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Approval of Strategic report

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

By order of the Board

Jan Cargill



Building a purpose-led bank to champion potential

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

Howard Davies
Chairman

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

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

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

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

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



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

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

Alison Rose
Group Chief Executive Officer

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

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

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

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

Thrive together

In spite of the difficult economic environment and the pressure this continues to place

Delivering on our strategy

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

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

At the same time, our digital transformation accelerated as our customers chose to interact with us in different ways. Around 60% of our retail current account holders now only interact with us digitally⁽¹⁾ and we have seen further strong growth in mobile payments and video banking. This digitalisation of customer journeys is crucial to our future

growth, and our Net Promoter Scores are improving in key segments as a result. For example, our much-improved online process for renewing mortgages now takes as little as 10 minutes.

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

As the UK’s leading business bank and a committed champion of start-ups, we are removing barriers to enterprise, tackling inequality and supporting growth by helping entrepreneurs achieve their ambitions. We offer the UK’s largest fully funded business accelerator network, with accelerator hubs across the country providing support for high-growth businesses, especially those led by under-represented groups. During the pandemic, we pivoted this support for entrepreneurs to be delivered digitally, as we did with our ‘Dream Bigger’ programme

A relationship bank for a digital world

We are guided by our purpose

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

[Read more on page 13](#)

We are informed by the needs of our stakeholders

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



Customers



Investors



Colleagues



Communities



Regulators



Suppliers

[Read more on pages 14-17 and 54-63](#)

We have four strategic priorities...

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



Supporting customers at every stage of their lives



Powered by innovation and partnerships



Simple to deal with



Sharpened capital allocation

Stakeholder engagement

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

- How we engage across the company
- How we engage at Board level

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

Key ESG topics for our stakeholders

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

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

How we engaged	What we discussed	Outcome of engagements	Challenges we faced
 Customers – the people and businesses we serve			
Face to face with retail customers via branches, mobile branches			

How we engaged	What we discussed	Outcome of engagements	Challenges we faced
 Communities – the places where we have an impact			
- We continued to engage with our charity relationships, supporting them through Payroll Giving, colleague fundraising and volunteering, and disaster and emergency appeals. - We supported young people through the delivery of our MoneySense and CareerSense programmes. - NGOs, academia and think tanks.	- We discussed raising awareness of charitable donations, and enabling employee volunteering and fundraising opportunities through our Do Good Feel Good campaign. - MoneySense gave financial advice to young people while our CareerSense programme provided critical employability skills – especially to those from underprivileged backgrounds. - We discussed several climate-related topics, such as our lending policies, Paris Alignment, biodiversity and COP26.	(*) Within the scope of EY assurance. Refer to page 78 - Our direct community investment in 2021 amounted to £7,266,818^(*). Across all of our fundraising and volunteering programmes, our colleagues have given £3,543,533 and 43,003 worktime volunteering hours. - MoneySense has helped 10 million young people learn about money since it was launched in 1994, and is currently supported by over 6000 active volunteer colleagues. CareerSense has seen 8,200 pupil registrations since its launch in June 2021. - We sponsored COP26, published our first Nature and Biodiversity Statement, and signed up to the Net Zero Banking Alliance and other commitments.	During 2021, the COVID-19 pandemic resulted in NatWest Group temporarily closing two popular volunteering programmes – MoneySense for Schools and The Conservation Volunteers (TCV). MoneySense for Schools remained closed throughout 2021, though online resources were still available. However, due to the TCV programme being delivered outdoors, in June we were once again able to offer colleagues the chance to do their bit to help nature and biodiversity to thrive.
The Chairman, Group CEO, Group CFO and selected non			

A strategy to deliver our purpose, driving sustainable returns

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



Supporting customers at every stage of their lives

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

Outcomes

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



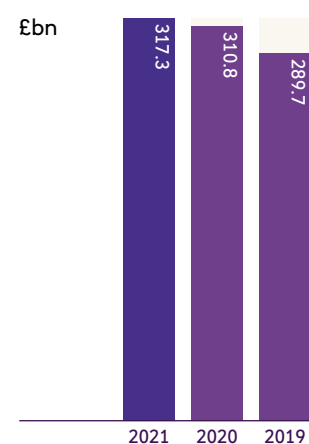
Powered by innovation and partnerships

- Around £3 billion in investment continues to be made (over 2021–2023), of which c.80% relates to digital and technology programmes.
- As the first major bank to join forces with a renewable energy supplier through our collaboration with Octopus Energy, we offer our retail, business and wealth

Measuring our performance

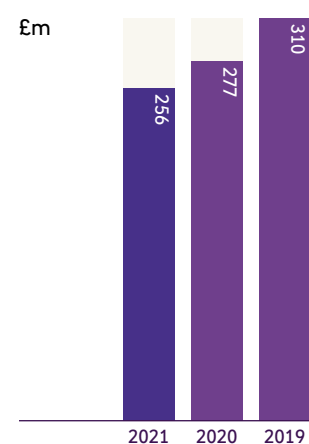
Financial

Net lending



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

Cost reduction



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

CET1 ratio



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

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

Our ambition

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



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

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

NatWest Group continues to adapt to evolving market trends

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

Economy

Overview

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

Our response

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

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

Ulster Bank RoI

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

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

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

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

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

Customers continued

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

Overall NPS

Banking:

Retail Business Commercial

NatWest

Q4 2021

13

Q4 2020

7

Source: Strategic NPS benchmarking study run through InMoment, England & Wales

Q4 2021

-2

Q4 2020

-2

Source: MarketVue Business Banking from Savanta, England & Wales, businesses with a turnover up to £2m

Q4 2021

22

Q4 2020

Climate-related disclosures overview

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

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

Governance

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

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

Summary

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

Future priorities

- Continue to oversee progress against NatWest Group's climate ambitions and targets, particularly long term reduction in financed emissions and development of transition plans to support this.
- Continue to build knowledge at Board level and to



Risk Management

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

Our processes for identifying and assessing climate-related risks

Summary

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

Non-financial information statement

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

ESG reporting frameworks and guidance

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

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

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

Assurance Approach

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

Segment performance continued

Central items & other

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

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

2021 compared with 2020

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

Summary financial statements

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

	2021 £m
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