

National Westminster Bank Plc

2021 Annual Results



NatWest

Financial review

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Presentation of information

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

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

Description of business

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

Principal activities and operating segments

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

The reportable operating segments are as follows:

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

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

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

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

Performance overview

Financial performance in a challenging environment

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

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

Financial review continued

Robust balance sheet with strong capital levels

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

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

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

Summary consolidated income statement for the year ended 31 December 2021

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

Key metrics and ratios

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

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

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

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

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

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

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

Other operating income increased by £24 million to £1,785 million compared with £1,761 million in 2020, reflecting:

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

Operating expenses increased by £15 million to £6,199 million, compared with £6,184 million in 2020, reflecting:

- a non-repeat PPI provision releases in 2020 of £171 million;
- an overall increase in conduct and litigation charges in 2021; offset by,
- overall cost reductions in 2021 following property exits.

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

Summary consolidated balance sheet as at 31 December 2021

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

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

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

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

Loans to customers increased by £15.4 billion to £287.0 billion, compared with £271.6 billion at 31 December 2020, driven by:

- £13.0 billion mortgage growth as a result of strong gross new lending;
- £4.3 billion net increase in relation to Treasury repo activity;
- £1.2 billion decrease in impairment provisions; offset by
- £2.4 billion decrease in commercial lending primarily reflecting targeted sector reductions and UK Government support scheme repayments of £0.6 billion.

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

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

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

Customer deposits increased by £35.8 billion to £329.4 billion, reflecting:

- £26.4 billion growth in deposits as customers continued to build and retain liquidity in light of economic uncertainty; and
- £9.4 billion increase in repos facing customers.

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

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

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

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

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

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

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 84 to 94 of the NatWest Bank Group Plc 2021 Annual Report and Accounts.

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

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

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade
Chief Executive Officer

Katie Murray
Chief Financial Officer

17 February 2022

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade
Katie Murray

Non-executive directors

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

Consolidated income statement for the year ended 31 December 2021

	2021 £m	2020 £m
Interest receivable	6,721	6,825
Interest payable	(719)	(1,015)
Net interest income	6,002	5,810
Fees and commissions receivable	1,862	1,685
Fees and commissions payable	(380)	(301)
Other operating income	1,785	1,761
Non-interest income	3,267	3,145
Total income	9,269	8,955
Staff costs	(2,815)	(2,823)
Premises and equipment	(948)	(1,044)
Other administrative expenses	(1,660)	(1,476)
Depreciation and amortisation	(776)	(841)
Operating expenses	(6,199)	(6,184)
Profit before impairment releases/(losses)	3,070	2,771
Impairment releases/(losses)	813	(2,169)
Operating profit before tax	3,883	602
Tax charge	(976)	(66)
Profit for the year	2,907	536
Attributable to:		
Ordinary shareholders	2,793	380
Paid-in equity holders	109	152
Non-controlling interests	5	4
	2,907	536

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

	2021 £m	2020 £m
Profit for the year	2,907	536
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	(531)	(76)
Tax	158	35
	(373)	(41)
Items that do qualify for reclassification		
FVOCI financial assets	(96)	47
Cash flow hedges	180	(218)
Currency translation	(22)	7
Tax	(40)	41
	22	(123)
Other comprehensive loss after tax	(351)	(164)
Total comprehensive income for the year	2,556	372
Attributable to:		
Ordinary shareholders	2,442	216
Paid-in equity holders	109	152
Non-controlling interests	5	4
	2,556	372

Balance sheet as at 31 December 2021

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Assets				
Cash and balances at central banks	101,213	62,983	101,210	62,878
Derivatives	2,460	3,288	2,547	3,438
Loans to banks - amortised cost	4,182	3,344	3,638	2,798
Loans to customers - amortised cost	286,971	271,581	255,443	238,366
Amounts due from holding companies and fellow subsidiaries	3,519	3,305	27,122	28,176
Securities subject to repurchase agreements	10,813	11,438	10,813	11,438
Other financial assets excluding securities subject to repurchase agreements	18,218	26,557	17,836	26,168
Other financial assets	29,031	37,995	28,649	37,606
Investment in group undertakings	—	—	2,319	2,374
Other assets	7,187	7,043	5,183	4,967
Total assets	434,563	389,539	426,111	380,603
Liabilities				
Bank deposits	22,831	14,871	22,829	14,866
Customer deposits	329,440	293,605	292,470	255,290
Amounts due to holding companies and fellow subsidiaries	45,136	37,559	76,722	69,617
Derivatives	4,119	6,552	4,336	6,769
Other financial liabilities	7,251	10,383	6,384	9,612
Subordinated liabilities	211	1,230	205	1,230
Notes in circulation	904	1,012	904	1,266
Other liabilities	3,934	4,435	3,095	3,489
Total liabilities	413,826	369,647	406,945	362,139
Owners' equity	20,727	19,882	19,166	18,464
Non-controlling interests	10	10	—	—
Total equity	20,737	19,892	19,166	18,464
Total liabilities and equity	434,563	389,539	426,111	380,603

Owners' equity of NWB Plc as at 31 December 2021 includes the profit for the year of £2,752 million (2020 - £722 million).

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

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Called-up share capital - at 1 January and 31 December	1,678	1,678	1,678	1,678
Share premium - at 1 January and 31 December	2,225	2,225	2,225	2,225
Paid-in equity - at 1 January	2,370	2,370	2,370	2,370
Redemption	(934)	—	(934)	—
Issued during the year	941	—	941	—
At 31 December	2,377	2,370	2,377	2,370
Merger reserve - at 1 January	9	167	(140)	(231)
Addition	—	(34)	—	—
Amortisation	5	(124)	51	91
At 31 December	14	9	(89)	(140)
FVOCI reserve - at 1 January	280	250	279	251
Unrealised gains	26	157	28	155
Realised (gains)	(122)	(110)	(122)	(110)
Tax	8	(17)	8	(17)
At 31 December	192	280	193	279
Cash flow hedging reserve - at 1 January	(133)	27	(133)	27
Amount recognised in equity	102	(275)	100	(275)
Amount transferred from equity to earnings	78	57	79	57
Tax	(48)	58	(48)	58
At 31 December	(1)	(133)	(2)	(133)
Foreign exchange reserve - at 1 January	(63)	(70)	(13)	(14)
Retranslation of net assets	(44)	13	(18)	(2)
Foreign currency gains/(losses) on hedges of net assets	22	(5)	15	3
Recycled to profit or loss on disposal businesses	—	(1)	—	—
Tax	—	—	—	—
At 31 December	(85)	(63)	(16)	(13)
Capital redemption reserve - at 1 January	796	796	796	796
Redemption of preference shares	24	—	24	—
At 31 December	820	796	820	796
Retained earnings - at 1 January	12,720	12,223	11,402	10,924
Profit attributable to ordinary shareholders and other equity owners	2,902	532	2,752	722
Ordinary dividends paid	(1,600)	—	(1,600)	—
Paid-in equity dividends paid	(109)	(152)	(109)	(152)
Remeasurement of retirement benefit schemes (1)				
- gross	(531)	(76)	(545)	(70)
- tax	158	35	159	35
Amortisation of merger reserve	(5)	124	(51)	(91)
Redemption of preference shares	(24)	—	(24)	—
Redemption of paid-in equity (2)	(18)	—	(18)	—
Share based payments (3)	4	45	4	45
Shares issued under employee share schemes	10	(11)	10	(11)
At 31 December	13,507	12,720	11,980	11,402
Owners' equity at 31 December	20,727	19,882	19,166	18,464

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

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Non-controlling interests - at 1 January	10	6	—	—
Profit attributable to non-controlling interests	5	4	—	—
Dividends paid	(5)	—	—	—
At 31 December	10	10	—	—
Total equity at 31 December	20,737	19,892	19,166	18,464
Attributable to:				
Ordinary shareholders	18,350	17,512	16,789	16,094
Paid-in equity holders	2,377	2,370	2,377	2,370
Non-controlling interests	10	10	—	—
	20,737	19,892	19,166	18,464

- (1) Following the purchase of ordinary shares from UKGI in March 2021, NatWest Group contributed £500 million to its main pension scheme in line with the memorandum of understanding announced on 17 April 2018. After tax relief, this contribution reduced total equity by £365 million.
- (2) The redemption of paid-in equity includes a tax credit of £5 million.
- (3) Share-based payments includes a tax credit of £7 million.

Cash flow statement for the year ended 31 December 2021

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Cash flows from operating activities				
Operating profit before tax	3,883	602	3,542	689
Adjustments for:				
Impairment (releases)/losses	(813)	2,169	(732)	1,934
Amortisation of discounts and premiums of other financial assets	181	213	181	212
Depreciation and amortisation	776	841	594	650
Net impairment (reversals)/charges of investments in Group undertakings	—	—	61	50
Change in fair value taken to profit or loss of other financial assets	1,595	(1,436)	1,595	(1,436)
Change in fair value taken to profit or loss of other financial liabilities and subordinated liabilities	(420)	237	(418)	237
Elimination of foreign exchange differences	1,120	(758)	1,118	(749)
Other non-cash items	87	146	58	124
Income receivable on other financial assets	(412)	(250)	(412)	(251)
Profit on sale of other financial assets	(120)	(113)	(120)	(113)
Dividends receivable from subsidiaries	—	—	(424)	(489)
Profit on sale of subsidiaries and associates	—	(4)	—	—
Profit on sale of other assets and net assets/liabilities	34	(16)	34	(16)
Loss on redemption of own debt	117	—	117	—
Interest payable on MREs and subordinated liabilities	315	344	310	339
Charges and releases on provisions	388	189	388	183
Defined benefit pension schemes	173	168	146	136
Net cash flows from trading activities	6,904	2,332	6,038	1,500
Decrease/(increase) in derivative assets	930	(261)	991	(309)
Increase in net loans to banks	(89)	(401)	(155)	(391)
Increase in net loans to customers	(14,511)	(38,384)	(12,741)	(38,781)
(Increase)/decrease in amounts due from holding companies and fellow subsidiaries	(443)	146	5,288	891
(Increase)/decrease in other financial assets	(116)	20	(116)	20
Increase in other assets	(19)	(145)	(16)	(59)
Increase/(decrease) in bank deposits	7,960	(634)	7,963	(621)
Increase in customer deposits	35,835	51,488	28,707	46,592
Increase in amounts due to holding companies and fellow subsidiaries	6,033	14,799	5,426	17,285
(Decrease)/increase in derivative liabilities	(2,433)	1,654	(2,437)	1,756
Decrease in other financial liabilities	(5)	(1,051)	(100)	(1,150)
(Decrease)/increase in notes in circulation	(108)	170	(362)	1,266
Decrease in other liabilities	(1,199)	(672)	(1,121)	(862)
Changes in operating assets and liabilities	31,835	26,729	31,327	25,637
Income taxes (paid)/received	(923)	170	(791)	363
Net cash flows from operating activities ⁽¹⁾	37,816	29,231	36,574	27,500
Cash flows from investing activities				
Sale and maturity of other financial assets	10,272	12,091	9,884	11,702
Purchase of other financial assets	(3,193)	(7,816)	(2,811)	(7,428)
Income received on other financial assets	412	250	412	251
Net movement in business interests and intangible assets	(3,701)	(387)	(3,093)	(353)
Dividends received from subsidiaries	—	—	424	489
Sale of property, plant and equipment	58	319	17	125
Purchase of property, plant and equipment	(876)	(344)	(617)	(176)
Net cash flows from investing activities	2,972	4,113	4,216	4,610
Cash flows from financing activities				
Movement in MREs	1,762	648	1,515	654
Movement in subordinated liabilities	(1,267)	321	(1,267)	321
Dividends paid	(1,714)	(152)	(1,709)	(152)
Issue of paid-in equity	941	—	941	—
Redemption of paid-in equity	(934)	—	(934)	—
Net cash flows from financing activities	(1,212)	817	(1,454)	823
Effects of exchange rate changes on cash and cash equivalents	(979)	621	(984)	641
Net increase in cash and cash equivalents	38,597	34,782	38,352	33,574
Cash and cash equivalents at 1 January	68,048	33,266	67,194	33,620
Cash and cash equivalents at 31 December	106,645	68,048	105,546	67,194

(1) NWB Group includes interest received of £6,623 million (2020 - £6,736 million) and interest paid of £693 million (2020 - £1,092 million), and NWB Plc includes interest received of £5,937 million (2020 - £6,063 million) and interest paid of £779 million (2020 - £1,345 million).

Notes

1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with NatWest Bank Group's 2021 Annual Report and Accounts which were prepared in accordance with UK adopted International Accounting Standards and International Financial Reporting Standards.

Going concern

Having reviewed NWB Group's forecasts, projections, the potential impact of COVID-19, and other relevant evidence, the directors have a reasonable expectation that NWB Group will continue in operational existence for a period of not less than twelve months from 18 February 2022. Accordingly, the results for the year ended 31 December 2021 have been prepared on a going concern basis (see the Report of the directors on page 81 of the NatWest Bank Group 2021 Annual Report and Accounts).

2. Accounting policies

NWB Group's principal accounting policies are as set out on pages 100 to 105 of the NatWest Bank Group 2021 Annual Report and Accounts.

Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of NWB Group's financial condition are those relating to deferred tax, fair value of financial instruments, loan impairment provisions, and provisions for liabilities and charges. These critical accounting policies and judgements are noted) on page 105 of the NatWest Bank Group 2021 Annual Report and Accounts. Estimation uncertainty continues to be affected by the COVID-19 pandemic. Management's consideration of this source of uncertainty is outlined in the relevant sections of the NatWest Bank Group 2021 Annual Report and Accounts, including the ECL estimate for the period in the Risk and capital management section contained in the NatWest Bank Group 2021 Annual Report and Accounts.

Information used for significant estimates

The COVID-19 pandemic continued to cause significant economic and social disruption during year ended 31 December 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. Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods. (Refer to the Risk factors in the NatWest Bank Group 2021 Annual Report and Accounts).

Notes

3 Operating expenses

	2021 £m	2020 £m
Wages, salaries and other staff costs	2,079	2,110
Temporary and contract costs	206	213
Social security costs	241	236
Pension costs	289	264
- defined benefit schemes	173	168
- defined contribution schemes	116	96
Staff costs	2,815	2,823
Premises and equipment (1)	948	1,044
Depreciation and amortisation (2)	776	841
Other administrative expenses (3)	1,660	1,476
Administrative expenses	3,384	3,361
	6,199	6,184

(1) 2021 includes a cost of £7 million including accelerated depreciation of £28 million (2020 - £144 million including £71 million accelerated depreciation) in relation to the planned reduction of the property portfolio (2021 - freehold £3 million; leasehold £4 million; 2020 - freehold £1million; leasehold £143 million).

(2) 2021 includes a £36 million charge relating to the reduction in property portfolio, leasehold £29 million and freehold £7 million (2020 - £100 million charge, leasehold £81 million and freehold £19 million).

(3) Includes litigation and conduct costs. Further details are provided in Note 8.

4. Segmental analysis

Reportable operating segments

The reportable operating segments are as follows:

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

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

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

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

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
2021					
Net interest income	3,541	461	2,171	(171)	6,002
Net fees and commissions	303	239	947	(7)	1,482
Other operating income	42	24	93	1,626	1,785
Total income	3,886	724	3,211	1,448	9,269
Depreciation and amortisation	—	—	(146)	(630)	(776)
Other operating expenses	(1,917)	(513)	(1,746)	(1,247)	(5,423)
Impairment releases	23	53	737	—	813
Operating profit/(loss)	1,992	264	2,056	(429)	3,883
2020					
Net interest income	3,114	466	2,302	(72)	5,810
Net fees and commissions	300	235	854	(5)	1,384
Other operating income	(28)	16	80	1,693	1,761
Total income	3,386	717	3,236	1,616	8,955
Depreciation and amortisation	—	(8)	(149)	(684)	(841)
Other operating expenses	(2,064)	(444)	(1,862)	(973)	(5,343)
Impairment losses	(669)	(106)	(1,378)	(16)	(2,169)
Operating profit/(loss)	653	159	(153)	(57)	602

Notes

4 Segmental analysis continued

	Total revenue (1)				Total £m
	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	
2021					
External	4,660	703	3,030	1,975	10,368
Intersegment	97	161	147	(405)	—
Total	4,757	864	3,177	1,570	10,368
2020					
External	4,490	662	2,909	2,210	10,271
Intersegment	26	199	196	(421)	—
Total	4,516	861	3,105	1,789	10,271

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

	Total income				Total £m
	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	
2021					
External	3,791	668	3,191	1,619	9,269
Intersegment	95	56	20	(171)	—
Total	3,886	724	3,211	1,448	9,269
2020					
External	3,374	613	3,185	1,783	8,955
Intersegment	12	104	51	(167)	—
Total	3,386	717	3,236	1,616	8,955

Analysis of net fees and commissions

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
2021					
Fees and commissions receivable					
- Payment services	248	33	415	—	696
- Credit and debit card fees	276	10	111	—	397
- Lending and financing	11	10	416	—	437
- Brokerage	38	5	—	—	43
- Investment management, trustee and fiduciary services	3	214	—	—	217
- Other	—	35	128	(91)	72
Total	576	307	1,070	(91)	1,862
Fees and commissions payable	(273)	(68)	(123)	84	(380)
Net fees and commissions	303	239	947	(7)	1,482
2020					
Fees and commissions receivable					
- Payment services	209	26	390	—	625
- Credit and debit card fees	239	9	96	—	344
- Lending and financing	34	7	382	—	423
- Brokerage	41	6	—	—	47
- Investment management, trustee and fiduciary services	3	205	—	—	208
- Other	1	26	82	(71)	38
Total	527	279	950	(71)	1,685
Fees and commissions payable	(227)	(44)	(96)	66	(301)
Net fees and commissions	300	235	854	(5)	1,384

	Retail Banking £m	Private Banking £m	Commercial Banking £m	Central items & other £m	Total £m
2021					
Assets	168,228	18,509	83,347	164,479	434,563
Liabilities	153,653	37,219	133,156	89,798	413,826
2020					
Assets	156,829	17,113	84,629	130,968	389,539
Liabilities	143,638	30,392	125,635	69,982	369,647

Notes

5 Tax

	2021 £m	2020 £m
Current tax		
Charge for the year	(998)	(190)
Over provision in respect of prior years	38	10
	(960)	(180)
Deferred tax		
(Charge)/credit for the year	(195)	40
UK tax rate change impact (1)	161	82
Increase/(decrease) in the carrying value of deferred tax assets in respect of UK losses	14	(7)
Over/(under) provision in respect of prior years (2)	4	(1)
Tax charge for the year	(976)	(66)

(1) It was announced in the UK Government's budget on 3 March 2021 that the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021.

(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 19% (2019 – 19%) as follows:

	2021 £m	2020 £m
Expected tax charge	(738)	(114)
Losses and temporary differences in period where no deferred tax asset recognised	1	—
Foreign profits taxed at other rates	(6)	(3)
Items not allowed for tax:		
- losses on disposals and write-downs	(50)	(5)
- UK bank levy	(12)	(18)
- regulatory and legal actions	(73)	22
- other disallowable items	(15)	(39)
Non-taxable items	9	6
Taxable foreign exchange movements	1	—
Unrecognised losses brought forward and utilised	2	—
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses	14	(7)
Banking surcharge	(328)	(28)
Tax on paid in equity	16	29
UK tax rate change impact	161	82
Adjustments in respect of prior years	42	9
Actual tax charge	(976)	(66)

Judgment: Tax contingencies

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

For accounting policy information see Accounting policies note 2.

Notes

6 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
Loans - amortised cost				
Stage 1	264,656	217,575	236,255	192,484
Stage 2	26,003	57,864	22,492	49,473
Stage 3	2,985	3,254	2,548	2,438
Inter-Group (1)	2,555	2,685	25,362	27,092
Total	296,199	281,378	286,657	271,487
ECL provisions (2)				
Stage 1	231	365	207	305
Stage 2	1,105	2,060	1,026	1,808
Stage 3	1,167	1,285	1,037	1,093
Inter-Group	1	2	8	25
	2,504	3,712	2,278	3,231
ECL provision coverage (3)				
Stage 1 (%)	0.09	0.17	0.09	0.16
Stage 2 (%)	4.25	3.56	4.56	3.65
Stage 3 (%)	39.10	39.49	40.70	44.83
Inter-Group (%)	0.04	0.07	0.03	0.09
	0.85	1.33	0.87	1.31
Impairment (releases)/losses				
ECL (release)/charge (4)				
Stage 1	(995)	(69)	(945)	(51)
Stage 2	(30)	1,839	48	1,638
Stage 3	213	397	183	327
Third party	(812)	2,167	(714)	1,914
Inter-Group	(1)	2	(18)	20
	(813)	2,169	(732)	1,934
Amounts written-off	388	517	352	487

(1) NWB Group's intercompany assets are classified in Stage 1.

(2) Includes £3 million (2020 – £5 million) related to assets classified as FVOCI.

(3) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.

(4) Includes a £1 million charge (2020 – £9 million charge) related to other financial assets, of which a £2 million release (2020 – £2 million charge) related to assets classified as FVOCI; and a £13 million release (2020 – £13 million charge) related to contingent liabilities.

(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section of the NatWest Bank Group 2021 Annual Report and Accounts for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totaling £100.6 billion (2020 – £62.0 billion) and debt securities of £28.2 billion (2020 – £37.1 billion).

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security, refer to Risk and capital management – credit risk enhancement and mitigation section of the NatWest Bank Group 2021 Annual Report and Accounts.

Critical accounting policy: Loan impairment provisions

Accounting policies note 2 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to £2,504 million (2020 - £3,712 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

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

IFRS 9 ECL model design principles

Refer to Credit risk – IFRS 9 ECL model design principles section of the NatWest Bank Group 2021 Annual Report and Accounts 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 of the NatWest Bank Group 2021 Annual Report and Accounts for further details.

Notes

6 Loan impairment provisions continued

Segment analysis - portfolio summary

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

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

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

Notes

6 Loan impairment provisions continued Segment analysis - portfolio summary continued

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

(1) NWB Group's intercompany assets are classified in Stage 1.

(2) Includes £3 million (2020 – £5 million) related to assets classified as FVOCI.

(3) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.

(4) Includes a £1 million charge (2020 – £9 million charge) related to other financial assets, of which a £2 million release (2020 – £2 million charge) related to assets classified as FVOCI; and a £13 million release (2020 – £13 million charge) related to contingent liabilities

(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section of the NatWest Bank Group 2021 Annual Report and Accounts for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £100.6 billion (2020 – £62.0 billion) and debt securities of £28.2 billion (2020 – £37.1 billion).

(6) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

(7) Intercompany impairment charges are shown in Central items & other. In Note 4 to the financial statements - Segmental analysis - they are shown in the segments where the charges are booked.

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

Notes

7 Provisions for liabilities and charges

Provisions for liabilities and charges	NWB Group					Total £m
	Customer redress (1) £m	Litigation and other regulatory £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	
At 1 January 2021	440	12	208	106	177	943
Expected credit losses impairment release	—	—	—	(41)	—	(41)
Currency translation and other movements	—	—	—	(2)	—	(2)
Charge to income statement	108	270	93	—	141	612
Release to income statement	(18)	(8)	(109)	—	(89)	(224)
Provisions utilised	(232)	(270)	(26)	—	(120)	(648)
At 31 December 2021	298	4	166	63	109	640

Provisions for liabilities and charges	NWB Plc					Total £m
	Customer redress (1) £m	Litigation and other regulatory £m	Property (3) £m	Financial commitments and guarantees £m	Other (2) £m	
At 1 January 2021	432	1	197	95	143	868
Expected credit losses impairment release	—	—	—	(37)	—	(37)
Currency translation and other movements	2	—	5	2	6	15
Charge to income statement	99	270	90	—	133	592
Release to income statement	(14)	—	(107)	—	(83)	(204)
Provisions utilised	(226)	(270)	(22)	—	(112)	(630)
At 31 December 2021	293	1	163	60	87	604

- (1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
- (2) Other materially comprises provisions relating to restructuring costs.
- (3) Property provision materially includes dilapidation provisions. Release in property provision includes the effect of purchase of freeholds for properties where the group was the primary leaseholder.

Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

For accounting policy information see Accounting policies note 2.

Critical accounting policy: Provisions for liabilities

The key judgment is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgment is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgment is also involved in estimation of the probability, timing and amount of any outflows. Where NWB Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - Provisions are liabilities of uncertain timing or amount and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

- Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NWB Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 8.
- Property: This includes provision for contractual costs such as rates associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs such as rates associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 8.

Notes

8 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2021. Although NWB Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWB Group's expectation of future losses.

For accounting policy information see Accounting policies note 2.

	NWB Group		NWB Plc	
	2021 £m	2020 £m	2021 £m	2020 £m
Contingent liabilities and commitments				
Guarantees	796	762	742	674
Other contingent liabilities	1,193	1,404	1,187	1,361
Standby facilities, credit lines and other commitments	79,826	75,625	75,936	69,372
	81,815	77,791	77,865	71,407

(1) In the normal course of business, NWB Plc guarantees specified third party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements which are excluded from the table above.

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWB Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NWB Group's normal credit approval processes.

Guarantees - NWB Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that NWB Group will meet a customer's specified obligations to a third party if the customer fails to do so. The maximum amount that NWB Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. NWB Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Standby facilities and credit lines - under a loan commitment NWB Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by NWB Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

Indemnity deed

In April 2019, NWM Plc and NWB Plc entered into a cross indemnity agreement for losses incurred within the entities in relation to business transferred to or from the ring-fenced bank under the NatWest Group's structural re-organisation. Under the agreement, NWM Plc is indemnified by NWB Plc against losses relating to the NWB Plc transferring businesses and ring-fenced bank obligations and NWB Plc is indemnified by NWM Plc against losses relating to NWM Plc transferring businesses and non ring-fenced bank obligations with effect from the relevant transfer date.

Capital Support Deed

NWB Plc, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the NWB Plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWB Plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by NWB Plc from other parties to the CSD becomes immediately repayable, such repayment being limited to the NWB Plc's available resources.

Notes

8 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £216 million (2020 - £185 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

NWB Plc and its subsidiary and associated undertakings ('NWB Group') are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWB Group recognises a provision for a liability in relation to these Matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of these Matters, it is not possible to determine whether any loss is probable, or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NWB Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NWB Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWB Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWB Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWB Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 7 for information on material provisions.

We have provided information below on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters, see the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 185 of the NatWest Bank Group 2021 Annual Report and Accounts.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In January 2019, a class action antitrust complaint was filed in the United States District Court for the Southern District of New York alleging that the defendants (USD ICE LIBOR panel banks and affiliates) have conspired to suppress USD ICE LIBOR from 2014 to the present by submitting incorrect information to ICE about their borrowing costs. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The defendants made a motion to dismiss this case, which was granted by the court in March 2020. One plaintiff sought to appeal the dismissal, but on 14 February 2022, the United States Court of Appeals for the Second Circuit (US Court of Appeals) dismissed the appeal because that plaintiff lacks standing to maintain the appeal.

Notes

8 Memorandum items continued

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States consumer borrowers against the USD ICE LIBOR panel banks and their affiliates, alleging that the normal process of setting USD ICE LIBOR amounts to illegal price-fixing, and also that banks in the United States have illegally agreed to use LIBOR as a component of price in variable consumer loans. The NatWest Group defendants are NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc., and NWB Plc. The plaintiffs seek damages and to prevent the enforcement of LIBOR-based instruments through injunction. Defendants have filed a motion to dismiss, which remains pending.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice

of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay the £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

Litigation and regulatory matters

US Anti-Terrorism Act litigation

NWB Plc is a defendant in lawsuits filed in the United States District Court for the Eastern District of New York by a number of US nationals (or their estates, survivors, or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NWB Plc is liable for damages arising from those attacks pursuant to the US Anti-Terrorism Act because NWB Plc previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks.

In March 2019, the trial court granted summary judgment in favour of NWB Plc. In April 2021, the US Court of Appeals affirmed the trial court's judgment in favour of NWB Plc. In September 2021, the plaintiffs filed a petition seeking discretionary review by the United States Supreme Court and that petition remains pending.

Regulatory matters (including investigations and customer redress programmes)

NWB Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the UK, the US, the EU and elsewhere. NWB Group and/or NatWest Group have engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the UK, the US, the EU and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

NWB Group is co-operating fully with the matters described below.

Investigations

FCA investigation into NatWest Group's compliance with the Money Laundering Regulations 2007

Following an FCA investigation, commenced in 2017, into potential breaches of the UK Money Laundering Regulations 2007 ('MLR 2007'), NWB Plc pled guilty in October 2021 to three offences under regulation 45(1) of the MLR 2007 for failure to comply with regulation 8(1) between 7 November 2013 and 23 June 2016, and regulations 8(3) and 14(1) between 8 November 2012 and 23 June 2016. These regulations required the firm to determine, conduct and demonstrate risk sensitive due diligence and ongoing monitoring of its relationships with its customers for the purposes of preventing money laundering. The offences relate to operational weaknesses between 2012 and 2016, during which period NWB Plc did not adequately monitor the accounts of a UK incorporated customer. In December 2021, NWB Plc was fined £264.8 million, incurred a confiscation order and was ordered to pay costs. This was met by NWB Plc from existing provisions, with a small additional provision taken in Q4 2021.

Other material adverse collateral consequences may occur as a result of this matter, as further described in the Risk factor relating to legal, regulatory and governmental actions and investigations set out on page 185 of the NatWest Bank Group 2021 Annual Report and Accounts.

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.

Notes

8 Memorandum items continued

Customer redress programmes

FCA review of NatWest Group's treatment of SMEs

In 2014, the FCA appointed an independent Skilled Person under section 166 of the Financial Services and Markets Act 2000 to review NatWest Group's treatment of SME customers whose relationship was managed by NatWest Group's Global Restructuring Group (GRG) in the period 1 January 2008 to 31 December 2013. In response to the Skilled Person's final report and update in 2016, NatWest Group announced redress steps for SME customers in the UK and the Republic of Ireland that were in GRG between 2008 and 2013. These steps were (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an independent third party. Both processes have now been completed. Accordingly, NatWest Group retains only a small residual provision at December 2021.

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group is now conducting additional review / remediation work.

Notes

9 Related parties

The table below discloses transactions between NWB Group and subsidiaries of NatWest Group.

	2021 £m	2020 £m
Interest receivable	33	2
Interest payable	(220)	(272)
Fees and commissions receivable	31	—
Fees and commissions payable	(6)	(2)
Other administrative expenses	34	12
	(128)	(260)

UK Government

The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

At 31 December 2021, HM Treasury's holding in NatWest Group's ordinary shares was 52.96%.

NWB Group enters into transactions with many of these bodies. Transactions include the payment of: taxes, principally UK corporation tax (Note 5) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

NWB Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.406% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England base rate.

NWB Plc guarantees certain liabilities of NWH Group to the Bank of England.

Other related parties

- In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company.
- NWB Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWB Group.
- In accordance with IAS 24, transactions or balances between NWB Group entities that have been eliminated on consolidation are not reported.
- The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements. Other net income/(expenses) represents the share of post-tax results of associates and joint ventures, profit (or loss) on disposal of subsidiaries, associates and joint ventures, and gains on acquisitions.

10 Date of approval

The annual results for the year ended 31 December 2021 were approved by the board of directors on 17 February 2022.

11 Post balance sheet events

There have been no other significant events between 31 December 2021 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

Forward-looking statements

Cautionary statement regarding forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWB Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: the impact of the COVID-19 pandemic, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's purpose-led strategy, NWB Group's ESG and climate related targets, its access to adequate sources of liquidity and funding, increasing competition from new incumbents and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, the transition of LIBOR and IBOR rates to alternative risk free rates and NWB Group's exposure to economic and political risks (including with respect to terms surrounding Brexit and climate change), operational risk, conduct risk, financial crime risk, cyber, data and IT risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, the impact of the COVID-19 pandemic, the outcome of legal, regulatory and governmental actions and investigations, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations and general economic and political conditions and the impact of climate related risks and the transitioning to net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's UK 2021 Annual Report and Accounts (ARA). The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

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