidiaries' RWAs. If NWM Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including deferred taxes, which may lead to further write-downs.

Any of the above may have a negative impact on NWM Group.

NWM Group has significant exposure to counterparty and borrower risk.

NWM NV, a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM NV business and NWM Group's other activities, NWM Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base. Furthermore, these risks increase due to the expected transfer of NatWest Group's Transfer Business from its ring-fenced subgroup to NWM Group (see '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*').

Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to NWM Group (including un-collateralised derivatives); providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans. See also, '*Risk and capital management — Credit Risk*'. Any negative developments in the activities listed above may negatively impact NWM Group's clients and credit exposures, which may, in turn, adversely impact NWM Group's profitability.

The credit quality of NWM Group's borrowers and other counterparties may be affected by a deterioration in prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by changes in the legal and regulatory landscape in the UK and countries where NWM Group is exposed to credit risk (including the extent of the UK's post-Brexit divergence from EU laws and regulation). These could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems and losses for NWM Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM Group interacts on a daily basis. See also, '— *NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group*'.

As a result of the above, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM Group and an inability to engage in routine funding transactions.

NWM Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss).

The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. See also, '*Risk and Capital Management — Credit Risk*'. The assumptions and judgments used in the MES and ECL assessment at 31 December 2021 may not prove to be adequate resulting in incremental ECL provisions for the NWM Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

NWM Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Due to NWM Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out banking activities outside a regulated framework). NWM Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NWM Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect the business, results of operations and outlook of NWM Group.

NWM Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of NWM Group's business, strategy and capital requirements, NWM Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWM Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as fraud risk management (collectively, 'financial crime')). NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macroeconomic environment in which NWM Group operates (for example to account for the impact of the COVID-19 pandemic), to capture risks and exposures at the subsidiary level, and to update for changes to NWM Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group's) regulators (including as part of NatWest Group's mandated stress testing) may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NWM Group to regulatory sanction. NWM Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

NWM Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models).

The accounting policies deemed critical to NWM Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in '*Critical accounting policies and key sources of estimation uncertainty*'. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM Group are discussed in '*Future Accounting Developments*'.

Changes in accounting standards may materially impact NWM Group's financial results.

Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results, condition and prospects of NWM Group.

NWM Group's trading assets amounted to £59.1 billion as at 31 December 2021. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWM Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM Group's internal valuation models require NWM Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require NWM Group to recognise fair value losses which may have an adverse effect on NWM Group's income generation and financial position.

NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of NWM Group entities' Eligible Liabilities.

HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of

the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM NV in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act (which provides that creditors' losses in resolution should not exceed those that would have been realised in an insolvency of the relevant institution) may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used; Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities of NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain untested in practice.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook of NWM Group.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report was submitted to the PRA on 30 September 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022 although the Bank of England may provide feedback before then.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. However, if the Bank of England assessment identifies a significant gap in NatWest Group's ability to achieve the resolvability outcomes, or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements which came into effect on 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWM Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's (and NWM Group's) strategic plans and have an adverse effect on the financial position of NWM Group or may result in reputational damage and/or loss of investor confidence.

Climate and sustainability-related risks NWM Group and its customers face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NWM Group.

Climate-related risks and uncertainties are continuing to receive increasing regulatory, judicial, political and societal scrutiny.

Financial and non-financial risks from climate change arise through physical and transition risks. Furthermore, NWM Group may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and conduct liability. See also, '*NWM Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events, (flooding, subsidence, heat waves and long-lasting wildfires), rising sea levels, biodiversity loss and resource scarcity. Damage to NWM customers' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWM Group's portfolios. In addition, NWM Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and negatively affecting NatWest Group's business continuity and reputation.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net zero emissions by 2050. The timing, content and implementation of the specific policies and proposals remain uncertain. Widespread transition to a net zero economy across all sectors of the economy and markets in which NWM Group operates will be required to meet the goals of the 2015 Paris Agreement, the UK's Net Zero Strategy and the Glasgow Climate Pact of 2021. The impact of the extensive commercial, technological, policy and regulatory changes required to achieve transition remains uncertain, but it is expected to be significant and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. Some sectors such as property, energy (including oil and gas),

mining, infrastructure, transport (including automotive and aviation) and agriculture are expected to be particularly impacted. The timing and pace of the transition to a net zero economy is also uncertain and may be near term, gradual and orderly or delayed, rapid and disorderly, or the combination of these.

Climate-related risks may be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

If NWM Group fails, to adapt its business and operating model in a timely manner to the climate-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate change related physical, transition and legal risks and opportunities that NWM Group, its customers and value chain face, NWM Group's reputation, business, operations or value chain and results of operations and outlook may be impacted adversely.

NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM Group which entails significant execution risk.
In February 2020, NatWest Group announced its ambition to become a leading bank on climate in the UK, helping to address the climate challenge by setting itself the challenge to at least halve the climate impact of its financing activity by 2030 and intending to do what is necessary to achieve alignment with the 2015 Paris Agreement. In addition, in April 2021, NatWest Group by joining the Net Zero Banking Alliance 'Business Ambition to 1.5C', stated its ambition to reach net zero by 2050. Furthermore, as part of its efforts to support the transition to a net zero economy, NatWest Group has also announced its ambitions to phase out of coal for UK and non UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030; to plan to stop financing new customer relationships with corporate customers who explore for, extract or produce coal or operate unabated coal powered plants; and that it would not provide services to existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production.

To achieve its 2030 and 2050 ambitions, NatWest Group has also announced other climate ambitions, targets and commitments, and going-forward it may also announce other climate ambitions, targets and commitments, including science-based targets to be validated by the Science Based Target Initiative.

Making the changes necessary to achieving these ambitions may materially affect NWM Group's business and operations and may require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to a net zero economy or do not have a credible transition plan. Increases in lending and financing activities may wholly or partially offset some or all of these reductions, which may increase the extent of changes and reductions necessary. It is anticipated that achieving these reductions, together with the active management of climate-related risks and other regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWM Group's business, operating model and existing exposures (potentially on accelerated timescales and outside of risk appetite) which may have a material adverse effect on NWM Group's ability to achieve its financial targets and generate sustainable returns.

NWM Group's ability to contribute to achieving NatWest Group's climate-related ambitions, targets and commitments through its own specific targets will depend to a large extent on many factors and uncertainties beyond NWM Group's control. These include the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or mitigate the impact of climate-related risks, changes in customer behaviour and demand, the challenges related with the implementation and integration of adoption policy tools, changes in the available technology for mitigation and adaptation, the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM Group which entails significant execution risk*' and '*There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks*'.

These internal and external factors and uncertainties will make it challenging for NatWest Group to meet its climate ambitions, targets and commitments and for NWM Group to contribute to these and there is a significant risk that all or some of them will not be achieved.

Any delay or failure by NWM Group's to contribute to setting, making progress against or meeting NatWest Group's climate-related ambitions, targets and commitments through its own specific targets may have a material adverse impact on NWM Group, its reputation, business, results of operations, outlook, market and competitive position and may increase the climate-related risks NWM Group faces.

Any failure by NWM Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM Group's ability to manage climate-related risks.
The prudential regulation of climate-related risks is an important driver in how NWM Group develops its risk appetite for financing activities or engaging with counterparties that do not align with a transition to a net zero economy or do not have a credible transition plan.

Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

In April 2019, the PRA published a supervisory statement (the 'SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures.

Following the submission of initial plans by UK banks in October 2019, in July 2020 the PRA issued a 'Dear CEO' letter requiring firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. In response, on 8 October 2020, NatWest Group provided the PRA with an update to its original plan noting that the COVID-19 pandemic had disrupted some elements of NatWest Group's original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Subsequently the PRA issued its 'Climate Change Adaptation Report' in October 2021 advising firms of the need to continue to refine and innovate ways to further integrate the financial risks from climate change within risk management

practices and it restated that by the end of 2021, firms should be able to demonstrate that the expectations set out in SS3/19 have been implemented and embedded throughout the firms' organisation as fully as possible. In January 2022, NatWest Group provided the PRA with an update on how it has addressed the commitments made in its October 2020 plan, noting the delivery of a 1st generation, largely qualitative in nature, approach to supervisory requirements.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its CBES submission to the PRA in October 2021. The Bank of England has since announced that the CBES is likely to include a second round over February and March 2022, which is likely to be largely qualitative in nature.

The Bank of England guidance for the CBES confirmed that it is exploratory in nature and not intended to be used to set capital requirements. In the aforementioned 'Climate Change Adaptation Report 2021', the Bank of England confirmed that over the coming year it will undertake further analysis to explore enhancements to the regulatory capital frameworks as they relate to climate related financial risk. To support this work, the Bank of England will put out a 'Call for Papers' and host a Research Conference on the interaction between climate change and capital in Q4 2022. Informed by these steps and internal analysis, the Bank of England is expected to publish a follow-up report on the use of capital including on the role of any future scenario exercises by the end of 2022. It is therefore likely that in the coming years financial institutions, including NatWest Group (including NWM Group), may be required to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related financial risks, which could, in turn, negatively impact NWM Group.

Any failure of NWM Group to fully and timely embed climate-related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may have a material and adverse impact on NWM Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.
Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, reliable, consistent and comparable climate-related data from counterparties or customers. These may not be generally available or, if available, may not be accurate, verifiable, reliable, consistent, or comparable. Any failure of NWM Group to incorporate climate-related factors into its counterparty and customer data sourcing and accompanying analytics, or to develop accurate, reliable, consistent and comparable counterparty and customer data, may have a material adverse impact on NWM Group's ability to prepare meaningful reporting of climate-related risks and opportunities, its regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWM Group, is necessarily based therefore on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. Accordingly, our climate-related disclosures use a greater number and level of assumptions and estimates than many of our financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these climate related disclosures, make any assessment of materiality inherently uncertain. In particular, in the absence of actual emissions monitoring and measurement, emissions estimates are based on industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps, particularly for private companies, that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, our climate related disclosures may be amended, updated or restated in the future as the quality and completeness of our data and methodologies continue to improve.
These data quality challenges, gaps and limitations could have a material impact on NWM Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, comply with disclosure requirements and our ability to monitor and report our progress in meeting our ambitions, targets and commitments.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations mentioned above, the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is a significant uncertainty about how climate change and the transition to a net zero economy will unfold over the coming decades and affect how and when climate-related risks will manifest. These timeframes are considerably longer than NWM Group's historical strategic, financial, resilience and investment planning horizons.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack and/or quality of historical testing capabilities, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example.

- climate scenarios are not predictions of what is likely to happen or what NatWest Group would like to happen, they rather explore the possible implications of different judgments and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- lack of specialist expertise in banks such that NWM Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- immaturity of modelling of and data on the impact of climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward- looking nature of climate scenarios which makes

them challenging to back test and benchmark;
- the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;
- the assumptions will be continually evolving with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to emissions.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, including emissions reductions targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWM Group to appropriately assess, model and manage climate-related risks and the suitability of the assumptions required to model and manage climate-related risks appropriately are developing. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse impact on NWM Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWM Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM Group, its reputation, business, results of operations and outlook.

Investors, customers, international organisations, regulators and other stakeholders are increasingly focusing on identification, measurement, management and mitigation of 'sustainability-related' risks and opportunities such as environmental (including biodiversity and loss of natural capital); social (including diversity and inclusion, the living wage, fair taxation and value chains); and governance (including board diversity, ethics, executive compensation and management structure) related risks and opportunities and on long term sustainable value creation.

Financial institutions, including NWM Group, are directly and indirectly exposed to multiple types of environmental and biodiversity-related risk through their activities, including risk of default by clients. Additionally, there is a growing need to move from safeguards and interventions that focus on reducing negative impacts on environment and biodiversity towards those that focus on increasing positive impact on environment and biodiversity and nature-based solutions. In 2021, NatWest Group (including NWM Group) accordingly classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWM Group) within its Risk Management Framework. This is an evolving and complex area which requires collaborative approaches with partners, stakeholders and peers to help measure and mitigate negative impacts of financing activities on the environment, biodiversity and nature as well as supporting the growing sector of nature-based solutions, habitat restoration and biodiversity markets. NatWest Group, including NWM Group, is in the early stages of developing its approach and NatWest Group, including NWM Group, recognises the need for more progress.

There is also increased investor, regulatory and customer scrutiny regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management which may impact NWM Group's employees, customers, and their business activities or the communities in which they operate. There is also growing attention on the need for a 'just transition' and "energy justice" – in recognition that the transition to a net zero economy should not disproportionally affect the most disadvantaged members of society. The increased focus on these issues may create reputational and other risks for financial institutions, including NWM Group. In addition to climate-related risks, sustainability-related risks (i) may also adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system; (ii) may impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes); (iii) may also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to sustainability-related risks; (iv) can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors associating the NWM Group or its customers with adverse sustainability-related issues; and (v) intersect with and further complexity and challenge to achieving our purpose-led strategy including climate ambitions, targets and commitments. Together with climate-related risks, these risks may combine to generate even greater adverse effects on our business.

Furthermore, sustainability-related risks may be drivers of several different risk categories simultaneously and may exacerbate the risks described herein, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

Accordingly, any failure or delay by NWM Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these issues, and to manage these emerging sustainability-related risks and opportunities may have a material adverse impact NWM Group's reputation, liquidity position, business, results of operations, outlook and the value of NWM Group's securities.

Any reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group could have a negative impact on NatWest Group's (including NWM Group) or NWM Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWM Group) or NWM Group.

ESG ratings from agencies and data providers which rate how NatWest Group (including NWM Group) or NWM Group manage environmental, social and governance risks are increasingly influencing investment decisions or being used as a basis to label financial products and services as green or sustainable.

ESG ratings are (i) unsolicited; (ii) subject to the assessment and interpretation by

the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWM Group) or NWM Group by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and/or NWM Group's control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group (including NWM Group) could have a negative impact on NWM Group's reputation and could influence investors' risk appetite for NWM Group's and/or its subsidiaries' securities, particularly ESG securities and could affect a customer's willingness to deal with NWM Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM Group's business and expose NWM Group to increased costs of compliance, regulatory sanction and reputational damage.

There are an increasing number of EU, UK and other regulatory and legislative initiatives to address issues around climate, environmental and sustainability risks and opportunities and to promote the transition to a net zero economy. As a result, an increasing number of laws, regulations, legislative actions are likely to affect the financial sector and the real economy, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes.

Many of these initiatives are focused on developing standardized definitions for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers access to green and sustainable financial products and services which may have a significant impact on the services provided by NWM Group and its associated credit, market and financial risk profile. They could also impact NWM Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NWM Group's ability to achieve its climate strategy and climate and sustainable funding and financing ambitions.

In addition, NatWest Group and its subsidiaries are and will be subject to increasing entity wide climate-related and other non-financial disclosure requirements. pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD') and under other regimes. From February 2022, NatWest Group will be required to provide enhanced climate-related disclosures consistent with the TCFD recommendations to comply with the FCA Policy Statement on the new Listing Rules (PS 20/17) that require commercial companies with a UK premium listing – such as NatWest Group - to make climate related disclosures, consistent with TCFD, on a 'comply or explain' basis. The FCA is proposing to expand this requirement to a wider scope of listed issuers which would include NatWest Group' subsidiaries – including NWM Group - as it moves towards mandatory TCFD reporting across the UK economy by 2025 (See also, '*There are significant challenges in relation to climate-related data due to quality and other limitations, lack of standardisation, consistency and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate-related risks.*')

In addition, NWM Group's EU subsidiaries and branches are and will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements. These requirements may be used as the basis for UK laws and regulations (such as the UK Green Taxonomy) or regarded by investors and regulators as best practice standards whether or not they apply to UK businesses. Any divergence between UK, EU/EEA and US climate and sustainability-related legal and regulatory requirements may result in NWM Group not meeting investors' expectations, may increase the cost of doing business and may restrict access of NWM Group's UK business to the EU/EEA market.

NatWest Group (including NWM Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related requirements is likely to require NWM Group to implement significant changes to its business models, product and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, entail additional change risk and compliance costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWM Group's regulatory compliance and may result in regulatory sanction, reputational damage and investor disapproval each of which could have an adverse effect on NWM Group's business, results of operations and outlook.

NWM Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations, and conduct risk.

Due to increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWM Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) failures to meet obligations, targets or commitments relating to or to disclose accurately or provide updates on material climate and/or sustainability related risks or otherwise provide appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and other customer protection type claims; (iii) marketing that portrays products, securities, activities or policies as producing positive climate, environmental or sustainable outcomes to an extent that may not the case; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) alleged violations of officers', directors' and other fiduciaries' fiduciary duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (vi) changes in understanding of what constitutes positive climate, environmental or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations; (vi) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, including any failure in timely implementation, onboarding and/or updating of such systems or processes; or (vii) counterparties, collaborators and third parties in NWM Group's value chain action who act, or fail to act or undertake due diligence or apply appropriate risk management and product governance in a manner that impacts Natwest Group's reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWM Group for financing or contributing to climate change and environmental degradation and for not supporting the principles of "just transition" (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).

There is a risk that as climate science develops and societal understanding of climate science increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate related matters retrospectively when assessing claims about historic conduct or dealings of financial institutions, including NWM Group.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group's ability to achieve its strategy, including its climate ambition, and they could have an adverse effect on NWM Group's reputation, business, financial results, position and prospects, results of operations and outlook.

Operational and IT resilience risk

Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. NWM Group operates in a number of countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including financial crime and fraud), for which there is now greater scrutiny by third parties on NWM Group's compliance with financial crime requirements; see '*NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group*'). These risks are also present when NWM Group relies on third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of new technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the NWM Refocusing, NatWest Group's purpose-led strategy, NWM Group's current cost-reduction measures and conditions affecting the financial services industry generally (including the COVID-19 pandemic and other geo-political developments) and in particular the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWM Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. A failure by NatWest Bank Plc to adequately supply these services may expose NWM Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely impact NWM Group's business, results of operations and outlook.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM Group. Ineffective management of such risks could adversely affect NWM Group.

NWM Group is subject to increasingly sophisticated and frequent cyberattacks.

NWM Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM Group) and against NatWest Group and NWM Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM Group relies. NWM Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2021, NWM Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWM Group's customers. NWM Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWM Group's IT systems. NWM Group has information and cyber security controls in place to minimise the impact of any attack, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, '*NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Group*'.

Any failure in NWM Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for clients and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect NWM Group's ability to retain and attract clients. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWM Group's systems to disclose sensitive information in order to gain access to NWM Group's data or that of NWM Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which could negatively impact NWM Group. Due to NWM Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may adversely impact NWM Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of NWM Group, its clients and its employees. In order to meet this requirement, NWM Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

NWM Group operations and strategy are highly dependent on the accuracy and effective use of data.

NWM Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. The availability of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have that data or the ineffective use, governance or control of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services. This could also result in a failure to deliver NWM Group's strategy and could place NWM Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM Group's strategy. These data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with customer data protection laws could give rise to, for example, conduct and litigation risks and increased risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions. Any of the above may lead to key business processes being negatively impacted by inappropriately managed data, which could lead to material financial, customer and regulatory impacts.

NWM Group relies on attracting, retaining, developing and remunerating diverse senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations.

NWM Group's success depends on its ability to attract, retain, through creating an inclusive environment, and develop and remunerate highly skilled and qualified diverse personnel, including senior management, directors, market trading specialists and key employees, especially for technology and data focused roles, in a highly competitive market, in an era of strategic change and under internal cost reduction pressures.

The inability to compensate employees competitively and/or any reduction of compensation as a result of the impact of the NWM Refocusing, the perception that following the Refocusing NWM Group may not be a viable or competitive business, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks in receipt of government support such as NatWest Group), negative economic developments or other factors, could have an adverse effect on NWM Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which could have an adverse effect on financial position and prospects of NWM Group.

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of diverse candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may have an adverse impact on NWM Group's employee engagement and the formulation and execution of its strategy, and could also have a negative effect on its reputation with customers, investors and regulators. The NWM Refocusing has also reduced NWM Group's ability to engage in succession planning for critical roles given the recent reduction in headcount. This has placed increased risk on employee turnover within revenue generating areas.

Sustained periods of remote working may also negatively affect workforce morale. Whilst NWM Group has taken measures seeking to maintain the health, wellbeing and safety of its employees, these measures may be ineffective.

Some of NWM Group's employees are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NWM Group in maintaining good employee relations. Any breakdown of these relationships could have an adverse effect on NWM Group.

NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Group.

NWM Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWM Group's) transactional and payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), is critical to NWM Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to NWM Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations) or a breach of

applicable regulations and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as most of NWM Group's employees continue to work remotely, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings (see also '*NWM Group's current policy is that most employees will work remotely majority of the time. This may adversely affect NWM Group's ability to maintain effective internal controls*').

In 2021, NWM Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). As part of the NWM Refocusing, NWM Group also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, could negatively affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby negatively impacting NWM Group. See also, '*— NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'.

Remote working may adversely affect NWM Group's ability to maintain effective internal controls.

From March 2020 to September 2021, many of NWM Group's employees worked exclusively on a remote basis. Following the lifting of government restrictions, NWM Group will implement a new hybrid working policy whereby many employees may work remotely the majority of the time in the ordinary course of their roles.

Remote working arrangements for NWM Group employees continues to place heavy reliance on the IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities, and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime. See also, '*A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives*'. Moreover**,** the IT systems that enable remote working interface with third-party systems, and NWM Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations. See also, '*NWM Group's operations are highly dependent on its complex IT systems (including those that enable remote working) and any IT failure could adversely affect NWM Group*'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM Group has taken measures seeking to maintain the health, wellbeing and safety of its employees during the COVID-19 pandemic, these measures may be ineffective. Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM Group's external stakeholders (including clients), may result in challenges in managing daily cash and liquidity. As a result of remote working, compliance and conduct risk may also be heightened both as a result of internal and external factors.

Any of the above could impair NWM Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWM Group's ability to serve its clients efficiently, and impact productivity across NWM Group. This could adversely affect NWM Group's reputation and competitive position and its ability to grow its business.

A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NWM Group's activities and includes the definition and monitoring of NWM Group's risk appetite and reporting on NWM Group's risk exposure and the potential impact thereof on NWM Group's financial condition. Risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant data, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWM Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NatWest Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWM Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. NWM Group's financial crime controls are operated by NatWest Group on behalf of NWM Group.

NWM Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM Group's regulatory obligations, client needs or do not reflect NWM Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement.

NWM Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM Group.

These risks may be exacerbated as most of NWM Group's employees continue to work remotely, which places additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

NWM Group is seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate NWM Group from future instances of misconduct and no assurance can be given that NWM Group's strategy and control framework will be effective. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'. Any failure in NWM Group's risk management framework could negatively affect NWM Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

NWM Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of NWM Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to the NWM Refocusing and related targets, due to any events, behaviour, action or inaction by NWM Group, its employees or those with whom NWM Group is associated. See also, '*NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group*'. This includes brand damage, which may be detrimental to NWM Group's business, including its ability to build or sustain business relationships with clients, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding. Reputational risk may arise whenever there is a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWM Group's ability to attract and retain clients. In particular, NWM Group's ability to attract and retain clients may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which NWM Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWM Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support for NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short timeframes and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although NWM Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers and clients, transactions, products and issues, which represent a reputational risk, NWM Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk

NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.

NWM Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of Brexit. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced regulations in respect of the provision of 'investment services and activities'), enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital markets. Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

For example, NWM Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risk. Material consequences could arise should NWM Group be found to be non-compliant with these regulatory requirements. Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWM Group include, but are not limited to:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, including the UK Data Protection Framework and the impact of the Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that the Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM Group's operations, such as the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in the scope and administration of the Bank Levy, changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- increased regulatory focus on customer protection (such as the FCA's consumer duty consultation paper (CP21/13)) in retail or other financial markets;
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NWM Group; and
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks' regulatory reporting governance and controls, and regulatory scrutiny following the 2019 PRA "Dear CEO letter" letter regarding PRA's ongoing focus on: the integrity of regulatory reporting, which the PRA considers has equal standing with financial reporting; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group; the publication of the PRA's common findings from those reviews in September 2021; and NatWest Group's programme of improvements to meet PRA expectations.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM Group's authorisations and licences, the products and services that NWM Group may offer, its reputation and the value of its assets, NWM Group's operations or legal entity structure, and the manner in which NWM Group conducts its business. Material consequences could arise should NWM Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM Group to comply with such laws, rules and regulations, may adversely affect NWM Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWM Group's ability to engage in effective business, capital and risk management planning.

NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.

NWM Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWM Group has resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM Group is currently, has recently been and will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation.

NWM Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations include NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations, as well as approximately US$35 million in fines and restitution. For additional information relating to these and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see '*Litigation and regulatory matters*' at Note 25 to the consolidated accounts.

The recent guilty plea, other recently resolved matters in the United States, and adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third party scrutiny and could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely impact NWM Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties could adversely impact NWM Group's reported financial results and condition, capital position or reputation. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWM Group to its regulators, or the conditions of probation resulting from the spoofing-related guilty plea, may result in additional measures or penalties being taken against NWM Group.

NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk-free rates.

UK and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), including LIBOR, to alternative rates, primarily risk-free rates ('RFRs'). As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2 month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1, 3, and 6 month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability) Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have not pro-actively transitioned onto alternative rates. However, the FCA has been clear that the solutions provided under UK BMR and the Critical Benchmarks Act are not permanent and cannot be guaranteed after the end of 2022 (and for JPY the FCA has confirmed that Art23A LIBOR will no longer be available after the end of 2022). This framework and its lack of permanence may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts onto alternative rates and, depending on the notice given for any further restrictions, this transition may need to be completed very quickly; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR, as the FCA has chosen not to permit the use of Art23A LIBOR for cleared derivatives. Although the formal cessation date for the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have been clear that this is only to support the rundown of back book USD LIBOR exposures, and that no new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NatWest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors up until they cease at the end of June 2023.

Natwest Group had significant exposures to IBORs and has actively sought to transition away from these during 2021, in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products on using alternative rates, primarily but not exclusively RFRs rather than LIBOR, pro-actively restructuring existing LIBOR exposures so that they cease to reference LIBOR and instead reference alterative rates and embedding language into contracts that allows for the automatic conversion to alternative rates when LIBOR ceases to be available. The main Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR cleared derivatives to fully transition all outstanding LIBOR exposure to the relevant RFR. Key Natwest Group entities, along with many of their major counterparties, have already adhered to the ISDA IBOR fall-backs supplement and protocol which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for non-cleared derivative products.

These transition efforts have involved extensive engagement with customers, industry working groups and regulators, to seek deliver transition in a transparent and economically appropriate manner. Any economic impacts will be dependent on, amongst other things, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be pro-actively changed which could, depending on any over-arching legislative transition frameworks, potentially result in fundamentally different economic outcomes than originally intended. The uncertainties around the manner of transition to RFRs, and the ongoing broader acceptance and use of RFRs across the market, expose NWM Group, its clients and the financial services industry more widely to risks.

Examples of these risks may include: (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, but not limited to, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to impacted IBORs that may impact NWM Group's performance, including its cost of funds, and its risk management related financial models; (iii) pricing, interest rate or settlement risks, such as changes to benchmark rates could impact pricing, interest rate or settlement mechanisms on certain instruments; (iv) operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct and litigation risks

arising from communication regarding the potential impact on customers, and engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto alternative rates has been fully completed and there is greater experience of how RFRs are adopted across different products and customer groups, it remains difficult to determine to what extent the changes will affect the NWM Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, the take up of alternative reference rates or other reforms, may adversely affect financial instruments originally referencing LIBOR as the benchmarks. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on the NWM Group's profitability.

Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM Group.

In accordance with the accounting policies set out in the section '*Critical accounting policies and key sources of estimation uncertainty*', NWM Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £104 million as at 31 December 2021. Changes to the treatment of certain deferred tax assets may impact NWM Group's capital position. In addition, NWM Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Forward-looking statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. In particular, this document includes forward-looking targets and guidance relating to financial performance measures, such as income growth, operating expense, cost reductions, impairment loss rates, balance sheet reduction, including the reduction of RWAs, CET1 ratio (and key drivers of the CET1 ratio, including timing, impact and details), Pillar 2 and other regulatory buffer requirements and MREL and non-financial performance measures, such as climate and ESG-related performance ambitions, targets and metrics, including in relation to initiatives to transition to a net zero economy, Climate and Sustainable Funding and Financing (CSFF) and financed emissions. In addition, this document includes forward-looking statements relating, but not limited to: the COVID-19 pandemic and its impact on NWM Group; planned cost reductions, disposal losses and strategic costs; implementation of NatWest Group's, NWM Group's strategy and other strategic priorities (including in relation to investment programmes relating to digital transformation of their operations and services and inorganic opportunities); the timing and outcome of litigation and government and regulatory investigations; funding plans and credit risk profile; managing its capital position; liquidity ratio; portfolios; net interest margin; and drivers related thereto; lending and income growth, product share and growth in target segments; impairments and write-downs; restructuring and remediation costs and charges; NWM Group's exposure to political risk, economic assumptions and risk, climate, environmental and sustainability risk, operational risk, conduct risk, financial crime risk, cyber, data and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's and NWM Group's strategy or operations, which may result in NWM Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. The forward-looking statements contained in this document speak only as of the date we make them and we expressly disclaim any obligation or undertaking to update or revise any forward-looking statements contained herein, whether to reflect any change in our expectations with regard thereto, any change in events, conditions or circumstances on which any such statement is based, or otherwise, except to the extent legally required.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the risk factors and the other uncertainties described in NatWest Markets Plc's Annual Report and its other public filings. The principal risks and uncertainties that could adversely NWM Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to: economic and political risk (including in respect of: the impact of the COVID-19 pandemic on NWM Group and its customers; political and economic risks and uncertainty in the UK and global markets; uncertainty regarding the effects of Brexit; changes in interest rates and foreign currency exchange rates; and HM Treasury's ownership of NatWest Group plc); strategic risk (including in respect of: the implementation of NatWest Group's and NWM Group's strategy and NWM Group's ability to achieve its targets; the effect of the COVID-19 pandemic on NWM Group's strategic objects and targets); financial resilience risk (including in respect of: NWM Group's ability to meet targets; the competitive environment; counterparty risk; prudential regulatory requirements for capital and MREL; funding and liquidity risk; changes in the credit ratings; the adequacy of NatWest Group's resolution plans; the requirements of regulatory stress tests; model risk; sensitivity to accounting policies, judgments, assumptions and estimates; changes in applicable accounting standards; and the application of UK statutory stabilisation or resolution powers); climate and sustainability risk (including in respect of: risks relating to climate change and the transitioning to a net zero economy; the implementation of NatWest Group's and NWM Group's climate change strategy and climate change resilient systems, controls and procedures; climate-related data and model risk; the failure to adapt to emerging climate, environmental and sustainability risks and opportunities; changes in ESG ratings; increasing levels of climate, environmental and sustainability related regulation and oversight; and climate, environmental and sustainability related litigation, enforcement proceedings and investigations); operational and IT resilience risk (including in respect of: operational risks (including reliance on third party suppliers); cyberattacks; the accuracy and effective use of data; complex IT systems (including those that enable remote working); attracting, retaining and developing senior management and skilled personnel; NWM Group's risk management framework; and reputational risk); and legal, regulatory and conduct risk (including in respect of: the impact of substantial regulation and oversight; compliance with regulatory requirements; the outcome of legal, regulatory and governmental actions and investigations; the transition of LIBOR other IBOR rates to alternative risk-free rates;) and changes in tax legislation or failure to generate future taxable profits).

Caution about climate and sustainable funding and financing (CSFF) information.

Climate and ESG disclosures in this report use a greater number and level of judgments, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities, than our reporting of historical financial information. These judgments, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, our climate risk analysis and net zero strategy remain under development, and the data underlying our analysis and strategy remain subject to evolution over time. As a result, we expect that certain climate and ESG disclosures made in this report are likely to be amended, updated, recalculated or restated in the future. This forward-looking statement should be read together with the 'Climate-related and other forward-looking statements and metrics' of the NatWest Group 2021 Climate-related Disclosures Report.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or a solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

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