



NatWest
Group



2021 Annual Report
and Accounts

NatWest Markets N.V.

Financial Review

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Presentation of information

NatWest Markets N.V. (NWM N.V.) is a wholly owned subsidiary of RBS Holdings N.V. ('RBSH N.V.' or 'the intermediate holding company'). 'NWM N.V. Group' or 'we' refers to NWM N.V. and its subsidiary and associated undertakings. The term 'RBSH Group' refers to RBSH N.V. and its only subsidiary, NWM N.V.. RBSH N.V. is a wholly-owned subsidiary of NatWest Markets Plc (NWM Plc). The term 'NWM Group' refers to NWM Plc 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. NatWest Group plc is registered at 36 St Andrew Square, Edinburgh, Scotland.

NWM N.V. publishes its financial statements in 'euro', the European single currency. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling ('GBP'), respectively, and references to 'pence' where amounts are denominated in pounds sterling. Reference to 'dollars' or '\$' are to United States of America ('US') dollars. The abbreviations '\$m' and '\$bn' represent millions and thousands of millions of dollars, respectively. The term 'EEA' refers to European Economic Area.

This copy of the annual report for the year ended 31 December 2021 is not presented in the ESEF format as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The ESEF single reporting package is available at natwestgroup.com/results.

Description of business

NWM N.V., a licensed bank, operates as an investment banking firm serving corporates and financial institutions in the European Economic Area ('EEA'). NWM N.V. helps corporate and institutional customers manage their financial risks and achieve their short- and long-term financial goals while navigating changing markets and regulation. NWM N.V. does this by providing global market access, financing, risk management and trading solutions. NWM N.V. offers products and services in Currencies, Rates, Financing and lending organised through the following customer-facing businesses: Trading & Customer Sales and Capital Markets. NWM N.V. is committed to acting sustainably and responsibly and actively supports customers in their transition to achieving broader environmental and societal goals, working with issuers and investors to develop holistic sustainability strategies. NWM N.V. is based in Amsterdam with branches authorised in London, Dublin, Frankfurt, Madrid, Milan, Paris and Stockholm.

On 1 January 2017, due to the balance sheet reduction, RBSH Group's regulation in the Netherlands, and supervision responsibilities, transferred from the European Central Bank (ECB), under the Single Supervisory Mechanism (a joint Supervisory Team comprising of ECB and De Nederlandsche Bank (DNB), which conducted the day to day prudential supervision oversight), back to DNB. The Netherlands Authority for the Financial Markets, Autoriteit Financiële Markten (AFM), is responsible for the conduct supervision.

Business developments

- In view of European regulatory developments, NWM N.V. Group has revised its trading model in 2021. This followed a review of financial and operational feasibility. Following continuous consultation with NWM Group Executive Committee and DNB, four new trading desks have been created in NWM N.V. Group. The desks are responsible for pricing, executing and risk managing customers' enquiries in G10 FX Options, G10 FX Forwards, Euro Swaps and EUR Government Bond Repo.
- In 2021, NatWest Group has established a team across Commercial Banking, NatWest Markets and RBS International to grow our offering to the investment management sector. This enables us to provide a more integrated experience for our funds and sponsors customer base including our customers in NWM N.V. Group.
- In November 2021, NatWest Group proposed their optimal legal entity model to the regulators to support customers in Europe. Under this proposal, Western European large corporates will continue to be covered from NatWest Markets N.V..
- In November 2021, NWM Group introduced strategic changes to its Rates business in order to better support our core customers and to deliver a more sustainable and consistent income. NWM N.V. Group's European Government Bond (EGB) offering will be concentrated on six Primary Dealers which support our capital markets focus in Europe.

Performance overview

NWM N.V. Group reported an attributable profit of €110 million for 2021 compared with €6 million in 2020, primarily reflecting the recognition of a deferred tax asset in 2021. Impairments were a release of €13 million compared with losses of €42 million in 2020.

Income and balance sheet

- Total income was €173 million compared with €151 million in 2020, primarily reflecting higher Net fees and commissions of €177 million (2020 - €159 million) and Income from trading activities of €8 million (2020 - €15 million loss). Other operating income was a loss of €3 million, compared with a gain of €17 million in 2020.
- Total assets decreased to €20.8 billion from €21.7 billion in 2020 and total liabilities decreased to €18.5 billion compared with €19.6 billion in 2020. The decrease in total assets was primarily driven by a decrease in amounts due from holding companies and fellow subsidiaries, partially offset by increases in derivative assets and cash and balances at central banks. The decrease in total liabilities was mainly due to a decrease in settlement balance liabilities.

Capital, liquidity and funding

- NWM N.V. Group RWAs increased to €5.7 billion from €5.4 billion at 31 December 2020, reflecting lower levels of credit risk, and an offsetting increase for market risk. The market risk increase is due to an additional credit valuation adjustment capital charge on inter-group transactions due to non-equivalence of the United Kingdom banking supervision by the EU, while the market risk itself only modestly increased due to increased business in the entity.
- NWM N.V. Group remained well-capitalised, with a NWM N.V. Group CET1 ratio of 29.7%, within guidance of above 15%.
- The liquidity position also remained strong, with NWM N.V. liquidity portfolio of €5.5 billion and LCR of 255%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.
- Throughout 2021 NWM N.V. Group ensured a stable funding base through various sources of funding, including the customer deposit book, issuances of commercial paper and capital instruments. In 2020 NWM N.V. Group established a €2.0 billion Euro Medium Term Note programme, therefore NWM N.V. Group may, subject to compliance with all relevant laws, regulations and directives, from time to time, issue unsecured and unsubordinated notes. As at 31 December 2021 no issuances have been executed under this programme.

Outlook⁽¹⁾

The strategic review of NatWest Group announced in February 2020 has required, and continues to require changes in the business of NWM Group, including NWM N.V.. To date, material uncertainties around the future business of NWM N.V. have been removed following the announcements made on strategic update in 2021.

NWM N.V. Group intends to be active on its EMTN programme in 2022 in order to diversify its sources of funding.

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 127 to 150. These statements constitute forward-looking statements. Refer to 'Forward-looking statements' in this document.

Performance key metrics and ratios

	2021	2020
Liquidity coverage ratio (LCR) (%)	255	356
Liquidity portfolio (€bn)	5.5	5.7
Total wholesale funding (€bn)	2.8	3.5
Total funding including repo (€bn)	8.9	8.9
Common Equity Tier (CET1) ratio (%)	29.7	30.6
CRR leverage ratio (%)	15.5	11.6
Risk-weighted assets (RWAs) (€bn)	5.7	5.4
Total Capital ratio (%)	37.4	39.0

Chairman's statement

Financial Performance

NatWest Markets N.V. Group reported an attributable profit of €110 million for 2021 compared with €6 million in 2020. This primarily reflects the recognition of a deferred tax asset in 2021. Impairments were a release of €13 million compared with losses of €42 million in 2020.

Total assets decreased to €20.8 billion as at 31 December 2021 compared with €21.7 billion as at 31 December 2020. This was mainly driven by a decrease in amounts due from holding companies and fellow subsidiaries, partially offset by increases in derivative assets and cash and balances at central banks.

NatWest Markets N.V. Group continues to be well capitalised. Total equity as at 31 December 2021 was €2.2 billion, an increase of €74 million compared with 31 December 2020. At 31 December 2021, NatWest Markets N.V. Group's total capital ratio was 37.4% with a CET1 ratio of 29.7% and Tier 1 ratio of 34.1%.

Supervisory Board and Management Board update

On 1 February 2021, David King, Chief Financial Officer of NWM Plc, effectively joined as a member of the NWM N.V. Supervisory Board after receiving regulatory approval in December 2020. On 16 November 2021, David King announced he would be stepping down as Chief Financial Officer of NWM Plc and as a result also as member of the NWM N.V. Supervisory Board during 2022.

On 23 September 2021, Harm Bots stepped down as Chief Executive Officer of NWM N.V. and as a result also stepped down as member of the NWM N.V. Managing Board. I took on the role and accountabilities as interim Chief Executive Officer and Chairman of the Managing Board of NWM N.V. and a member of NatWest Markets Executive Committee. This interim appointment has been in addition to my existing responsibilities as Chief Financial Officer of NWM N.V..

On 18 January 2022, Vincent Goedegebuure was nominated as CEO of NWM N.V. He will be joining the bank in May 2022, subject to regulatory approval.

Supporting our customers

In 2021, we continued to support customers to manage their financial risks and achieve their short-term and long-term financial goals. Further customer relationships were successfully moved from NWM Plc to NWM N.V. following the UK's withdrawal from the EU at the end of January 2020.

We successfully implemented business design changes agreed with the regulator and migrated the Euro Rates Trading and FX Derivatives Trading desks to NatWest Markets N.V. as well. We have also been able to provide a more integrated experience for our funds and sponsors customers with the establishment of a team across Commercial Banking, NatWest Markets and RBS International focused on the investment management sector. Focus has also been on our growing our Capital Markets activities and strengthening of our control environment. With these changes and our strong partnerships with Commercial Banking and RBS International, we will be well-placed to deliver a winning Markets business in Europe, primed for growth.

Simplifying our business

In February 2020, NatWest Group announced becoming a purpose-led bank – championing potential, helping people, families and businesses to thrive – and the refocusing of NWM Group. Since then, NWM N.V. has taken steps to contribute to the transformation of our business model.

Following a review of our customer base, NWM N.V. revised its coverage team structure and location footprint in 2021. As part of this, NWM N.V. will be closing the Madrid branch in 2022 while supporting customers in the Iberian region from other branches in Europe.

To better support our NatWest Group customers and to deliver a more sustainable and consistent income, NWM Group introduced strategic changes to its Rates business in late 2021. As a result, NWM N.V. European Government Bond offering will be concentrated on six Primary Dealers which support our capital markets focus in Europe.

The reshaping of the NWM Group business model is now materially complete; this is an accomplishment in an ongoing period of uncertainty against a backdrop of the global pandemic.

Climate and ESG

NatWest Group believes it is vital to be a key player in the transition towards a low-carbon economy. At NWM N.V., we want to take a leading role in this transition and support our customers and communities. Together with our dedicated climate and sustainability teams, we are committed to continue to grow our climate and ESG activities to support our customers in Europe to achieve their climate ambitions. During 2021, we made a significant contribution to NatWest Group's progress towards meeting its climate-related targets as NWM N.V. delivered €6.9 billion of climate and sustainable funding and financing. We are expected to play a significant role in delivering NatWest Group's target of £100 billion between 1 July 2021 and the end of 2025.

Colleagues and ways of working

During these challenging times, as an organisation we have continued to build on our commitment to provide support to our customers throughout Europe. This has been achieved through the strong commitment and resilience that has been shown by our colleagues who have adapted and embraced the new ways of working that have been necessary in the ever changing environment in which we operate.

We are making progress, though slower than planned, in our remediation programmes relating to Financial Crime, Data Management, Outsourcing and Capital Models. We continue taking the necessary actions to strengthen our overall compliance risk management and culture throughout the organisation.

At NWM N.V., we are committed to the purpose of NatWest Group and equip our colleagues with skills and tools to lead with purpose as we are becoming a learning organisation. Championing diversity and creating an inclusive workplace that gives our people the best opportunity to thrive at work will remain one of our top priorities in 2022.

We've laid the foundations for our business in Europe to move forward with clarity and purpose and the creation of the new Commercial and Institutional franchise will further enhance our plans for sustainable growth. Powered by the strength of our customer relationships and with confidence in our colleagues, we are excited to further grow and to continue to put our purpose into action, fostering a culture of diversity and inclusion so we can support our customers and colleagues to thrive.

Cornelis Visscher

Chairman and CEO, NatWest Markets N.V.

17 February 2022

Financial review

Summary consolidated income statement

	Note	2021 €m	2020 €m
Interest receivable		41	54
Interest payable		(50)	(64)
Net interest income	1	(9)	(10)
Fees and commissions receivable		202	205
Fees and commissions payable		(25)	(46)
Income from trading activities		8	(15)
Other operating income		(3)	17
Non-interest income	2	182	161
Total income		173	151
Staff costs		(71)	(55)
Premises and equipment		(6)	(7)
Other administrative expenses		(55)	(27)
Depreciation and amortisation		(3)	(4)
Operating expenses	3	(135)	(93)
Profit before impairment releases/(losses)		38	58
Impairment releases/(losses)	12	13	(42)
Operating profit before tax		51	16
Tax credit/(charge)	6	59	(10)
Profit for the year		110	6
Attributable to:			
Ordinary shareholders		96	(8)
AT1 capital securities		14	14
		110	6

Operating profit before tax was €51 million compared with €16 million in 2020. This increase was due to higher total income which increased by €22 million to €173 million, and impairment releases of €13 million compared with losses of €42 million in 2020. This was partially offset by increase in operating expenses to €135 million compared with €93 million in 2020.

Profit for the year was €110 million compared with €6 million in 2020.

Net interest income was a net expense of €9 million compared with a net expense of €10 million in 2020. Interest receivable decreased by €13 million to €41 million (2020 - €54 million). Interest payable decreased by €14 million to €50 million (2020 - €64 million). The increase in net interest income is mainly due to higher interest receivable from other financial assets and lower interest payable to customer deposits and to subordinated liabilities. This was partially offset by lower interest receivable from loans to customers and higher interest payable to bank balances.

Non-interest income increased by €21 million to €182 million compared with €161 million in 2020. Net fees and commissions were an income of €177 million (2020 - €159 million income). The increase in net fees and commission was mainly due to an increase in syndicate fee income to €86 million (2020 - €29 million). This was partially offset by a decrease in transfer pricing income from NWM Plc to €106 million (2020 - €125 million). The decrease in transfer pricing income is primarily driven by the new revenue share model for Primary Dealership.

Income from trading activities increased by €23 million to a gain of €8 million, compared with loss €15 million in 2020. This was primarily driven by legacy transactions⁽¹⁾ in 2020.

Other operating income was a loss of €3 million, compared with a gain of €17 million in 2020. This was mainly driven by legacy items. 2021 included a loss on disposal of loans to customers of €12 million and Madoff related recoveries of €6 million. 2021 also included a release of €1 million in relation to Alcover claims reserves compared with a €11 million release in 2020.

Operating expenses increased by €42 million to €135 million compared with €93 million in 2020. This was mainly due to administrative expenses which were up €28 million to €55 million, mainly driven by legacy items in 2020. Staff costs increased by €16 million to €71 million, mainly due to restructuring expenses in 2021. This was partially offset by premises and equipment costs which decreased by €1 million to €6 million. Depreciation and amortisation decreased by €1 million to €3 million.

Impairments were a release of €13 million in 2021, largely driven by credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 exposures, compared with losses of €42 million in 2020, which were largely due to the credit deterioration of an individual counterparty and the increased expected credit losses recognised following the COVID-19 pandemic.

Tax credit for 2021 was €59 million compared with a charge of €10 million in 2020. This was mainly driven by the recognition of a deferred tax asset in 2021. Refer to Note 6 to the consolidated financial statements for further details.

(1) Legacy transactions pertain to NWM N.V.'s tail business from the period before the repurposing of its banking license in 2019

Consolidated balance sheet as at 31 December 2021

	2021	2020	Variance	
	€m	€m	€m	
Assets				
Cash and balances at central banks	5,145	4,452	693	16%
Trading assets	4,174	4,380	(206)	(5%)
Derivatives	7,767	6,935	832	12%
Settlement balances	391	358	33	nm
Loans to banks - amortised cost	139	190	(51)	(27%)
Loans to customers - amortised cost	660	946	(286)	(30%)
Amounts due from holding companies and fellow subsidiaries	1,380	3,540	(2,160)	(61%)
Other financial assets	1,027	896	131	15%
Other assets	95	47	48	102%
Total assets	20,778	21,744	(966)	(4%)
Liabilities				
Bank deposits	—	52	(52)	(100%)
Customer deposits	880	1,258	(378)	(30%)
Amounts due to holding companies and fellow subsidiaries	3,923	3,551	372	10%
Settlement balances	186	943	(757)	nm
Trading liabilities	2,080	1,512	568	38%
Derivatives	8,854	9,309	(455)	(5%)
Other financial liabilities	1,907	2,200	(293)	(13%)
Subordinated liabilities	652	655	(3)	(0%)
Other liabilities	49	91	(42)	(46%)
Total liabilities	18,531	19,571	(1,040)	(5%)
Total equity	2,247	2,173	74	3%
Total liabilities and equity	20,778	21,744	(966)	(4%)

nm = not meaningful

Total assets were €20,778 million at 31 December 2021, a decrease of €966 million, or 4%, compared with €21,744 million at 31 December 2020, mainly driven by cash and balances at central banks of €5,145 million (31 December 2020 - €4,452 million), derivatives of €7,767 million (31 December 2020 - €6,935 million) and amounts due from holding companies and fellow subsidiaries of €1,380 million (31 December 2020 - €3,540 million).

Cash and balances at central banks increased by €693 million to €5,145 million at 31 December 2021. The full balance is placed with the Dutch Central Bank and it is the key component of the NWM N.V. liquid asset buffer. The increase in cash in the liquid asset buffer is counterbalanced by a reduction in liquid asset buffer eligible debt securities, keeping the total liquid asset buffer stable year on year.

Trading assets decreased by €206 million, or 5%, to €4,174 million. The 2021 balance mainly pertains to cash collateral posted to derivative counterparties amounting to €3,164 million (2020 - €3,417 million) and loans subject to reverse repurchase agreements amounting to €946 million (2020 - €908 million).

Loans to banks - amortised cost decreased by €51 million, or 27%, to €139 million at 31 December 2021, mainly due to the decrease in non-euro cash placements held for liquidity buffer purposes.

Loans to customers - amortised cost decreased by €286 million to €660 million, primarily reflecting maturities, repayments and disposals. The loan portfolio includes loans to corporates and financial institutions. The majority has a residual maturity of more than twelve months.

Amounts due from holding companies and fellow subsidiaries decreased by €2,160 million to €1,380 million, mainly driven by a decrease in trading assets of €1,489 million to €765 million and a decrease in settlement balances of €457 million to €392 million.

Other financial assets increased by €131 million to €1,027 million and included debt securities up €94 million to €927 million and equity shares up €37 million to €100 million. The increase in debt securities is driven by the trading position and the increase in equity shares relates to the legacy portfolio.

Other assets increased by €48 million, or 102%, to €95 million. This was mainly driven by the recognition of a deferred tax asset in 2021.

Derivative assets and liabilities were €7,767 million (2020 - €6,935 million) and €8,854 million (2020 - €9,309 million) respectively. The movement in mark-to-market was primarily

driven by new business as well as transfers from NWM Plc. The derivative balances primarily pertain to exchange rate contracts and interest rate contracts. €2,592 million of the derivative assets and €2,141 million of the derivative liabilities are balances with holding companies and fellow subsidiaries.

Settlement balance assets and liabilities were €391 million (31 December 2020 - €358 million) and €186 million (31 December 2020 - €943 million) respectively, reflecting year end trading volumes.

Bank deposits decreased by €52 million to nil at 31 December 2021.

Customer deposits decreased by €378 million, or 30%, to €880 million, reflecting client-led activity.

Amounts due to holding companies and fellow subsidiaries increased by €372 million to €3,923 million, mainly driven by an increase in settlement balances of €299 million to €456 million and an increase in customer and bank deposits of €230 million to 1,219 million. This was partially offset by a decrease in trading liabilities of €179 million to €2,068 million.

Trading liabilities increased by €568 million, or 38%, to €2,080 million. The 2021 balance mainly pertains to cash collateral received from derivative counterparties amounting to €1,468 million (2020 - €1,067 million) and deposits subject to repurchase agreements amounting to €586 million (2020 - €306 million).

Other financial liabilities decreased by €293 million to €1,907 million, driven by a decrease in evergreen deposits to €586 million (2020 - €886 million) and an increase in debt securities in issue to €1,321 million (2020 - €1,314 million).

Subordinated liabilities decreased by €3 million to €652 million mainly due to changes in fair value, partially offset by the impact of US dollar to Euro exchange rate movements during the year.

Other liabilities decreased by €42 million, or 46%, to €49 million at 31 December 2021 mainly due to a reduction in legacy items.

Equity increased by 3%, to €2,247 million, mainly driven by the profit for the period of €110 million and currency translation adjustments of €4 million. This was partially offset by a reduction in own credit adjustments of €23 million due to the tightening credit spreads, dividends paid on AT1 capital securities of €14 million and fair value through other comprehensive income movements of €3 million.

Top and emerging risks

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

External

Climate-related risks	Accelerating climate change may lead to heightened financial risks and faster-than-anticipated impacts on NWM N.V. Group and the wider economy. Such impacts could include financial loss as a result of a deterioration in credit quality, or a rise in market risk exposure or operational risk – all of which underline the importance of NatWest Group's climate commitments. NWM N.V. Group continues to adapt its operations and business strategy to mitigate the risks of both climate change and the transition to a low-carbon economy. It is also embedding climate risk into its risk management framework.
Competitive environment	NWM Group's target markets are highly competitive, with changes in technology, regulation, customer behaviour and business models continuing to accelerate competitive pressure. As these evolve, there is a risk that NWM N.V. Group is not able to adapt or compete effectively with the appropriate product offerings and geography. NWM N.V. Group monitors the competitive environment and adapts strategy as appropriate to ensure its business model remains sustainable and viable. It remains focused on innovating to deliver compelling propositions for customers. While customer demands and expectations are high and increasing, NWM N.V. Group is focused on delivering increased customer satisfaction as well as ensuring customers are offered all of NatWest Group's services appropriate to their needs.
COVID-19	While the immediate crisis has subsided, the ongoing impacts of the coronavirus may still have a significant effect on the markets in which NWM N.V. Group operates. Further waves and significant rises in case numbers may intensify market volatility and extend the recovery period. NWM N.V. Group continues to monitor pandemic impacts closely to ensure there is no adverse impact on its business strategy, customers, operations or employees. Heightened monitoring remains in place. Specific consideration is given to internal and external factors that may require plans to flex dynamically, region by region. NWM N.V. Group continues to include COVID-19 and its associated risks into planning and thinking to ensure potential future impact is minimised. NWM N.V. Group remains well prepared having completed a number of exercises against a range of worsening scenarios to ensure it can respond to any significant developments.
Cyber threats	Cyber-attacks continue to increase in frequency, sophistication and severity. There is a risk that a catastrophic cyber-attack could damage NWM Group's ability to do business and/or compromise data security. NWM N.V. in close cooperation with NWM Group and NatWest Group operates a multi-layered approach to its defences and continues to invest in building its resilience and cyber-security capabilities.
Regulatory, Legal & Conduct Risks	NWM N.V. Group operates in a highly-regulated market and must manage compliance with current regulations and prepare for future regulations, including the finalised Basel III framework or capital requirement for NWM Group. The implications of proposed or potential regulatory developments are incorporated into business and financial plans. As part of this NWM N.V. Group continues to mitigate and manage the business and operational risks arising from LIBOR transition, and to minimise risk and disruption to customers. It has also focused on assessing the conduct risk implications of LIBOR transition for NWM N.V. Group and its customers. NWM N.V. Group is aligned to NatWest Group's LIBOR programme and continues to work closely with regulators and industry bodies to manage the impact. Conduct and supervisory risks have been heightened by both strategic change and prolonged working from home as a result of lockdown protocols. NWM N.V. Group monitors conduct risk through the Conduct Risk framework and continues to adapt and monitor adherence and appetite position through NWM Group's Conduct Committee and NWM N.V. Group's Risk and Control Committee. This aims to deliver strong customer and business outcomes, reducing the risk of material staff misconduct and supporting business sustainability.
UK-Europe divergence	NWM Group has implemented plans to operate in the EU market and NWM N.V. Group monitors the evolving situation arising from the UK's withdrawal from the EU for any developments that may adversely affect NWM N.V. Group and its operating environment. NWM N.V. Group continues to monitor the emerging regulatory environment – and likely associated scenarios – to facilitate continuity of business.

Internal

Model Risk	<p>Model risk relates to inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. Model Risk Management in NWM N.V. Group is establishing more robust governance in order to ensure minimal risk stemming from internal models and ensures that NatWest Group's model policies are correctly implemented and followed. Independent model validations further strengthen the Model Risk Management in NWM N.V. Group over the past few years, NWM N.V. Group has been undergoing scheduled Internal Model Inspections by DNB. The model inspections are aimed at affirming the models to be fit for purpose for the entity and accurately perform the risk calculations. During 2021 NWM N.V. Group has been remediating findings from these inspections. This work will continue in 2022.</p>
People risk	<p>NWM N.V. Group's operational risk could increase through the loss of key staff, the recalibration of roles or the loss of institutional knowledge due to strategic change. NWM N.V. Group monitors people risk closely and has plans in place to support retention of key roles. Wider NatWest Group programmes that support engagement and training are in place for all employees. Given the importance of diversity – particularly the proportion of females in senior roles, pay gaps and ethnic diversity – the risk of not supporting and promoting a diverse and inclusive workforce could have an adverse impact on NWM N.V. Group employee engagement and strategy. This could also lead to a reputational impact among investors and regulators. Creating an inclusive workplace is an important part of NWM N.V. Group's purpose and plays a powerful role in shaping the business as well as the views of stakeholders.</p>
Strategy execution	<p>NWM N.V. Group's strategy depends on NatWest Group's and NWM Group's strategic decisions. NWM N.V. Group's Board maintains proactive engagement with NWM Group to ensure strategic alignment. In line with NatWest Group's and NWM Group's decisions NWM N.V. Group is targeting to implement growth for certain customer and product segments. There are risks around the implementation of these initiatives, such as ensuring the resulting operating model is compliant with regulations. NWM N.V. Group is participating in project boards and NWM N.V. Group's staff are actively involved in executing these initiatives in order to mitigate these risks.</p>
Sustainable control environment	<p>The internal system of controls is key to NWM N.V. Group's management of its risks. Failure to maintain a sustainable control environment, due to changes in NWM Group's operating environment or business strategy, could result in an increase in risks. To mitigate these risks, a robust operational risk management framework is in place that supports ongoing identification, management and monitoring of our risk and control profile. NWM N.V. Group's control environment (including operational, conduct and financial crime controls) is formally assessed half-yearly to ensure NWM Group's control environment position remains within appetite.</p>

Climate-related disclosures

Overview

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

Key highlights include:

- NWM N.V. Group completed €6.9 billion in 2021 (2020: €3.6 billion) of Climate and Sustainable Funding and Financing (CSFF)⁽¹⁾ as its contribution to NatWest Group's CSFF targets. In October 2021, NatWest Group announced a new target to provide an additional £100 billion of CSFF between 1 July 2021 and the end of 2025. NWM Group, including NWM N.V. Group, is expected to play a significant role in delivering on NatWest Group's new £100 billion CSFF target.
- In 2021, NWM Group (including NWM N.V. Group) was in the top 5 for supporting Western Europe corporate issuers with their green, social and sustainability (GSS) bonds⁽²⁾ and ranked number 6 for supporting European financial institutions with their green bond issuance⁽³⁾.

The table below summarises the ongoing progress NWM N.V. Group has made during 2021 with regard to climate-related risks and opportunities and the areas of focus in 2022.

Climate disclosure themes	Progress to date	Areas of future focus/priorities
Governance	<ul style="list-style-type: none"> – Management have continued to input into the NWM Climate & Sustainability Committee (CSC), to assess and manage climate-related risks and opportunities. – Established climate change roles and responsibilities across the senior management team and operationalised the NWM N.V. Climate and ESG Working Group to support this. 	<ul style="list-style-type: none"> – Further develop climate change reporting and monitoring operating rhythm at NWM N.V. Managing Board and NWM N.V. Group executive level. – Continue to increase awareness of and education about climate change and climate-related themes. – Continue to enhance management roles and responsibilities framework to incorporate management of climate-related risks and opportunities.
Strategy	<ul style="list-style-type: none"> – Established a Centre of Excellence for Sustainable Finance Corporate in our Capital Markets business to support customers across different geographies in Europe with centralised resource and expertise for customer facing and product teams. – Continued to build climate knowledge with all stakeholders. Contributed to the delivery of more than 180 publications and events throughout 2021 aimed at supporting learning journeys for customers and colleagues. 	<ul style="list-style-type: none"> – Quantify our climate impact across the balance sheet and consider the impact of our underwriting business on global emissions. – Support in establishing NWM Group-specific management actions based on insights from scenario analysis.
Risk management	<ul style="list-style-type: none"> – Climate change is monitored and managed as a principal risk. NWM Group, including NWM N.V. Group, is aligned to NatWest Group Climate Risk Policy. – Credit risk: NWM N.V. Group adopted the NatWest Group approach of integrating and embedding climate risk into wholesale credit risk management. This included mandatory qualitative climate commentary in credit risk assessments and the development of the qualitative scorecard approach to provide a standardised assessment of customers' exposure to physical/transition climate-related risks and opportunities. – Operational risk: Climate change considerations were incorporated into NWM N.V. Group's operational risk assessment processes. 	<ul style="list-style-type: none"> – Continue to refine and innovate ways to further integrate climate within risk management practices, including within the enterprise wide risk management framework. – Credit risk: The approval and launch of five scorecards is scheduled for Q1 2022. The intention is to develop subsequent scorecards to expand coverage of the NWM N.V. Group portfolio. A more quantitative approach is to be developed within this methodology as data becomes available. – Market risk: Ongoing engagement with regulators will continue to ensure NWM N.V. Group remains in line with industry standards. – Operational risk: There will be further design, implementation and embedding of climate change considerations in risk and control, as well as change impact assessments, which will require further training of colleagues. – Ongoing assessment of the impact of European Central Bank (ECB) guidelines on NWM N.V. Group in particular on environmental risk.
Metrics and targets	<ul style="list-style-type: none"> – Established quantitative assessment for its progress against the contribution to the NatWest Group Climate and Sustainable Funding and Financing target and loan exposures to high-carbon sectors identified based on physical and transition risk assessment. 	<ul style="list-style-type: none"> – Continue to work with NatWest Group and NWM Group, on developing NWM N.V. Group's key metrics and targets to assess and manage own climate-related risks and opportunities.

(1) Climate and Sustainable Funding and Financing (CSFF) aims to support the transition towards a net zero, climate-resilient and sustainable economy of the customers of NatWest Group (including NWM N.V. Group). NatWest Group uses its Climate and Sustainable Funding and Finance Inclusion Criteria (CSFI Criteria) to determine the assets, activities and customers that are eligible to be counted towards its targets for climate and sustainable funding and financing.

(2) Source: Dealogic

(3) Source: Dealogic

Governance

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

Governance framework

During 2021, NWM N.V. Group continued to embed its climate governance framework developed in 2020 to ensure clarity of responsibility over climate in relation to the NWM N.V. Supervisory Board, Board Committees, and management fora across the business.

The table below provides insight into how climate accountabilities are overseen by fora within NWM N.V. Group and the wider NWM Group.

	Forum	Role/Responsibility
Board level governance	NWM N.V. Supervisory Board	The NWM N.V. Supervisory Board has ultimate oversight of delivery against the agreed strategy and objectives of NWM N.V. Group within the aims of the wider NatWest Group. This includes the progress towards delivering on the NatWest Group's strategy, including climate ambitions.
	NWM N.V. Board Risk Committee	The NWM N.V. Board Risk Committee (BRC) is responsible for the oversight of NWM N.V. Group's risk profile. In 2021, the BRC has received reports outlining the progress that NWM N.V. Group is making towards meeting regulatory expectations over climate and ESG matters.
	NWM N.V. Audit Committee	The NWM N.V. Audit Committee is responsible for oversight of the bank's material disclosures, including non-financial disclosures such as climate-related disclosures.
Executive level governance	NWM N.V. Managing Board	The NWM N.V. Managing Board is responsible for managing how NWM N.V. Group identifies, measures, manages and mitigates climate-related risks and opportunities throughout the business. The NWM N.V. Managing Board is supported by NWM N.V. Supervisory Board, NWM N.V. Risk & Control Committee in setting risk appetite and monitoring the risk management response to climate change related physical and transition risks and opportunities within the business.
Additional executive level governance	NWM Climate & Sustainability Committee	The Climate & Sustainability Committee (CSC) is the senior NWM Group forum which has the objective of assessing and managing climate-related risks and opportunities. The CSC, which is also attended by the executive members of NWM N.V. Group, oversees the strategic response of NWM Group (including NWM N.V. Group) to climate change, in line with the NatWest Group Purpose-led Strategy, and considers both the financial and non-financial risks posed by climate change as well as explore climate-related opportunities for our customers.

Board knowledge and expertise

The NWM N.V. Managing Board continues to enhance knowledge and oversight of the opportunities and risks posed by climate change as part of discussion of management reporting.

In addition, the Managing Board has been included in training delivered across NatWest Group to support ongoing oversight and upskilling on climate matters. This has included an internal online learning module on the impact of climate change on financial services, as well as a more in-depth education through enrolment in University of Cambridge and University of Edinburgh climate modules.

Strategy

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

Climate-related risks

Climate risk is classified as a principal risk and remains a significant area of focus for risk management activities.

Climate-related risks are also considered as part of NWM Group's (including NWM N.V. Group) top and emerging risks process, which also provides a focus on developing issues such as biodiversity and nature loss.

Alongside regular reporting on the principal risks detailed within the Risk & Capital Management section, top and emerging risks are reported to NWM Group's (including NWM N.V. Group) Board on a regular basis. NatWest Group's enterprise wide risk management framework, which also applies to NWM N.V. Group, sets out a consistent management approach for all principal risks, including climate risk.

The risk events associated with NatWest Group failing to adequately mitigate the transition and physical risks arising from climate change are illustrated by a table within NatWest Group 2021 Climate-related Disclosure Report section 3.2. Due to the nature of its business, NWM N.V. Group would additionally be affected by changes in the pricing of certain traded financial instruments and services, affecting market risk and model risk. NWM N.V. Group would be less affected than NatWest Group by changes to mortgages. NWM N.V. Group continues to leverage NatWest Group's ongoing assessment of the transition and physical risks arising from climate change.

Climate-related opportunities

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

The table in the NatWest Group 2021 Climate-related Disclosure Report section 3.3 illustrates the key climate-related opportunities which underpin the achievement of NatWest Group climate ambition, which NWM N.V. Group is aligned to, along with the potential financial impacts and timing.

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

Centre of Excellence for climate and ESG financing and customer solutions

During 2021, a Centre of Excellence for Sustainable Finance Corporate was established in the NWM N.V. Group Capital Markets business to support customers across different geographies in Europe with centralised resource and expertise for customer facing and product teams. This team has become a part of NWM Group's Climate and ESG Capital Markets team as from December 2021, which is expected to create a powerful customer offering by bringing together our expertise into a single centre of excellence. This forms part of an ecosystem across NWM Group (including NWM N.V. Group) that aims to provide thought leadership and support our customers with solutions across financing and risk management to achieve their climate ambitions.

Championing climate-related product innovation

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

Overall, the performance of NWM Group (including NWM N.V. Group) has been expansive across green, social, and sustainability (GSS) bond transactions, as well as sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs). In 2021, NWM Group (including NWM N.V. Group) was in the top 5 for supporting Western Europe corporate issuers with their green, social and sustainability (GSS) bonds and ranked number 6 for supporting European financial institutions with their green bond issuance. NWM N.V. Group supported 33 green, sustainability-linked and pure play bond transactions as bookrunner from Western Europe, issuing a total volume of €32 billion contributing towards the NatWest Group climate targets. These transactions reflect a shift in customer preferences and an opportunity for NWM N.V. Group to reach new customers.

Thought leadership and influence

NWM Group's subject matter experts delivered 108 articles and 53 events throughout 2021 across many ESG themes aimed at supporting our clients' learning journeys and bi-monthly ESG Bitesize webinars to the benefit of our colleagues, to which NWM N.V. Group made a substantial contribution, with both ad-hoc and recurring pieces (e.g. "Issue Your Greens" series). A total of 533 NWM Group colleagues globally including NWM

N.V. Group colleagues signed up to the University of Edinburgh's Climate Change transformation programme, helping to integrate our climate ambition across different roles and functions.

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

Approach to climate-related risks

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

Evolving climate data and analytics

In light of the continued challenges in sourcing and evaluating climate-related data of varied scope and quality, NWM Group has directed resources to invest in climate data and tools to equip our customer facing teams with the analytics to best support business origination and delivery. NWM N.V. Group is dependent on NWM Group to drive the data enhancement and reporting standardisation.

Scenario analysis

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

Risk management

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

Climate-related risks are classified as either physical or transition risks⁽⁴⁾. In April 2021, NatWest Group Board Risk Committee approved a principles-based climate risk policy, which defined the key requirements for effectively managing climate risk: the identification and assessment of climate risk through the incorporation of climate considerations in key risk management processes. This is largely delivered through the following mechanisms:

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

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

Integrating climate-related risks into our principal risk management

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

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

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

Once all outcomes have been achieved to the most advanced maturity rating, the principal climate risk will no longer be

required as the capabilities to manage climate-related risks effectively would be integrated to respective risk management activity.

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

Climate-Risk Challenges

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

NWM N.V. Group and its branches continue to be subject to an increasing array of the EU/EEA (including local) climate and sustainability-related legal and regulatory requirements. In particular, NWM N.V. Group may fall within the scope of the European Central Bank ('ECB') 'Guide on climate-related and environmental risks', the EU Taxonomy, the EU Green Bond Standards and the EBA's Pillar 3 disclosures on ESG risks. In December 2021 the DNB and the ECB highlighted the prudential view and expectations towards financial institutions regarding managing of climate, environmental and social risks as part of their strategy, governance, risk management and reporting practices and will drive the supervisory dialogue in 2022 and beyond. Therefore, for NWM N.V. Group there are challenges in ensuring that the NatWest Group's climate strategy and climate risk management activities are tailored to the local regulatory environment.

Credit risk

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

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

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

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

(4) Physical risks can be either acute, such as extreme weather events resulting in business disruption to the bank's own operations, or chronic effects such as prolonged drought conditions adversely affecting agricultural yields. Transition risks are those associated with shift towards a net zero economy.

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

Scorecards are being phased in to ensure NatWest Group's exposure to heightened climate risk sectors and key counterparty types are prioritised for assessment and monitoring. In Q4 2021, the first scorecards (mid-large and large corporate, property, housing association, banks and leveraged funds) were finalised for approval and launch in Q1 2022.

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

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

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

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

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

Market risk

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

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

The embedding of market risk climate-specific stress scenarios will follow industry standards and regulatory guidance. Ongoing assessment of the impact of ECB guidelines on Market Risk Framework for NWM N.V. Group is expected in 2022.

Model risk

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

Reputational risk

The correlation between reputational risk and climate change issues remained a significant area of focus during 2021. Enhancements were made to the Environmental, Social & Ethical risk management framework to mitigate reputational

risk arising from exposure to carbon-intensive sectors and to support the transition to net zero.

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

The NWM Group Reputational Risk Committee is the point for escalation and review of potential issues that arise at a transactional, business or legal entity level. The Reputational Risk Forum in NWM N.V. Group reviews matters which may give rise to reputational risk for NWM N.V. Group and provides inputs to NWM N.V. Risk & Control Committee. NWM N.V. Group representatives are included in the NWM Group Reputational Risk Committee to review relevant issues and discuss cases, sectors and themes that represent a material reputational risk.

Operational risk

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

The NatWest Group change and risk and control assessment frameworks that NWM N.V. Group uses have been enhanced to incorporate climate change considerations. NWM N.V. Group completed a risk discovery heatmap in 2021 as part of a NatWest Group-wide exercise to ensure adequate coverage of climate change considerations across these assessments and scenario analysis.

During 2021, a NatWest Group-wide operational risk climate scenario exercise was performed. For full details of the scenario analysis see NatWest Group 2021 Climate-related Disclosure Report section 4.3.

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

Conduct and compliance risk

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

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

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

Metrics and Targets

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

Climate and sustainable funding and financing

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

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

NWM N.V. Group has continued contributing to the progress of NatWest Group's climate ambitions in 2021. In the full year, NatWest Group completed £17.5 billion Climate and Sustainable Funding and Financing. This comprised €6.9 billion (£5.8 billion) in NWM N.V. Group.

Heightened climate-related risk sectors

As part of its risk management activity, NatWest Group identified 13 sectors within its wholesale portfolio as exposed to heightened climate-related risk impacts¹. The table below summarises NWM N.V. Group loan exposures^{2,3} to these sectors; the amounts reported include all lending to customers including climate and sustainable lending.

Total exposure to heightened climate-related risk sectors reduced by €1.1 billion during 2021. There is a decrease across the majority of sectors with the largest decrease, €0.4 billion, in the power utilities sector.

	31 December 2021				31 December 2020			
	Loans €m	Off-Balance sheet €m	Total sector exposure €m	Total sector exposure as % of Total NWM NV	Loans €m	Off-Balance sheet €m	Total sector exposure €m	Total sector exposure as % of Total NWM NV
				%				%
Power utilities	104	1,632	1,736	24.3%	172	1,981	2,153	26.1%
Automotive	—	647	647	9.1%	—	716	716	8.7%
Land transport and logistics	87	273	360	5.0%	96	502	598	7.2%
Oil and gas	300	—	300	4.2%	49	328	377	4.6%
Commercial real estate	20	204	224	3.1%	32	272	304	3.7%
Airlines and aerospace	—	33	33	0.5%	25	200	225	2.7%
Chemicals	—	74	74	1.0%	—	109	109	1.3%
Construction	—	69	69	1.0%	—	69	69	0.8%
Agriculture	39	—	39	0.5%	34	—	34	0.4%
Shipping	—	1	1	0.0%	—	1	1	0.0%
Building materials	3	12	15	0.2%	—	—	—	0.0%
Housing associations	—	—	—	0.0%	—	—	—	0.0%
Mining and metals	—	—	—	0.0%	—	—	—	0.0%
Total Heightened climate-related sectors	553	2,945	3,498	48.9%	408	4,178	4,586	55.6%
Total NWM NV all sectors	821	6,327	7,148	100.0%	1,247	7,005	8,252	100.0%

(1) Refer to NatWest Group 2021 Climate-related Disclosure Report section 4.3 for further details of the identification and review process.

(2) Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only and excludes amounts that are outside the scope of the Expected Credit Loss (ECL) framework.

(3) Off-balance sheet includes loan commitments and contingent liabilities.

Examples of major green deals

Nederlandse Gasunie

NWM N.V. acted as structuring advisor and passive bookrunner on Nederlandse Gasunie's issuance of 15-year inaugural Sustainable Linked Bond €300 million, which obtained an order volume of over €750 million. This represented the first regulated European gas Transmission System Operator (TSO) to publish a Sustainability-Linked Bond Framework. The framework aligned with the core recommendations of the ICMA Sustainability-Linked Bond Principles (SLBP) and the ICMA Climate Transition Finance Handbook (CTFH) includes two KPIs (reducing methane and Scope 1 and 2 greenhouse gas emissions) that are core and material to its business model and sustainability profile.

EnBW

NWM N.V. acted as joint-lead manager on EnBW's repeat mandate of hybrid dual-tranche green and non-green notes issuance totalling €1 billion. For the first time, both a green and a non-green tranche were marketed simultaneously. The transaction underlines EnBW's strategic focus on sustainable finance with green bonds to support its climate neutrality plan which includes reaching net zero emissions and exiting coal-fired generation by 2035.

Republic of Italy

NWM N.V. acted as joint-lead manager on Republic of Italy's inaugural green bond raising €8.5 billion, which attracted investor demand with a ten times oversubscription making it a huge success for the issuer's sovereign green debut. This highlights the strong relationship with the issuer and recognition of the GSS credentials in the market.

Risk and capital management

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Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 15 to 50) is within the scope of the Independent auditor's report.

Update on COVID-19

While the immediate disruption diminished during the year, the ongoing impacts of the global pandemic remained a significant focus for risk management in 2021 and uncertainty in the operating environment continued. NWM N.V. Group remained committed to supporting its customers while operating safely and soundly in line with its strategic objectives.

On the back of increased vaccination programmes and the removal of restrictions, the outlook in NWM N.V. Group's core geographies is improving and is also reflected in the quality of the credit portfolio and macro-economic scenarios. NWM N.V. Group remains cautious for any new COVID-19 strains that may result in a setback.

While the direct impact on NWM N.V. Group's operational risk profile reduced, NWM N.V. Group continued to closely monitor the second-order impacts on its transformation agenda, with a significant focus on managing resource to protect key regulatory deliveries. The continued evolution of NWM N.V. Group's ways of working – to include large-scale working from home – also required significant operational risk focus, particularly in terms of business resilience.

As a result of its strong balance sheet and prudent approach to risk management, NWM N.V. Group remains well placed to withstand these aftershocks as well as providing support to customers when they need it most.

Risk management framework

Introduction

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

The framework ensures that NWM N.V. Group's principal risks – which are detailed in this section – are appropriately controlled and managed. It sets out the standards and objectives for risk management as well as defining the division of roles and responsibilities.

This seeks to ensure a consistent approach to risk management across NWM N.V. Group. It aligns risk management with NWM N.V. Group's overall strategic objectives.

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

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

While all NWM N.V. Group colleagues are responsible for managing risk, the Risk function provides oversight and monitoring of risk management activities, including the implementation of the framework and adherence to its supporting policies, standards and operational procedures. The Chief Risk Officer plays an integral role in providing the Board with advice on NWM N.V. Group's risk profile, the performance of its controls and in providing challenge where a proposed business strategy may exceed risk tolerance.

In addition, there is a centralised process in NWM Group to identify and manage top risks, which are those that could have a significant negative impact on its ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Risk management framework continued

Culture

Risk culture is at the heart of NWM N.V. Group's risk management framework and its risk management practice. The risk culture target is to make risk part of the way employees work and think.

A focus on leaders as role models and action to build clarity, develop capability and motivate employees to reach the required standards of behaviour are key to achieving the risk culture target. Colleagues are expected to:

- Take personal responsibility for understanding and proactively managing the risks associated with individual roles.
- Respect risk management and the part it plays in daily work.
- Understand the risks associated with individual roles.
- Align decision-making to NWM N.V. Group's risk appetite.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses.
- Challenge others' attitudes, ideas and actions.
- Report and communicate risks transparently.

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

Training

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

Our Code

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

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

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

Risk management framework continued

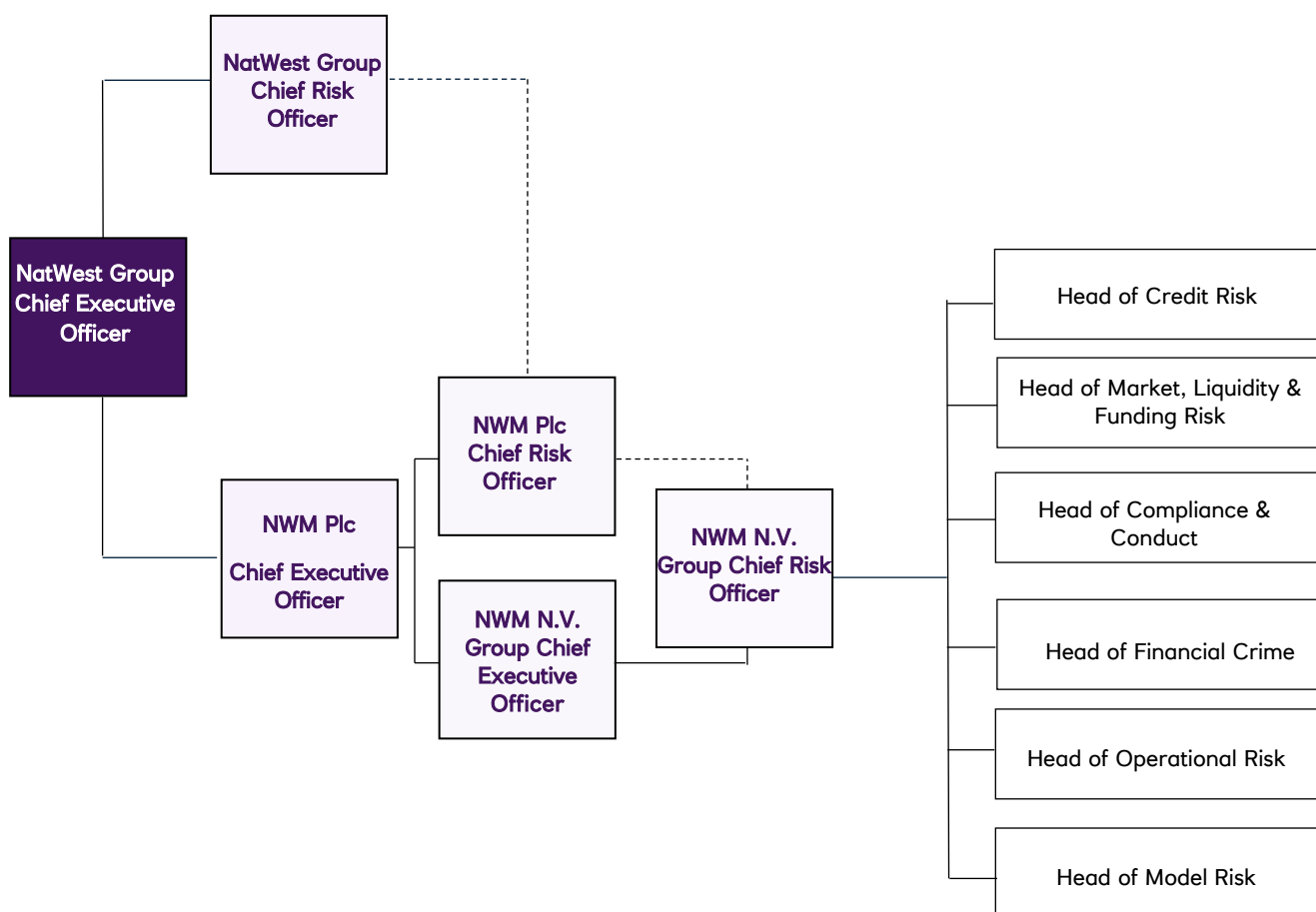
Governance

Risk management structure

While NWM N.V. Group is part of NatWest Group – and operates within NatWest Group’s risk framework – the NWM N.V. Group Supervisory Board is responsible for approving and overseeing the implementation of NWM N.V. Group’s business strategy (within the parameters set by the NatWest Group Board). Policies and compliance activities may be adapted in order to comply with local legal or regulatory requirements.

Service level agreements are in place between NWM N.V. Group and NatWest Group and also with NWM Plc to accommodate integrated risk management oversight.

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



- (1) NWM N.V. Group is a wholly owned subsidiary of NatWest Group plc.
- (2) The NWM N.V. Group Chief Risk Officer has a functional reporting line to the NWM Plc Chief Risk Officer.
- (3) The NWM N.V. Group Risk function is independent and provides oversight of risk management activities to ensure risks are adequately monitored and controlled. The heads of risk work closely with the NWM N.V. Group Chief Risk Officer, the US Head of Risk and the Chief Risk Officer Asia Pacific to ensure consistency across the international business.
- (4) The NWH Risk function provides risk management services across NatWest Group, including – where agreed – to the NWM N.V. Group Chief Risk Officer. These services are managed, as appropriate, through service level agreements.

Risk management in NWM N.V. Group focuses on all material risks including credit, market, liquidity, operational, regulatory, financial crime, climate, model and conduct risk and business activities. The day-to-day management of capital, liquidity, funding and non-traded market risk is the overall responsibility of the Managing Board and further delegated to the Asset & Liability Management Committee.

Risk management framework continued

The following table details NWM N.V. Group's key boards and committees together with an overview of their responsibilities.

Board/Committee	Responsibilities
<p>Supervisory Board</p> <p>Membership: Consisted of five members as at 31 December 2021.</p>	<p>The Supervisory Board is responsible for supervising NWM N.V. Group's management, its general affairs, and the business connected with it, as well as advising the Managing Board. The Supervisory Board is responsible for the review of all matters relative to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk management, regulatory compliance and the product approval process. There is a separate Risk and a separate Audit Committee. Its membership is composed of members of the Supervisory Board.</p>
<p>Board Risk Committee (BRC)</p> <p>Membership: Current membership consists of an independent member as Chairman and an independent member as a regular member.</p>	<p>The Board Risk Committee provides oversight and advice on current and future risk exposures, the effectiveness of the risk management framework, future risk strategy and (with the Audit Committee) internal controls required to manage risk.</p>
<p>Board Audit Committee</p> <p>Membership: At least two Supervisory Board Members (including the Chairman of the Committee), of which at least one must be independent. The members must have thorough knowledge of the financial aspects of risk management or the necessary experience to permit a thorough assessment of risks as well as thorough knowledge of financial reporting, internal control systems, audits and accounting (relating to financial institutions or other large companies).</p>	<p>The Board Audit Committee:</p> <ul style="list-style-type: none"> – Reviews and monitors all matters relating to accounting policies, internal control, financial reporting functions, Internal Audit, External Auditor risk assessment, regulatory compliance and the product approval process. – Establishes a procedure for the selection of an external auditor. – Assesses the monitoring of the external auditor and the statutory control of the annual accounts.
<p>Managing Board</p> <p>Membership: Consists of four members: the Chairman and Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Operating Officer (COO).</p>	<p>The Managing Board reports to the Supervisory Board. It is the principal decision-making corporate body for NWM N.V. Group and is responsible for the day-to-day activities of NWM N.V. Group. The Managing Board is, among others, responsible for setting policy framework, operating structure and yearly plan (including objectives and budgets). In addition to their overall corporate responsibilities, the members of the Managing Board manage one or more units, for which they have primary responsibility.</p>
<p>Risk & Control Committee (RCC)</p> <p>Membership: Chaired by the CRO. Members include the CEO, the CFO, the COO, the Senior Legal Officer, the N.V. Treasurer, the Head of Trading, the Head of Capital Markets, Head of Sales and the Heads of the respective risk disciplines.</p>	<p>The responsibilities of the RCC include:</p> <ul style="list-style-type: none"> – Advising the Managing Board on the risk appetite of NWM N.V. Group and receiving direction from the Managing Board on the risk appetite. – Providing input to NWM N.V. Group's risk appetite setting process in the context of NWM N.V. Group's overall risk appetite. – Overseeing the risk framework within NWM N.V. Group and reporting directly to the Managing Board on the performance of the framework and on issues arising from it. – Monitoring the actual risk profile of NWM N.V. Group, ensuring that this remains within the boundaries of the agreed risk appetite and escalating excesses to the Managing Board. Prior to escalation, the RCC can ask the appropriate owner who normally monitors and controls the risk item, to address any excess. – The remit of the Committee also includes monitoring of capital, liquidity, credit, market, conduct, financial crime, climate, operational, model, and regulatory risks within NWM N.V. Group. Changes to the Terms of Reference of the RCC must be approved by the Managing Board.

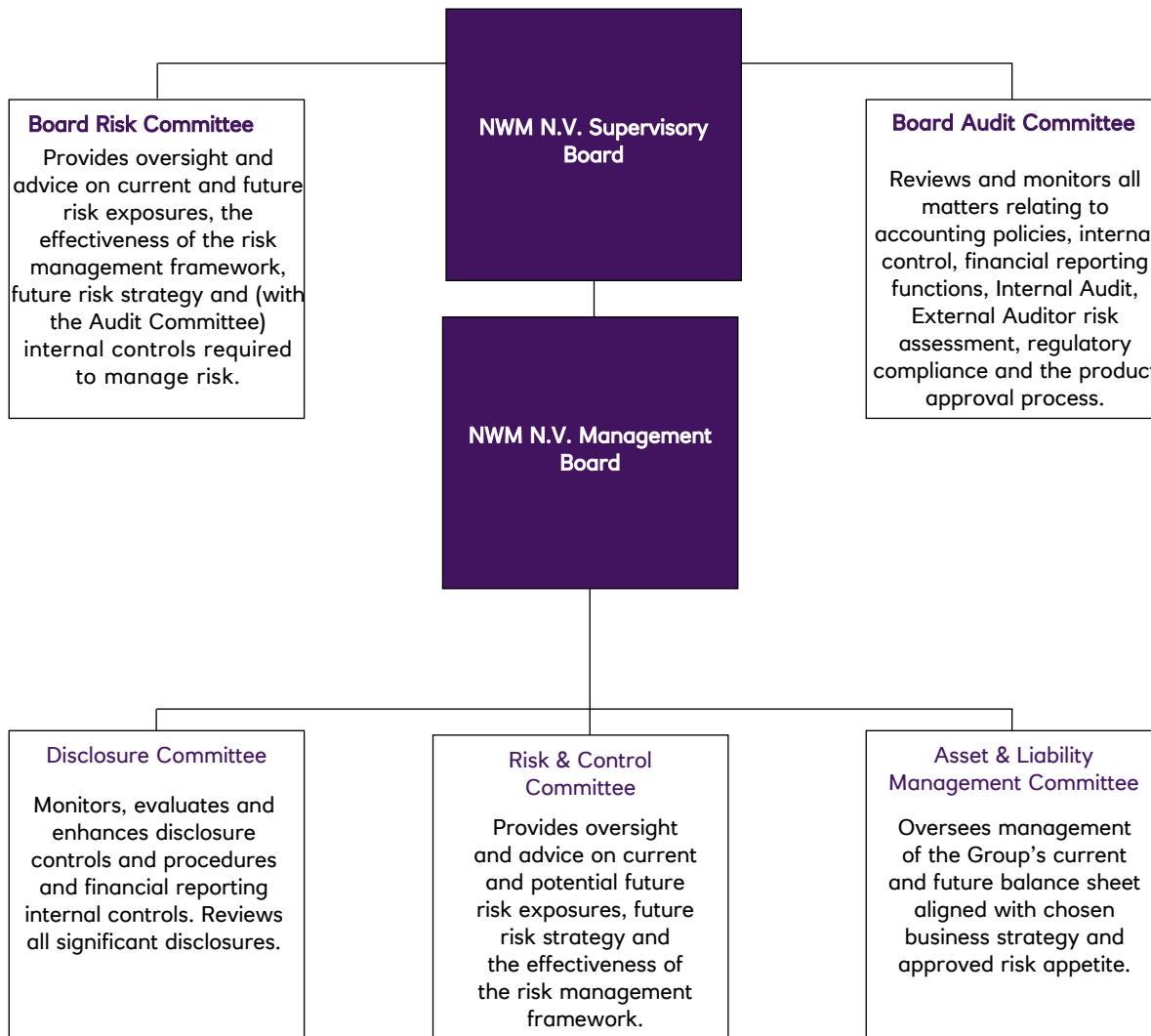
Risk management framework continued

Board/Committee	Responsibilities
<p>Asset & Liability Management Committee (ALCo)</p> <p>Membership: Chaired by the CFO. Members include the CEO, the CRO, the COO, the N.V. Treasurer, the N.V. Head of Trading, Head of Sales and the Head of Financing & Risk Solutions.</p>	<p>The responsibilities of the ALCo include:</p> <ul style="list-style-type: none"> – The overall governance responsibility for the strategic management of NWM N.V. Group’s balance sheet. – To manage capital, liquidity and funding within risk appetite limits. – The liquidity, funding, foreign exchange and interest rate exposures of NWM N.V. Group’s balance sheet. – The balance sheet structure and risk-weighted assets position of NWM N.V. Group. – Decisions on capital repatriation and loss coverage. – The implementation and maintenance of transfer pricing policies (although setting the liquidity spread curve remains the responsibility of NatWest Group ALCo). – The approval and implementation within NWM N.V. Group of NatWest Group Treasury policies and procedures. <p>Responsible for oversight of retained business (shared assets).</p>
<p>Disclosure Committee (DC)</p> <p>Membership: Chaired by the CFO. Members include the CEO, the CRO, the CGO, the N.V. Treasurer, the N.V. Senior Legal Officer, Head of NatWest Accounting Policy and NWM Financial Controller.</p>	<p>The responsibilities of the DC include:</p> <ul style="list-style-type: none"> – Monitoring, evaluation and enhancing disclosure controls and procedures; and internal controls over financial reporting. – Overseeing, evaluating, and approving all significant disclosures made by NWM N.V. Group including: <ul style="list-style-type: none"> – The Annual Report and Accounts and corresponding interim disclosures. – Public filings to be made in connection with the announcement of financial results, excluding filings with regulators. <p>Furthermore, the responsibilities of the DC include overseeing, evaluating and reviewing accounting issues and developments and recommendations on key accounting judgments, including risk and capital disclosures, prior to presentation to the NWM N.V. Group Managing and Supervisory Board. The DC will make recommendations to the NWM N.V. Group Managing and Supervisory Board in relation to its review of these items.</p>

Risk management framework continued

Committee structure

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



Risk management framework continued

Three lines of defence

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

First line of defence

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

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

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

Second line of defence

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

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

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

Third line of defence

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

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

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

Risk appetite

Risk appetite defines the type and aggregate level of risk NWM N.V. Group is willing to accept in pursuit of its strategic objectives and business plans. Risk appetite supports sound risk taking, the promotion of robust risk practices and risk behaviours, and is calibrated annually.

For certain principal risks, risk capacity defines the maximum level of risk NWM N.V. Group can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between internal risk appetite and NWM N.V. Group's ultimate capacity to absorb losses.

Risk appetite framework

The risk appetite framework supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging risks and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

To facilitate this, a detailed annual review of the framework is carried out. The review includes:

- Assessing the adequacy of the framework when compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

The NWM N.V. Group Supervisory Board approves the risk appetite framework annually.

Establishing risk appetite

In line with NatWest Group's risk appetite framework, risk appetite is maintained across NWM N.V. Group through risk appetite statements. These are in place for all principal risks and describe the extent and type of activities that can be undertaken.

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. Risk measures and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for each principal risk is set in alignment with business activities.

NWM N.V. Group operates within risk appetite set at NatWest Group and NWM Plc level unless specific entity level considerations need to prevail, for example, specific capital structure considerations.

In addition to operating within NatWest Group and NWM Plc risk appetite, NWM N.V. Group sets additional risk appetite limits for its own strategic and most material risks where necessary. NWM N.V. Group's risk profile is frequently reviewed and monitored and management focus is concentrated on all strategic risks, material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to NWM N.V. Group Board and senior management.

The risk appetite statement is approved by the Risk & Control Committee, the Managing Board and the Supervisory Board.

Risk controls and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

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

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprise:

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

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

Mitigation

Mitigation is a critical aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within NWM N.V. Group.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that arise from risk mitigation actions themselves) are also considered. Monitoring and review processes are in place to evaluate results. Early identification, and effective management of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. The effects of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Emerging risks that could affect future results and performance are also closely monitored. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures, is also carried out.

Testing and monitoring

Targeted risk processes and controls are subject to independent testing and monitoring.

This activity is carried out to confirm to both internal and external stakeholders – including the Board, senior management, Internal Audit and NWM N.V. Group's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively. A consistent testing and monitoring methodology is in place across NWM N.V. Group.

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

Regulatory oversight

NWM N.V. Group is subject to the direct supervision of De Nederlandsche Bank (DNB).

The Autoriteit Financiële Markten (AFM), as an independent market conduct authority, has supervision of NWM N.V. Group in the Netherlands. Prevention of market abuse and transition to sustainable society are among the top priorities of AFM in 2022, which are also the key focus areas for NWM N.V. Group.

During 2021, ongoing remediation programmes were underway relating to financial crime, data management, outsourcing and capital models. The progress is shared regularly with the relevant supervisors. These programmes will continue in 2022.

Market risk

NWM N.V. Group is exposed to traded market risk through its trading activities and to non-traded market risk through its banking activities. Traded and non-traded market risk exposures are managed and discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 25.

Traded market risk

Definition (audited)

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

Sources of risk (audited)

From a market risk perspective, activities are focused on rates, currencies and traded credit.

NWM N.V. Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives. The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

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

Key developments in 2021

- The euro depreciated against both the US dollar and sterling in 2021. Euro inter-bank interest rates increased overall. The European Central Bank maintained the deposit rate at -50 basis points and its marginal facility lending rate at 25 basis points. Eurozone annual inflation hit a record high level of 5% in December 2021, driven by the increase in energy prices. Market volatility was observed as the delta and omicron variants of COVID-19 appeared, but this was of lesser magnitude than the fluctuations in 2020.
- Traded VaR remained within defined appetite, with a slight year-on-year increase reflecting NWM N.V. Group's gradual expansion of its European client base.
- In Q2 2021, four new market-making desks were launched for euro interest rate swaps, euro repos, foreign exchange options and foreign exchange forwards. These run moderate open risk.

Governance (audited)

Market risk policy statements set out the governance and risk management framework. The Market Risk function independently identifies, measures, monitors, controls and challenges the risk-taking activities undertaken by the trading business, ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

NWM N.V. Group's traded market risk positions are reported monthly to the Risk and Control Committee and subsequently to the Managing and Supervisory Boards.

Risk appetite

NWM N.V. Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement.

Quantitative appetite is expressed in terms of exposure limits.

The limits at NWM N.V. Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

In addition, for each trading business, sub-business or desk, a dealing authority is defined. Dealing authorities comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as VaR, SVaR, exposure size measured via risk sensitivities, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group mitigates market risk among others by hedging transactions with NWM Group.

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

For further information on risk appetite, refer to page 21.

Monitoring and mitigation

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

Traded market risk exposures are monitored against limits and analysed and signed off daily by the Market Risk function. A daily report summarising the position of exposures against limits at desk, business and NWM N.V. Group levels is provided to the trading desks.

Limit reporting is supplemented with regulatory capital and stress testing information as well as ad hoc reporting.

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

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between NWM N.V. Group's Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level.

Traded market risk continued

Measurement

NWM Group uses a comprehensive set of methodologies and techniques to measure traded market risk. At NWM N.V. Group level, these chiefly comprise VaR and SVaR. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR. The incremental risk charge is not material at NWM N.V. Group level.

Value-at-risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level.

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

NWM Group's internal VaR model is based on a historical simulation, utilising market data from the previous 500 days on an equally weighted basis. NWM N.V. Group uses the same model.

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

The performance and adequacy of the VaR model are tested on a regular basis through the following processes:

- Back-testing – Internal and regulatory back-testing is conducted on a daily basis. VaR model back-testing counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.
- Ongoing model validation – VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review – As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management, refer to page 49. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

1-day 99% traded internal VaR (audited)

The table below analyses the internal VaR for NWM N.V. Group's trading portfolios segregated by type of market risk exposure.

	2021				2020			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	€m	€m	€m	€m	€m	€m	€m	€m
Interest rate	0.3	0.7	0.2	0.3	0.3	0.7	0.1	0.2
Credit spread	0.8	1.2	0.6	1.0	0.6	4.7	0.4	0.6
Currency	0.2	0.3	0.1	0.2	0.2	0.7	—	0.2
Diversification (1)	(0.4)			(0.5)	(0.4)			(0.4)
Total	0.9	1.3	0.6	1.0	0.7	4.7	0.5	0.6

(1) NWM N.V. Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, industry counterparties, currencies and regions. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.

- Although COVID-19 remained within the VaR rolling window, NWM N.V. Group maintained open risk at a moderate level and traded VaR remained within defined appetite during 2021.
- Overall, average one-day VaR increased slightly year-on-year as the trading scope was expanded with four new market-making desks. Credit spread risk remained the dominant market risk factor, with interest rate and foreign exchange risk less significant.

SVaR

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions.

A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

The internal traded SVaR model captures all trading book positions.

In 2021, 10-day 99% internal SVaR for the trading portfolios of NWM N.V. Group was €5.3 million on an average basis.

Non-traded market risk

Definition (audited)

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

Sources of risk (audited)

The key sources of non-traded market risk for NWM N.V. Group are interest rate risk and foreign exchange risk.

Interest rate risk

Non-traded interest rate risk in NWM N.V. Group mainly arises from gap risk and basis risk. These sensitivities can give rise to volatility in net interest income as interest rates vary.

Foreign exchange risk

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

- **Structural foreign exchange risk** – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from the euro.
- **Non-trading book foreign exchange risk** – arises from customer transactions and profits and losses that are in a currency other than the functional currency.

Key developments in 2021

- NWM N.V. Group's non-traded VaR remained moderate and decreased year on year given the moderate open positions in interest rate, foreign exchange and credit spread risks. In 2021, total one-day 99% non-traded internal VaR for NWM N.V. was €1.1 million on an average basis (2020 - €1.3 million) and €0.7 million on a period-end basis (2020 - €1.6 million).
- New clients were on-boarded during the year, with Treasury funding the expanding client flow.
- Two new non-trading businesses were set in Q4 2021: investor deposits and leveraged loans. The former has helped diversify the funding mix while the latter has expanded the lending business.

Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling the market risk arising from non-trading activities lies with the Market Risk team.

Policy statements set out the governance and risk management framework for non-traded market risk.

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. The limits at NWM N.V. Group comprise a VaR measure supplemented with SVaR, sensitivities, earnings-at-risk and economic-value-of-equity. Other limits monitored at executive governance level notably include a stress limit based on the foreign exchange sensitivity of NWM N.V. Group's CET1 ratio.

To ensure limits are not breached and that NWM N.V. Board remains within its risk appetite, triggers at NWM N.V. Board and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the business, the Non-Traded Market Risk function and Finance for implementation.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group aims to mitigate market risk, to the extent possible, by way of hedging transactions with NWM Group.

For further information on risk appetite, refer to page 21.

Monitoring and measurement

Non-traded market risk positions are reported monthly to the NWM N.V. Risk and Control Committee (RCC) and subsequently to the Managing and Supervisory Boards.

Interest rate risk

NWM N.V. Group policy is to manage interest rate sensitivity in banking book portfolios within defined risk limits which are monitored and approved by the NWM N.V. Group Risk & Control Committee. Interest rate swaps are used to hedge some exposures externally.

Key measures used to evaluate non-traded interest rate risk (NTIRR) are subject to approval granted by NWM Group model risk governance. Limits on NTIRR are set according to the Non-Trading Interest Rate and Foreign Currency Risk Policy Statement and are subject to NWM N.V. Group Risk & Control Committee approval.

Non-traded market risk continued

NTIRR is measured using a version of the same VaR methodology that is used by NWM Group. VaR metrics are based on interest rate repricing gap reports as at the reporting date. NTIRR one-day VaR at a 99% confidence level for NWM N.V. Group was as follows:

	Average €m	Maximum €m	Minimum €m	Period end €m
2021	1.1	2.0	0.7	0.7
2020	1.3	4.8	0.4	1.6

Foreign exchange risk (audited)

The only material non-traded open currency positions are the structural foreign exchange exposures arising from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed by NatWest Group Treasury to predefined risk appetite levels under delegated authority from NWM N.V. Group's ALCo.

The table below sets out NWM N.V. Group's structural foreign currency exposures:

	Net investments in foreign operations €m	Structural foreign currency exposures €m
2021		
US dollar	8	8
Other non-euro	41	41
	49	49
2020		
US dollar	9	9
Other non-euro	48	48
	57	57

- Overall the foreign exchange position decreased year on year, mostly driven by a decrease in non-euro cash as a result of sales of legacy positions.
- The most material exposure was the positive position in sterling, which was favourable for NWM N.V. Group given the strengthening of sterling against the euro at year-end 2021.
- The pre-tax sensitivity of the foreign exchange reserves to changes in exchange rates is proportional to the nominal exposure. At 31 December 2021, a 1% strengthening in all foreign currencies against the euro would result in a €0.5 million increase in foreign exchange reserves before tax, while a 1% weakening in all foreign currencies against the euro would result in a €0.5 million reduction.

Capital, liquidity and funding risk

Definition

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

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

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

Funding consists of on-balance sheet liabilities that are used to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base.

Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:

- Maturity profile.
- Composition of sources and uses of funding.
- The quality and size of the liquidity portfolio.
- Wholesale market conditions.
- Depositor and investor behaviour.

For a description of sources of capital, liquidity and funding as utilised by NatWest Group, refer to the NatWest Group Annual Report and Accounts 2021 on page 249.

Key developments in 2021

- On 28 June 2021, a number of amendments to Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) entered into force. These amendments, among other things, introduce a binding pillar 1 requirement of 100% Net Stable Funding Ratio (NSFR), define a new standardised method for the measurement of counterparty credit risk (SA-CCR), and change the definition of eligible capital for compliance with limits to large exposures from Total Capital to Tier 1 Capital.
- The expiration of the post-Brexit transition period has resulted in the United Kingdom, NWM N.V. Group parents' country of incorporation, becoming a third country for the purposes of the CRR as of 1 January 2021. This has introduced a number of changes, including a requirement to hold regulatory own funds requirements for intragroup credit valuation adjustment (CVA) risk, UK institutions being classified as Corporates, and the need to add a regulatory consolidation level for liquidity on consolidated basis.
- Throughout 2021 NWM N.V. Group ensured a stable funding base through various sources of funding, including the customer deposit book, issuances of commercial paper and capital instruments. In 2020 NWM N.V. Group established a €2.0 billion Euro Medium Term Note programme, therefore NWM N.V. Group may, subject to compliance with all relevant laws, regulations and directives, from time to time, issue unsecured and unsubordinated notes. As at 31 December 2021 no issuances have been executed under this programme.

- Throughout 2021 NWM N.V. Group continued applying an elevated liquidity buffer to absorb any potential negative impact from market uncertainties, such as Brexit and COVID-19.

Regulatory framework

Capital requirements regulation and directive

The European Union has implemented the Basel III proposals and a number of important changes to the banking regulatory framework through the CRR and the Capital Requirements Directive (CRD) collectively known as the CRD IV package (CRD IV).

CRD IV was implemented on 1 January 2014 on a phased basis with full implementation completed on 1 January 2019. As part of the implementation of CRD IV, the European Banking Authority's technical standards, which are legal acts specifying particular aspects of CRD IV, are either in progress to be finalised through adoption by the European Commission, or now in force.

CRD IV continues to require a total amount of capital equal to at least 8.0% of risk-weighted assets but the share that has to be of the highest quality, which is CET1 capital, of at least 4.5%.

The CRD IV package also introduces more stringent criteria for capital instruments, harmonised adjustments made to capital recognised for regulatory purposes and establishes new capital buffers to be phased in from 1 January 2014. In addition, full implementation on 1 January 2019 introduced the following minimum requirements, which must be met:

- Pillar 1 requirement of: CET1 of 4.5% of RWAs; Tier 1 of 6.0%; and total capital of 8.0%.
- Capital buffers: 'capital conservation buffer' of 2.5% of RWAs; 'countercyclical capital buffer' of up to 2.5%; an 'other systemically important institutions buffer' for domestically or EU important institutions and, if required by a member state, an additional 'systemic risk buffer'.
- A liquidity coverage ratio (LCR) requirement of 100%.
- On 20 May 2019, the European Union adopted amendments to CRR and CRD, known as 'CRR2' and 'CRD V' respectively, introducing the following additional minimum requirements that must be met from 28 June 2021:
 - Minimum Tier 1 leverage ratio of 3.0%.
 - Minimum Net Stable Funding Ratio (NSFR) of 100%.

NWM N.V. Group manages changes to capital requirements from new regulation (including model changes) and the resulting impact on the Common Equity Tier 1 ratio alongside its strategy of risk reduction and de-leveraging. For further information please refer to Capital management on the following page.

Capital, liquidity and funding risk continued

Banking Union: Single Supervisory Mechanism

On 15 October 2013, the EU Council formally adopted the Regulation on the Single Supervisory Mechanism (SSM) which became operational on 4 November 2014. The SSM is a new framework for banking supervision in Europe with the aims of ensuring the safety and soundness of the European banking system and increasing financial integration and stability in Europe.

The ECB has to ensure that credit institutions not only meet the minimum prudential capital requirements set by the CRD IV but also have an additional buffer reflecting risks or elements of risks not covered by the minimum requirements in CRD IV. This is organised through the framework of the SSM.

The SSM has to ensure that credit institutions have sufficient capital to cover unexpected losses or survive severe stressed economic and market conditions. The capital joint decision is the key outcome of the Supervisory Review and Evaluation Process. In this process, the supervisor reviews the governance and internal control arrangements used by each individual bank to manage its risks (i.e. the Internal Capital Adequacy Assessment Process (ICAAP)).

Overall, this framework governs relations between the ECB, national supervisors and banks, and is an important step towards banking union in the EU.

Capital management

NWM N.V. Group aims to maintain an appropriate level of capital to meet its business needs (which include requirements of its ultimate parent company, NatWest Group plc) and regulatory requirements, whilst operating within an agreed risk appetite. Determination of appropriate capital levels involves regular Asset & Liability Management Committee (ALCo) capital monitoring, planning and forecasts, and ICAAP. Capital plans are subjected to internal governance reviews, eventually put through Managing Board oversight and approval, as well as review of the appropriate supervisory authority.

NWM N.V. Group operates a rigorous capital planning process via ALCo aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital position of NWM N.V. Group. In the event that the projected position deteriorates below acceptable levels, NWM N.V. Group would revise business plans accordingly.

NWM N.V. Group manages changes to capital requirements from new regulation as well as model changes and the resulting impact on the Common Equity Tier 1 ratio, focusing on risk reduction and de-leveraging.

Through the ICAAP, NWM N.V. Group determines its desired capital levels based on three complementary perspectives: the normative baseline, normative adverse and economic internal perspective. The normative baseline perspective ensures NWM N.V.'s capital is managed to comply with current and known future changes in regulatory capital requirements. In the normative adverse perspective, NWM N.V. Group's capital levels are evaluated through the application of internally defined stress tests that quantify changes in capital ratios under a range of scenarios.

In the economic internal perspective, NWM N.V. Group calculates the required capital from an economic point of view.

Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital. Liquidity and funding risk tolerance forms part of NWM N.V. Group's risk appetite statement, which is reviewed and approved by the NWM N.V. Group Managing Board.

The risk appetite statement defines key metrics, risk trigger levels and capacity for liquidity and funding management within NWM N.V. Group. The Board also sets the appetite for funding risk to ensure that stable sources of funding are used to fund NWM N.V. Group's core assets. NWM N.V. Group monitors its liquidity position against this risk tolerance on a daily basis. In setting risk limits the Board considers the nature of NWM N.V. Group's activities, overall risk appetite, market best practice and regulatory compliance.

In implementing NWM N.V. Group's liquidity risk management framework, a suite of tools are used to monitor, limit and stress test the risks within the balance sheet. Limits are established to manage the level of liquidity risk and these include thresholds for the amount and composition of funding sources, asset and liability mismatches, and funding concentrations.

Liquidity portfolio management

The size of the portfolio is determined by referencing NatWest Group's liquidity risk appetite. NatWest Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits over quality of counterparty, maturity mix and currency mix.

Within the liquidity portfolio, NWM N.V. Group holds cash at central banks of €5.1 billion (2020 – €4.5 billion) and government and other high quality securities of €0.4 billion (2020 – €1.2 billion).

Funding risk management

Funding is raised through deposits from the money market and through the issuance of a commercial paper program of €1.3 billion.

Governance

The ALCo is responsible for ensuring NWM N.V. Group maintains adequate capital, liquidity and funding at all times. The ALCo manages and plans NWM N.V. Group's adequacy levels taking into account current and projected levels and provides input to and oversees levels established within the framework of the ICAAP and ILAAP.

ALCo also plans and manages capital, liquidity and funding interaction with NatWest Group. Such interaction would include, amongst other matters, ALCo considerations around NWM N.V. Group's strategic asset sales/transfers to NatWest Group which would need to be capital neutral to NatWest Group and are required to be structured in such a way so as to satisfy DNB, ECB and PRA regulatory requirements. The ALCo is in turn ultimately governed by NWM N.V. Group's Managing Board, which approves ALCo and ICAAP and ILAAP decisions.

Capital, liquidity and funding risk continued

Capital ratios and risk-weighted assets

NWM N.V. Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. NWM N.V. Group's capital ratios and RWAs on a CRR transitional basis are set out below. Refer to Note 22 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

	2021	2020
Capital ratios	%	%
Common Equity Tier 1 (CET1)	29.7	30.6
Tier 1	34.1	35.3
Total	37.4	39.0
Risk-weighted assets	€m	€m
Credit risk	3,785	4,047
Market risk	1,269	703
Operational risk	620	605
Settlement risk	2	—
	5,676	5,355

- RWAs increased to €5.7 billion from €5.4 billion at 31 December 2020, reflecting lower levels of credit risk, and an offsetting increase for market risk. The market risk increase is due to an additional credit valuation adjustment capital charge on inter-group transactions due to non-equivalence of the United Kingdom banking supervision by the EU, while the market risk itself only modestly increased due to increased business in the entity.
- Reduction of €0.5 billion was seen largely within the drawn positions as well as the undrawn facilities as corporate clients were exited.
- Within counterparty credit risk, an increase of €0.3 billion was noted due to further onboarding of Markets clients after the Brexit date. The risk weighting on inter-group exposures stayed stable apart from the credit valuation adjustment capital charge of €0.5 billion that is captured within market risk.
- Within market risk, the earlier mentioned credit valuation charge of €0.5 billion and increased volumes within the business due to Brexit together brought the total RWA to €1.3 billion.

CET1 flow statement

The table below analyses the movement in Common Equity Tier 1 capital during the year.

	%	€m
At 1 January 2021	30.6	1,638
Regulatory adjustment: fair value changes in own credit spreads		(23)
Foreign currency reserves		(4)
Result current year		110
Other (1)		(34)
At 31 December 2021	29.7	1,687

(1) Other includes dividend payments on AT1 capital securities of €14 million and deferred tax asset deduction of €57 million. This was partially offset by a decrease in other regulatory adjustments of €14 million and fair value changes of €23 million.

Funding sources (audited)

The table below shows NWM N.V. Group's primary funding sources.

	2021		2020	
	€m	%	€m	%
Bank deposits	—	—	52	0.6
Customer deposits	880	9.9	1,258	14.1
Trading liabilities (1)	2,059	23.0	1,378	15.4
Other financial liabilities	1,907	21.3	2,200	24.6
Subordinated liabilities	652	7.3	655	7.3
Amounts due to holding companies and fellow subsidiaries (2)	3,437	38.5	3,386	38.0
Total funding	8,935	100	8,929	100

Comparatives have been re-presented to aid comparability.

(1) Trading liabilities excludes short positions of €21 million (2020 – €134 million).

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €30 million (2020 – €8 million) and settlement balances of €456 million (2020 – €157 million) have been excluded from the table.

Credit risk

Definition (audited)

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

Sources of risk (audited)

NWM N.V. Group is exposed to credit risk through lending, derivatives and off-balance sheet products such as trade finance and guarantees. NWM N.V. Group is also exposed to credit risk as a result of debt securities held for liquidity management purposes.

Key developments in 2021 (audited)

- Credit risk RWAs reduced from €4.0 billion to €3.8 billion which was in line with NWM N.V. strategy and associated client, product reviews and exits.
- The ECL charge fell from €42 million to a net release of €13 million. This decrease was partly due to a net release of €5.2 million related to the exit of a single customer whose loans were sold as the client was marked as non-go-forward under the NWM Group strategy.
- The residual effect of COVID-19 was limited to one customer remaining on a covenant holiday and being placed on forbearance.
- As part of the broader NWM Group strategy to support sponsor clients and sponsor-owned corporates, NWM N.V. Group purchased a diversified and liquid portfolio of leveraged loans. The size of individual loans within the portfolio was modest and the aggregate exposure was assessed as being well within single name concentration, sector and geographical limits. The acquisition did not materially affect the quality of the overall credit portfolio or change its risk profile in any way.
- NWM N.V. Group entered into risk-sharing agreements or silent sub-participations with NatWest Group as part of NWM Group's strategic refocusing.

Governance (audited)

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

Governance activities include:

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

The Risk & Control Committee, which operates under the delegated authority of the Managing Board, ensures that all material credit risks are identified, assessed, monitored, controlled and managed effectively (refer to page 54 for further details). The Risk & Control Committee receives input from various committees including the Credit Risk Committee for the overall credit risk profile and sector/product/asset class concentrations, as well as input from the Risk of Credit Loss Committee, the Internal Model Review Committee and the Stress Testing Committee.

Risk appetite

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

The framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits. Four formal frameworks are used, classifying, measuring and monitoring credit risk exposure across single name, sector and country concentrations and product and asset classes with heightened risk characteristics.

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

Credit policy standards are in place and are expressed as a set of mandatory controls.

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

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

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

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across NWM N.V. Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

Credit risk continued

Assessment and monitoring

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

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

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

Credit is only granted to customers following joint approval by an approver from the business and the credit risk function. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities Framework Policy.

The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

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

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

Problem debt management

Early problem identification

Each sector has defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework.

Risk of Credit Loss framework

The Risk of Credit Loss framework is used where the credit profile of a customer has deteriorated materially since origination. Experienced credit risk officers apply expert judgment to classify cases into categories that reflect progressively deteriorating credit risk. There are two classifications in the framework that apply to non-defaulted customers – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met NWM N.V. Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

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

Risk of Credit Loss customers are performing customers that have met the criteria for Heightened Monitoring and also pose a risk of credit loss to NWM N.V. Group in the next 12 months should mitigating action not be taken or not be successful.

Once classified as either Heightened Monitoring or Risk of Credit Loss, a number of mandatory actions are taken in accordance with policies. Actions include a review of the customer's credit grade, facility and security documentation and the valuation of security. Depending on the severity of the financial difficulty and the size of the exposure, the customer relationship strategy is reassessed by credit officers, by specialist credit risk or relationship management units in the relevant business, or by Restructuring.

Restructuring

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

Forbearance (audited)

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties. The aim of forbearance is to support and restore the customer to financial health while minimising risk. The type of forbearance offered is tailored to the customer's individual circumstances and may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Credit risk continued

Credit grading models

Credit grading models is the collective term used to describe all models, frameworks and methodologies used to calculate PD, exposure at default (EAD), LGD, maturity and the production of credit grades.

Credit grading models are designed to provide:

- An assessment of customer and transaction characteristics.
- A meaningful differentiation of credit risk.
- Accurate internal default rate, loss and exposure estimates that are used in the capital calculation or wider risk management purposes.

Impairment, provisioning and write-offs

(audited)

In the overall assessment of credit risk, impairment provisioning and write-offs are used as key indicators of credit quality.

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

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

Model build:

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

Model application:

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

Refer to Accounting policies note 9 for further details.

IFRS 9 ECL model design principles (audited)

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

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

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

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

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

PD estimates

PD models use a point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that reflect economic conditions at the reporting date. The framework utilises credit cycle indices (CCIs) for a comprehensive set of region/industry segments. Further detail on CCIs is provided in the Economic loss drivers section.

One-year point-in-time PDs are extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric forecasting models.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and, where relevant, forward-looking.

Forward-looking economic information is incorporated into LGD estimates using the existing CCI framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

EAD estimates

EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

No explicit forward-looking information is incorporated, on the basis of analysis showing the temporal variation in CCFs is mainly attributable to changes in exposure management practices rather than economic conditions.

Credit risk continued

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to NWM N.V. Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to formal approval through provisioning governance, and were categorised as follows:

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes. As a consequence, any potential ECL release was deferred and retained on the balance sheet.

- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios (also for 2020) and credit outcomes as a result of the effect of COVID-19 and the consequences of government support schemes. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required to be amended.

Post model adjustments will remain a key focus area of NWM N.V. Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends, particularly with more observable outcomes from the unwinding of COVID-19 support schemes. A key part of the assessment is also understanding the current levels of ECL coverage (portfolio by portfolio) against pre-COVID-19 levels, recognising changes in portfolio/sector mix.

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

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

Significant increase in credit risk (SICR) (audited)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12-month ECL). NWM N.V. Group has adopted a framework to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied are consistent across NWM N.V. Group and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

- **IFRS 9 lifetime PD assessment (the primary driver)** – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. In broad terms, a doubling of PD would indicate a SICR. However, the PD uplift must be at least 0.1%.

- **Qualitative high-risk backstops** – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support and exposures managed within the Risk of Credit Loss framework.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:

- **Criteria effectiveness** – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- **Stage 2 stability** – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- **Portfolio analysis** – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Provisioning for forbearance

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision increase is required.

Credit risk continued

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

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

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

The transfer of loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan returned to performing status. This is not dependent on a specified time period and follows the credit risk manager's assessment.

Customers seeking COVID-19 related support, including payment holidays, who were not subject to any wider SICR triggers and who were assessed as having the ability in the medium term post-COVID-19 to be viable and meet credit appetite metrics, were not considered to have been granted forbearance.

Asset lifetimes (audited)

The choice of initial recognition and asset duration is another critical judgment in determining the quantum of lifetime losses that apply.

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above.
- For asset duration, the approach applied in line with IFRS 9 requirements is:
 - Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected prepayment and amortisation).
 - Revolving facilities – asset duration is based on annual customer review schedules and will be set to the next review date.

Economic loss drivers (audited)

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgment.

The key economic variables in NWM N.V. Group include national gross domestic product (GDP), unemployment rate and the central bank base rate.

Economic scenarios

At 31 December 2021, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios previously reflected a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets. The four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. The scenarios were developed to provide sufficient coverage across potential changes in unemployment, asset price and the degree of permanent damage to the economy, around which there are pronounced levels of uncertainty at this stage.

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

Base case – COVID-19 related risks remain contained. After a strong recovery in 2021, the growth moderates in 2022. Most workers can go back to their existing job or find a new job very quickly, with the unemployment rate reaching 8.1% by the end of 2022. Inflation initially increases but retreats over 2022. Interest rates are raised, starting in early 2022. There is a gradual cool down in the housing market but activity is still at healthy levels.

Downside – This scenario assumes a reversal in recovery as inflation build up leads to a lessening of expectations. Interest rates are raised aggressively to counter the inflation risks. However, starting in 2023, the interest hikes are reversed to assist the recovery. Unemployment is higher than the base case and there is a modest decline in house prices.

Extreme downside – This scenario assumes a resurgence of COVID-19 related risks. There is a renewed downturn with declines in consumer spending and business investment. Interest rates are reduced into negative territory. There is wide-spread job shedding in the labour market while asset prices see deep corrections, with housing market falls higher than those seen during previous episodes. The recovery is tepid throughout the five-year period, meaning only a gradual decline in joblessness.

The approach of using four scenarios is similar to that as at 31 December 2020. Previously, NWM N.V. Group used five discrete scenarios to characterise the distribution of risks in the economic outlook. For 2021, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price falls and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

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

The main macroeconomic variables for these scenarios are set out in table below. The compound annual growth rate (CAGR) for GDP as well as the five-year average for unemployment and the European Central Bank main refinancing rate.

Credit risk continued

Economic loss drivers (audited)

Main macroeconomic variables	2021				2020			
	Upside %	Base case %	Downside %	Extreme downside %	Upside %	Base case %	Downside %	Extreme downside %
Five-year summary								
Eurozone								
GDP - CAGR	2.6	2.2	1.2	0.6	3.4	2.7	2.4	1.2
Unemployment - average	7.4	7.6	8.6	9.9	8.1	8.7	10.6	11.8
European Central Bank								
- main refinancing rate - average	0.8	0.1	0.2	—	0.1	—	—	—
Probability weight	30.0	45.0	20.0	5.0	20.0	40.0	30.0	10.0

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

Probability weightings of scenarios

NWM N.V. Group's approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. The scale of the economic impact of COVID-19 and the range of recovery paths necessitates a change of approach to assigning probability weights from that used in recent updates. Prior to 2020, GDP paths for NWM N.V. Group's scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario.

Instead, NWM N.V. Group has subjectively applied probability weights, reflecting expert views within NWM N.V. Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 30% weighting was applied to the upside scenario, a 45% weighting applied to the base case scenario, a 20% weighting applied to the downside scenario and a 5% weighting applied to the extreme downside scenario. NWM N.V. Group assessed the downside risk posed by COVID-19 to be diminishing over the course of 2021, with the vaccination roll-out and positive economic data being observed since the gradual relaxing of lockdown restrictions. NWM N.V. Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

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

Credit risk continued

Economic loss drivers (audited)

Annual figures

	Upside	Base case	Downside	Extreme downside
	%	%	%	%
Eurozone GDP - annual growth				
2021	5.2	5.2	5.2	5.2
2022	5.8	4.4	0.5	(5.1)
2023	3.5	2.5	1.3	4.3
2024	1.7	2.2	2.1	1.9
2025	1.4	1.7	1.6	1.7
2026	1.4	1.3	1.4	1.7

	Upside	Base case	Downside	Extreme downside
	%	%	%	%
Eurozone - unemployment rate - annual average				
2021	8.4	8.4	8.4	8.4
2022	7.8	8.1	8.9	10.7
2023	7.4	7.6	9.2	11.1
2024	7.1	7.4	8.7	10.0
2025	7.1	7.2	8.2	9.1
2026	7.1	7.2	8.0	8.9

	Upside	Base case	Downside	Extreme downside
	%	%	%	%
European Central Bank - main refinancing rate - annual average				
2021	—	—	—	—
2022	0.2	—	0.5	—
2023	0.6	0.1	0.6	—
2024	0.9	0.2	—	—
2025	1.2	0.2	—	—
2026	1.3	0.4	0.1	—

Worst points

	31 December 2021				31 December 2020			
	Downside		Extreme downside		Downside		Extreme downside	
	%	Quarter	%	Quarter	%	Quarter	%	Quarter
Eurozone								
GDP	(1.2)	Q1 2022	(8.7)	Q1 2022	(3.3)	Q4 2020	(8.3)	Q4 2020
Unemployment rate (peak)	9.3	Q2 2023	11.4	Q1 2023	13.8	Q4 2020	15.0	Q2 2021

(1) For the unemployment rate, the figures show the peak levels. For GDP, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2021 for 31 December 2021 scenarios.

Credit risk continued

Use of the scenarios in lending

The lending ECL methodology is based on the concept of credit cycle indices (CCIs). The CCIs represent all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

The four economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an additional mean reversion assumption i.e. that after reaching their worst forecast position the CCIs start to gradually revert to their long-run average of zero.

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

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

Economic uncertainty (audited)

Treatment of COVID-19 relief mechanisms

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

NWM Group continues to provide support, where appropriate, to existing customers. Those who are deemed either (a) to require a prolonged timescale to return to within NWM N.V. Group's risk appetite, (b) not to have been viable pre-COVID-19, or (c) not to be able to sustain their debt once COVID-19 is over, will trigger a SICR and, if concessions are sought, be categorised as forborne, in line with regulatory guidance. Payment holiday extensions beyond an aggregate of 12 months in an 18 month period to cover continuing COVID-19 business interruption are categorised as forbearance, including for customers where no other SICR triggers are present.

Model monitoring and enhancement

The severe economic impact from COVID-19 and the ensuing government support schemes have disrupted the normal relationships between key economic loss drivers and credit outcomes. While most government support schemes have now been phased out and economic conditions are normalising, the effect of this disruption is still evident in model monitoring and accounted for in judgments applied to the use and recalibrations of models.

Most significantly, latest PD model monitoring shows general overprediction across all key portfolios, i.e., observed default rates still at or even below pre-COVID-19 levels despite increased PD estimates from a deterioration in several key economic variables. Model recalibrations to adjust for this overprediction have been deferred based on the judgment that default rate actuals are distorted due to government support.

In addition, to account for residual model uncertainty and the risk of eventual default emergence hitherto suppressed by government support, lag assumptions of up to 12 months are applied in the models. These assumptions are consistent with and unchanged from previous disclosures in 2021, although their effective impact gradually reduces over time.

Industry sector detail

The economic impact of COVID-19 is highly differentiated by industry sector, with hospitality and other contact-based leisure, service, travel and passenger transport activities significantly more affected than the overall economy. On the other hand, the corporate and commercial econometric forecasting models used in Wholesale are sector agnostic. Sector performance was monitored throughout the year and additional post model adjustments were recognised where a risk of higher than expected future default levels, including their timing and value, was identified.

Measurement uncertainty and ECL sensitivity analysis (audited)

The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation, particularly in times of economic volatility and uncertainty. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2021. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

Stage 3 provisions are not subject to the same level of measurement uncertainty – default is an observed event as at the balance sheet date. Stage 3 provisions therefore have not been considered in this analysis.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

The impact arising from the base case, upside, downside and extreme downside scenarios has been simulated. In the simulations, NWM N.V. Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios have been applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Modelled post model adjustments present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section).

As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit

NWM N.V. Group's core criterion to identify a SICR is founded on PD deterioration, as discussed above. Under the simulations, PDs change and result in exposures moving between Stage 1 and Stage 2 contributing to the ECL impact.

2021	Actual	Base case	Upside	Downside	Extreme downside
Stage 1 modelled exposure (€m)	425	425	425	425	356
Stage 1 modelled ECL (€m)	—	—	—	—	—
Stage 2 modelled exposure (€m)	46	46	46	46	115
Stage 2 modelled ECL (€m)	1	1	1	1	3
Stage 1 and Stage 2 modelled exposure (€m)	471	471	471	471	471
Stage 1 and Stage 2 modelled ECL (€m)	1	1	1	1	3
Stage 1 and Stage 2 coverage (%)	0.21%	0.21%	0.21%	0.21%	0.64%
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL		—	—	—	2

- (1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2021 and therefore does not include variation in future undrawn exposure values.
- (2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposures relating to bonds and cash.
- (3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2021. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
- (4) Refer to the Economic loss drivers section for details of economic scenarios.
- (5) Refer to the NWM N.V. Group 2020 Annual Report and Accounts for 2020 comparatives.

Measurement uncertainty and ECL adequacy (audited)

The improvement in the economic outlook and scenarios used in the IFRS 9 MES framework in 2021 resulted in a release of modelled ECL. Given that continued uncertainty remains due to COVID-19 despite the improved economic outlook, NWM N.V. Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As government support schemes continued to conclude during 2021, NWM N.V. Group anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2021.

There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers.

A key factor would be a more adverse deterioration in GDP and unemployment in the economies in which NWM N.V. Group operates, but also, among others:

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

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NWM N.V. Group's banking activities.

Refer to Accounting policies note 9 and Note 12 to the consolidated financial statements for policies and critical judgments relating to impairment loss determination.

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

Refer to Note 7 to the consolidated financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

	31 December 2021			31 December 2020		
	Gross €bn	ECL €bn	Net €bn	Gross €bn	ECL €bn	Net €bn
Balance sheet total gross amortised cost and FVOCI	7.4			7.0		
In scope of IFRS 9 ECL framework	6.9			6.5		
% in scope	93%			93%		
Loans to customers - in scope - amortised cost	0.7	—	0.7	0.2	0.1	0.1
Loans to customers - in scope - FVOCI	—	—	—	—	—	—
Loans to banks - in scope - amortised cost	0.1	—	0.1	1.0	—	1.0
Total loans - in scope	0.8	—	0.8	1.2	0.1	1.1
Stage 1	0.7	—	0.7	0.8	—	0.8
Stage 2	0.1	—	0.1	0.3	—	0.3
Stage 3	—	—	—	0.1	0.1	—
Other financial assets - in scope - amortised cost	5.3	—	5.3	4.5	—	4.5
Other financial assets - in scope - FVOCI	0.8	—	0.8	0.8	—	0.8
Total other financial assets - in scope	6.1	—	6.1	5.3	—	5.3
Stage 1	6.1	—	6.1	5.3	—	5.3
Stage 2	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	0.5	na	0.5	0.5	na	0.5
Loans to customers - out of scope - amortised cost	—	na	—	—	na	—
Loans to banks - out of scope - amortised cost	—	na	—	—	na	—
Other financial assets - out of scope - amortised cost	0.4	na	0.4	0.4	na	0.4
Other financial assets - out of scope - FVOCI	0.1	na	0.1	0.1	na	0.1

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of €408 million (2020 – €353 million). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of €99 million (2020 – €61 million) as not within the IFRS 9 ECL framework by definition.

In scope assets also include €220 million (2020 – €436 million) of inter-Group assets not shown in the table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 23 to the consolidated financial statements, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €6,327 million (2020 – €7,005 million), comprised Stage 1 €6,164 million (2020 – €5,939 million); Stage 2 €163 million (2020 – €1,040 million); and Stage 3 nil (2020 – €26 million). The total ECL in the remainder of the credit risk section of €40 million included ECL for both on and off balance sheet exposures.

Credit risk – Banking activities continued

Portfolio summary (audited)

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

	2021 €m	2020 €m
Loans - amortised cost and FVOCI		
Stage 1	732	832
Stage 2	50	343
Stage 3	39	72
Inter-Group (1)	220	436
Total	1,041	1,683
ECL provisions		
Stage 1	—	1
Stage 2	1	41
Stage 3	39	69
Total	40	111
ECL provisions coverage (2)		
Stage 1 (%)	—	0.12
Stage 2 (%)	2.00	11.95
Stage 3 (%)	100.00	95.83
Total	4.87	6.60
Other financial assets - Gross exposure	6,072	5,285
Other financial assets - ECL provisions	—	—
Impairment (releases)/losses		
ECL (release)/charge - third party (3)	(13)	42
Amounts written-off	63	5

(1) The NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was €0.1 million (2020 – €0.3 million).

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

(3) Includes €0.1 million (2020 – nil) related to other financial assets and €1.0 million (2020 – €1.0 million release) relating to contingent liabilities.

(4) 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 for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €5.1 billion (2020 – €4.5 billion) and debt securities of €0.9 billion (2020 – €0.8 billion).

(5) NWM N.V. Group held collateral against third party loans in Stage 3 of nil (2020 – €3 million) and against Stage 1 and Stage 2 third party loans of €275 million (2020 – €51 million). Inter-group loans were uncollateralised.

- The acceleration of the NWM Group strategy resulted in a significant decrease of loans in Stage 2, Stage 3 as well as the associated ECL, with only a few non-go-forward clients remaining.
- A large portion of the reduction in Stage 2 ECL was related to the exit of a single customer resulting in a net release of €5.2 million.
- The remaining decrease of Stage 2 ECL was mainly due to the improved economic outlook.
- The reduction in Stage 3 loans was primarily the result of the write-off of a legacy position in the CRC portfolio.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment by sector, asset quality and geographical region based on the country of operation of the customer. The tables below show only third party exposures and related ECL provisions, charges and write-offs.

2021	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	23	600	198	—	821
- Netherlands	6	7	50	—	63
- Other Europe	16	514	145	—	675
- RoW	1	79	3	—	83
Loans by asset quality (1)	23	600	198	—	821
- AQ1	—	—	5	—	5
- AQ2	—	—	—	—	—
- AQ3	—	39	—	—	39
- AQ4	—	452	157	—	609
- AQ5	20	7	16	—	43
- AQ6	3	2	—	—	5
- AQ7	—	61	20	—	81
- AQ8	—	—	—	—	—
- AQ9	—	—	—	—	—
- AQ10	—	39	—	—	39
Loans by stage	23	600	198	—	821
- Stage 1	23	514	195	—	732
- Stage 2	—	47	3	—	50
- Stage 3	—	39	—	—	39
Weighted average life* - ECL measurement (years)	3	4	25	—	13
Weighted average 12 months PDs*					
- IFRS 9 (%)	0.16	0.55	0.29	—	0.47
- Basel (%)	0.65	0.51	0.45	—	0.50
ECL provisions by geography	—	40	—	—	40
- Netherlands	—	—	—	—	—
- Other Europe	—	1	—	—	1
- RoW	—	39	—	—	39
ECL provisions by stage	—	40	—	—	40
- Stage 1	—	—	—	—	—
- Stage 2	—	1	—	—	1
- Stage 3	—	39	—	—	39
ECL provisions coverage (%)	—	6.67	—	—	4.87
- Stage 1 (%)	—	—	—	—	—
- Stage 2 (%)	—	2.13	—	—	2.00
- Stage 3 (%)	—	100.00	—	—	100.00
ECL (release)/charge - Third party	—	2	(15)	—	(13)
Amounts written-off	—	38	25	—	63
Other financial assets by asset quality (1)	—	—	330	5,742	6,072
- AQ1-AQ4	—	—	99	5,742	5,841
- AQ5-AQ8	—	—	231	—	231
Off-balance sheet	285	4,641	1,401	—	6,327
- Loan commitments	285	4,640	927	—	5,852
- Financial guarantees	—	1	474	—	475
Off-balance sheet by asset quality (1)	285	4,641	1,401	—	6,327
- AQ1-AQ4	223	4,216	1,352	—	5,791
- AQ5-AQ8	62	425	49	—	536
- AQ10	—	—	—	—	—

*Not within audit scope.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2020	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	32	716	499	—	1,247
- Netherlands	32	1	45	—	78
- Other Europe	—	574	346	—	920
- RoW	—	141	108	—	249
Loans by asset quality (1)	32	716	499	—	1,247
- AQ1	—	—	32	—	32
- AQ2	—	—	—	—	—
- AQ3	—	80	2	—	82
- AQ4	—	344	183	—	527
- AQ5	32	166	106	—	304
- AQ6	—	—	—	—	—
- AQ7	—	3	—	—	3
- AQ8	—	51	—	—	51
- AQ9	—	—	176	—	176
- AQ10	—	72	—	—	72
Loans by stage	32	716	499	—	1,247
- Stage 1	—	514	318	—	832
- Stage 2	32	130	181	—	343
- Stage 3	—	72	—	—	72
Weighted average life* - ECL measurement (years)	4	3	4	—	4
Weighted average 12 months PDs*	—	—	—	—	—
- IFRS 9 (%)	0.36	1.14	16.11	0.23	7.43
- Basel (%)	0.64	1.06	14.71	0.23	6.86
ECL provisions by geography	—	73	38	—	111
- Netherlands	—	—	1	—	1
- Other Europe	—	37	37	—	74
- RoW	—	36	—	—	36
ECL provisions by stage	—	73	38	—	111
- Stage 1	—	1	—	—	1
- Stage 2	—	3	38	—	41
- Stage 3	—	69	—	—	69
ECL provisions coverage (%)	—	10.20	7.62	—	8.90
- Stage 1 (%)	—	0.19	—	—	0.12
- Stage 2 (%)	—	2.31	20.99	—	11.95
- Stage 3 (%)	—	95.83	—	—	95.83
ECL (release)/charge - Third party	—	7	35	—	42
Amounts written-off	—	4	1	—	5
Other financial assets by asset quality (1)	44	—	243	4,998	5,285
- AQ1-AQ4	—	—	—	4,996	4,996
- AQ5-AQ8	44	—	243	2	289
Off-balance sheet	341	5,603	1,061	—	7,005
- Loan commitments	341	5,583	587	—	6,511
- Financial guarantees	—	20	474	—	494
Off-balance sheet by asset quality (1)	341	5,603	1,061	—	7,005
- AQ1-AQ4	323	4,804	908	—	6,035
- AQ5-AQ8	18	777	149	—	944
- AQ10	—	22	4	—	26

*Not within audit scope.

(1) AQ bandings are based on Basel PDs and mapping is as follows:

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

- The corporate credit portfolio remains of high quality with over 80% of exposure being to customers having an investment grade rating (BBB-, Baa3 equivalent or better).
- Significant process was made in the execution of NWM Group strategy announced in 2020, resulting in a material decrease of loans in Stage 2 and Stage 3, largely through disposals and write-offs.
- The portfolio remains well diversified in terms of sectors and geography. Within Europe, the exposure is skewed to the largest economies and northern European countries that have very good credit quality.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
2021										
Wholesale	732	50	39	821	5,852	475	—	1	39	40
Property	23	—	—	23	285	—	—	—	—	—
Financial institutions	195	3	—	198	927	474	—	—	—	—
Corporate	514	47	39	600	4,640	1	—	1	39	40
Of which:										
Airlines and aerospace	—	—	—	—	33	—	—	—	—	—
Automotive	—	—	—	—	647	—	—	—	—	—
Health	5	—	—	5	178	—	—	—	—	—
Land transport and logistics	87	—	—	87	273	—	—	—	—	—
Leisure	—	4	—	4	174	—	—	—	—	—
Oil and gas	300	—	—	300	—	—	—	—	—	—
Retail	—	—	—	—	332	—	—	—	—	—
Total	732	50	39	821	5,852	475	—	1	39	40
2020										
Wholesale	832	343	72	1,247	6,511	494	1	41	69	111
Property	—	32	—	32	341	—	—	—	—	—
Financial institutions	318	181	—	499	587	474	—	38	—	38
Sovereign	514	130	72	716	5,583	20	1	3	69	73
Corporate										
Of which:										
Airlines and aerospace	—	25	—	25	200	—	—	1	—	1
Automotive	—	—	—	—	716	—	—	—	—	—
Land transport and logistics	95	—	1	96	502	—	—	—	—	—
Leisure	—	56	—	56	129	—	—	1	—	1
Oil and gas	12	—	37	49	328	—	—	—	35	35
Retail	—	—	—	—	380	—	—	—	—	—
Total	832	343	72	1,247	6,511	494	1	41	69	111

Forbearance

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

	Property €m	Other corporate €m	Total €m
2021			
Forbearance (flow)	—	—	—
Forbearance (stock)	—	21	21
Heightened Monitoring and Risk of Credit Loss	—	4	4
2020			
Forbearance (flow)	—	73	73
Forbearance (stock)	—	73	73
Heightened Monitoring and Risk of Credit Loss	32	233	265

Credit risk – Banking activities continued

Flow statement (audited)

The flow statement that follows shows the main ECL and related income statement movements. It also shows the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact as they relate to balances at central banks. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m	Financial assets €m	ECL €m
NWM N.V. Group								
At 1 January 2021	6,311	1	388	41	72	69	6,771	111
Currency translation and other adjustments	83	—	6	3	4	5	93	8
Transfers from Stage 1 to Stage 2	(182)	—	182	—	—	—	—	—
Transfers from Stage 2 to Stage 1	89	2	(89)	(2)	—	—	—	—
Transfers to Stage 3	—	—	—	—	—	—	—	—
Net re-measurement of ECL on stage transfer	—	(2)	—	2	—	—	—	—
Changes in risk parameters	—	(1)	—	(10)	—	4	—	(7)
Other changes in net exposure	636	—	(416)	(8)	2	—	222	(8)
Other P&L only items	—	—	—	2	—	(1)	—	1
Income statement (releases)/charges	—	(3)	—	(14)	—	3	—	(14)
Amounts written-off	—	—	(25)	(25)	(39)	(39)	(64)	(64)
At 31 December 2021	6,937	—	46	1	39	39	7,022	40
Net carrying amount	6,937	—	45	—	—	—	6,982	—
At 1 January 2020	5,619	2	123	2	80	74	5,822	78
2020 movements	692	(1)	265	39	(8)	(5)	949	33
At 31 December 2020	6,311	1	388	41	72	69	6,771	111
Net carrying amount	6,310	—	347	—	3	—	6,660	—

Stage 2 decomposition by a significant increase in credit risk trigger

The tables below show Stage 2 decomposition for the Wholesale portfolio.

	Property		Corporate		FI		Total	
	Loans €m	ECL €m	Loans €m	ECL €m	Loans €m	ECL €m	Loans €m	ECL €m
2021								
Wholesale								
Currently up-to-date	—	—	47	1	3	—	50	1
- PD deterioration	—	—	40	—	1	—	41	—
- Other driver (adverse credit, forbearance etc)	—	—	7	1	2	—	9	1
Total Stage 2	—	—	47	1	3	—	50	1
2020								
Wholesale								
Currently up-to-date	32	—	130	3	181	38	343	41
- PD deterioration	32	—	129	3	181	38	342	41
- Other driver (adverse credit, forbearance etc)	—	—	1	—	—	—	1	—
Total Stage 2	32	—	130	3	181	38	343	41

- Stage 2 loans decreased significantly as a result of disposals and the improved economic outlook.
- The majority of the remaining Stage 2 loans were related to non-go-forward clients expected to be exited in the course of 2022 and 2023.
- Overall provisions coverage remained adequate.

Credit risk – Trading activities

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

Derivatives (audited)

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

	2021					2020				
	Notional					Assets	Liabilities	Notional	Assets	Liabilities
	GBP	USD	EUR	Other	Total					
€bn	€bn	€bn	€bn	€bn	€m	€m	€bn	€m	€m	
Gross exposure						5,175	6,713		3,967	7,079
IFRS offset						—	—		—	—
Carrying value	465	65	1,257	27	1,814	5,175	6,713	2,274	3,967	7,079
Of which:										
Interest rate (1)	452	7	1,200	5	1,664	3,243	4,321	2,155	2,481	4,853
Exchange rate	13	58	56	22	149	1,932	2,382	119	1,486	2,220
Credit	—	—	1	—	1	—	10	—	—	6
Carrying value					1,814	5,175	6,713	2,274	3,967	7,079
Counterparty mark-to-market netting						(2,747)	(2,747)		(2,486)	(2,486)
Cash collateral						(1,382)	(3,105)		(983)	(3,230)
Securities collateral						(534)	(365)		(56)	(942)
Net exposure						512	496		442	421
Banks (2)						32	35		16	29
Other financial institutions (3)						233	179		282	147
Corporate (4)						247	259		140	244
Government (5)						—	23		4	1
Net exposure						512	496		442	421
UK						7	3		15	2
Europe						470	493		386	419
US						4	—		9	—
RoW						31	—		32	—
Net exposure						512	496		442	421
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						446	—		401	—
AQ5-AQ10						66	—		41	—
Net exposure						512	—		442	—

- (1) The notional amount of interest rate derivatives includes €1,556 billion (2020 – €2,073 billion) in respect of contracts cleared through central clearing counterparties.
- (2) Transactions with certain counterparties with which NWM N.V. Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions, for example, China, where the collateral agreements are not deemed to be legally enforceable.
- (3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM N.V. Group's external rating.
- (4) Mainly large corporates with whom NWM N.V. Group may have netting arrangements in place, but operational capability does not support collateral posting.
- (5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Derivatives: settlement basis and central counterparties (audited)

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

	Notional				Asset		Liability	
	Traded over the counter				Traded on recognised exchanges	Traded over the counter	Traded on recognised exchanges	Traded over the counter
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total				
2021	€bn	€bn	€bn	€bn	€m	€m	€m	€m
Interest rate	5	1,556	103	1,664	—	3,243	—	4,321
Exchange rate	—	—	149	149	—	1,932	—	2,382
Credit	—	—	1	1	—	—	—	10
Total	5	1,556	253	1,814	—	5,175	—	6,713
2020								
Interest rate	—	2,073	82	2,155	—	2,481	—	4,853
Exchange rate	—	—	119	119	—	1,486	—	2,220
Credit	—	—	—	—	—	—	—	6
Total	—	2,073	201	2,274	—	3,967	—	7,079

Compliance & conduct risk

Definition

Compliance risk is the risk that the behaviour of NWM N.V. Group towards customers fails to comply with laws, regulations, rules, standards and codes of conduct. Such a failure may lead to breaches of regulatory requirements, organisational standards or customer expectations and could result in legal or regulatory sanctions, material financial loss or reputational damage.

Conduct risk is the risk that the conduct of NWM N.V. Group and its subsidiaries and its staff towards customers – or in the markets in which it operates – leads to unfair or inappropriate customer outcomes and results in reputational damage, financial loss or both.

Sources of risk

Compliance and conduct risks exist across all stages of NWM N.V. Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential insider information.

Key developments in 2021

- Risk appetite statements and measures were updated with an enhanced focus to provide better visibility of key risks across NatWest Group.
- Oversight and management of major compliance programmes including work to enhance the understanding and the controls ensuring regulatory compliant post Brexit cross border operations.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters that have an impact on NWM N.V. Group are escalated to the Risk & Control Committee and to the Managing Board.

Risk appetite

Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls is operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NWM N.V. Group.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to the Risk & Control Committee and the Managing Board. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most-material compliance and conduct risks is carried out across NWM N.V. Group. Examples of mitigation include consideration of customer needs in business and product planning and targeted training. Internal policies help support a strong customer focus across NWM N.V. Group. Independent assessments of compliance with applicable regulations are also carried out at NWM N.V. Group level.

Financial crime risk

Definition

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

Sources of risk

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

Key developments in 2021

- There was a significant focus on the financial crime control environment – including activity designed to strengthen customer due diligence standards and controls – across NatWest Group in 2021.
- NWM N.V. Group is fully engaged with NatWest Group's multi-year transformation plan. The plan has been developed to ensure that, as the financial crime threat evolves with changes in technology, the economy and wider society, risks relating to money-laundering, terrorist-financing, tax evasion, bribery and corruption and financial sanctions are managed, mitigated and controlled as effectively as possible. As part of this, NWM N.V. Group implemented the first two phases of a new external contextual transaction monitoring system. A final phase is scheduled for implementation.
- Aligned to the implementation of the enterprise-wide risk management framework, financial crime policies and standards were reviewed and updated. As a result, a NWM Group-wide customer due diligence remediation project started including all NWM N.V. Group customer due diligence files. This work will continue during 2022.

Governance

NWM N.V. Group is represented on the Financial Crime Risk Committee (FCRC), which is chaired by NWM Group's Head of Compliance & Financial Crime, and is NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally, NWM Group – including NWM N.V. Group – is represented on NatWest Group's Financial Crime Executive Steering Group, which oversees financial crime risk management, operational performance, and transformation matters across NatWest Group. Financial Crime Risk is a fixed agenda item for the NWM N.V. Group Risk & Control Committee and is regularly discussed by the NWM N.V. Group Managing Board, Board Risk Committee and Supervisory Board.

Financial crime risk continued

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the identification, assessment, monitoring, management and mitigation of financial crime risk. NWM N.V. Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. There is no tolerance to systematically or repeatedly breach relevant financial crime regulations and laws.

NWM N.V. Group operates a framework of preventative and detective controls designed to mitigate the risk that it could facilitate financial crime. These controls are supported by a suite of policies, procedures and guidance to ensure they operate effectively.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to the Risk & Control Committee and the Managing Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within NWM N.V. Group's risk appetite.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise within NatWest Group is available to detect and disrupt threats to NWM N.V. Group and its customers. Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Climate risk

Definition

Climate risk is the threat of financial loss or adverse non-financial impacts associated with climate change and the political, economic and environmental responses to it.

Sources of risk

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NWM N.V. Group could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NWM N.V. Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of NWM N.V. Group's competitiveness, profitability, or reputation damage.

Key developments in 2021

- NWM N.V. Group adopted the NatWest Group's principles-based climate risk policy, approved in April 2021.
- A number of first-generation quantitative climate risk appetite measures were approved by NatWest Group Board in December 2021. These will enable reporting of climate risk appetite and link business-as-usual risk management to NatWest Group's strategic goals and priorities.
- A new Climate Centre of Excellence was established to provide strategic horizon scanning, guidance and specialist climate expertise across NatWest Group.
- Qualitative assessment of climate risk was made mandatory for the majority of the wholesale credit risk portfolio. This was supported by enhancements to Transaction Acceptance Standards (TAS), with the inclusion of sector-specific climate considerations for the heightened risk sectors and generic climate considerations for all other TAS documents.

Risk governance

NatWest Group Board is responsible for monitoring and overseeing climate-related risk within NWM N.V. Group's overall business strategy and risk appetite. NWM N.V. Group participates in various NatWest Group and NWM Group committees to ensure outcomes meet NWM N.V. Group requirements. Climate-related risk topics are also discussed, where appropriate, at NWM N.V. Group's Risk & Control Committee.

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

Risk appetite

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

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

Climate risk continued

Risk monitoring and measurement

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

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

NWM N.V. Group regularly considers existing and emerging regulatory requirements related to climate change.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2021

- Aligned to the implementation of the enterprise-wide risk management framework, a new operational risk policy was approved in April 2021. The new policy sets out the qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk-taking for operational risk.
- Operational risk appetite was enhanced using a quantitative modelling approach to determine a meaningful quantitative expression of the maximum level of operational risk NWM N.V. Group is willing to accept.
- Oversight of NatWest Group's transformation agenda – particularly in relation to the second-order impacts of COVID-19 – remained a significant area of focus with activity being closely monitored and managed to protect key regulatory deliveries.
- There was also a continued focus on operational resilience to ensure planning, controls and operational activities remained robust and appropriate, with continuing attention on the potential operational risks arising from changes in working practices.
- The security threat and the potential for cyber-attacks on NWM N.V. Group and its supply chain continued to be closely monitored. During 2021, NatWest Group further invested in its defences in response to the evolving threat. There was also continued focus on assuring the security of the supply chain.

- There was a sustained focus on reducing the risks associated with data use, particularly in terms of assuring data quality. This was aligned to the NatWest Group data strategy, designed to identify and implement enhancements to the effective use of data across NatWest Group.

Governance

The governance arrangements in place for operational risk are aligned to the requirements set out in the NatWest Group Board-approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes.

Aligned to this, a strong operational risk management function is vital to support NWM N.V. Group's ambitions to serve its customers better. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

Risk appetite

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

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEO of NWM Group – including NWM N.V. Group – as well as the senior executives of NatWest Group's other principal businesses, functions and legal entities. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment. CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes are reported to NWM N.V. Group's Risk & Control Committee, Managing Board and Board Risk Committee. They are also shared with external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting and certain requirements of the UK Corporate Governance Code. Risks are mitigated by applying key preventative and detective controls, an integral step in the risk assessment methodology which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness. The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated.

Monitoring and measurement

Risk and control assessments are used across all business areas and support functions to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to NWM N.V. Group's Risk Directory. Risk assessments are refreshed at least annually to ensure they remain relevant and capture any emerging risks and also ensure risks are reassessed.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively to reduce identified risks.

Operational risk continued

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

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

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

Operational resilience

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

Event and loss data management

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

Model risk

Definition

Model risk is the potential for adverse consequences arising from inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. NWM N.V. Group defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

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

Key developments in 2021

- Improvements to models were made in 2021 resulting in a reduction of out-of-appetite models across NWM N.V. Group. Enhancements to models will continue in 2022 to bring NWM N.V. Group back within model risk appetite.
- Embedding and enhancement of the Model Risk frameworks.

Governance

A governance framework is in place in NWM Group in which NWM N.V. Group participates, to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model Risk Owners and Model Risk Officers. Model Risk Owners are responsible for model approval and ongoing performance monitoring. Model Risk Officers, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating. Escalations are made to senior management through the NWM Group Model Risk Committee. The committee also considers whether a model can be approved for use. Additionally, model risk is discussed as required by the Supervisory Board, Managing Board and Risk & Control Committee. Models used for regulatory reporting may additionally require regulatory approval before implementation. Further escalation can also be made to the NatWest Group Model Risk Oversight Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWM N.V. Group is willing to accept in the course of its business activities. NWM N.V. Group has defined limits and triggers that are specific to NWM N.V. Group and that align with NatWest Group's model risk appetite statement. Model performance is monitored against appetite on a model level by model owners in the first line of defence. Risk appetite, defined at an aggregate level, is monitored by the Risk & Control Committee. Remediation for positions outside appetite is carried out by NWM Group.

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

Monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating that is based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWM N.V. Group.

Ongoing performance monitoring is conducted by the first line and overseen by the second line to ensure parameter estimates and model constructs remain fit for purpose, model assumptions remain valid and that models are being used consistently with their intended purpose. This allows timely action to be taken to remediate poor model performance and/or any control gaps or weaknesses.

Model risk continued

Mitigation

Model risk is inherent in the use of models. It is managed by refining or redeveloping models where appropriate – either due to changes in market conditions, business assumptions or processes – and by applying adjustments to model outputs (either quantitative or based on expert opinion). Enhancements may also be made to the process within which the model output is used in order to further limit risk levels.

Reputational risk

Definition

Reputational risk is defined as the risk of damage to stakeholder trust due to negative consequences arising from internal actions or external events.

Sources of risk

Reputational risks originate from internal actions and external events. The three primary drivers of reputational risk have been identified as: failure in internal execution; a conflict between NWM N.V. Group's values and the public agenda; and contagion (when NWM N.V. Group's reputation is damaged by failures in the wider financial sector).

Key developments in 2021

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

Governance

A reputational risk policy supports reputational risk management across NatWest Group. In 2021, NWM N.V. Group established the NWM N.V. Reputational Risk Forum as a sub-committee of the NWM N.V. Group Risk & Control Committee. The purpose of the Reputational Risk Forum is to review matters which may give rise to reputational risk for NWM N.V. Group and NWM Group, which arise from any aspect of NWM N.V.'s business, whether from a transaction, a product, a customer or any other activity or source. The forum either approves where the risk is deemed acceptable or rejects cases to stop activity from proceeding where reputational risk is not manageable or deemed outside of appetite. When the matters presented to the forum constitutes a reputational risk to NWM Group, these are escalated to the NWM Group Reputational Risk Committee. NWM N.V. Group representatives take part in the NWM Group Reputational Risk Committee, to review relevant issues and discuss cases, sectors and themes that represent a material reputational risk.

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement. NatWest Group seeks to identify and manage risk exposures arising from internal actions and external events. This is designed to ensure that stakeholder trust is retained. However, reputational risk is inherent in NWM N.V. Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

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

Monitoring and measurement

Relevant internal and external factors are monitored in the NWM N.V. Group Risk & Control Committee and escalated, where appropriate, to NWM N.V. Group's Managing Board, and NWM N.V. Group's Board Risk Committee.

Mitigation

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

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure.

Corporate governance

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Introduction

In order to achieve high standards of corporate governance, NWM N.V. Group organises its business in a way that promotes first-class stewardship by the Managing Board and effective supervision by the Supervisory Board. Integrity, transparency and accountability are key elements of NWM N.V. Group's corporate governance and they are embedded in its business as a whole. These key elements ensure that the controls and oversight necessary for effective risk management, compliance with regulations, and accurate and complete disclosure of information to the market are effective.

With effect from 29 November 2019, RBS Holdings N.V. (RBSH N.V.) is a wholly-owned subsidiary of NatWest Markets Plc ('NWM Plc' or 'the intermediate holding company'). RBSH N.V. is the parent company of NatWest Markets N.V. (NWM N.V.). NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

NWM N.V. is a licenced bank regulated by both the De Nederlandsche Bank ('Dutch Central Bank') and the Autoriteit Financiële Markten ("AFM").

Corporate governance in the Netherlands,

Code Banken and the Dutch Corporate Governance Code

NWM N.V. Group ensures proper corporate governance by focusing on the Dutch Banking Code (Code Banken) which contains specific corporate governance rules and principles for all banks in the Netherlands. In addition, NWM N.V. Group also adheres, where possible, with the Dutch Corporate Governance Code although this is not a required code for NWM N.V. Group.

The Code Banken came into force on 1 January 2010 and was amended on 1 January 2015. It requires banks in the Netherlands to either comply with the rules and principles as set out in the Code Banken or explain any deviation from it. The Code Banken is applicable to NWM N.V. Group as it has a banking licence issued under the Dutch Financial Supervision Act.

NWM N.V. Group operates in line with the requirements under the Code Banken. A further explanation on compliance with the updated Code Banken is provided on page 55 of this report.

Capital Requirements Directive IV (CRD IV)

On 1 January 2014, CRD IV came into force in the EU. CRD IV contains several Corporate Governance related requirements, which were implemented in Dutch law on 1 August 2014. It required banks that fall under the Single Supervisory Mechanism by the ECB to set up separate Audit, Nomination and Remuneration Committees for its Supervisory Board. NWM N.V. Group has been qualified as a less significant institution as at 1 January 2017 and does not fall under this Single Supervisory Mechanism supervision of the ECB. However, given its importance, NWM N.V. Group has implemented this requirement by allocating specific responsibilities concerning the nomination and remuneration areas to the Supervisory Board as a whole. Furthermore, a separate Board Risk Committee and a separate Board Audit Committee have been set up to support the Supervisory Board.

European Banking Authority (EBA) guidelines on internal governance

The EBA has issued guidelines relating to internal governance arrangements of credit institutions. These take into account weaknesses identified in the financial crisis and build upon the Committee of European Banking

Supervisors (CEBS) Guidelines. The EBA guidelines are implemented by the local competent authorities, which is the Dutch Central Bank. NWM N.V. Group adheres to these guidelines. The updated guidelines have come into effect on 31 of December 2021 and are being implemented in the Corporate Governance Framework of the NWM N.V. Group.

Wet beloningsbeleid financiële ondernemingen

On 7 February 2015, the Wet beloningsbeleid financiële ondernemingen (Wbfo) came into force. With this legislation, the Dutch government ensures that financial services companies carry out a sound remuneration policy and avoid payment of excessive variable remuneration. Headline measure is the 20% bonus cap. NWM N.V. Group adheres to these principles.

Further information on the remuneration policy can be found in the 2021 NatWest Group Annual Report and Accounts, available at natwestgroup.com.

Approval of Annual Report

The Managing Board approved the Annual Report at its meeting on 17 February 2022. The Supervisory Board approved the Annual Report at its meeting on 17 February 2022. NWM N.V. Group has proposed to its Shareholder that it adopts the 2021 financial statements, as included in this Annual Report, and discharge the Managing Board and Supervisory Board in respect of their management and supervision respectively.

Boards

RBSH N.V. and NWM N.V. are limited liability companies ('naamloze vennootschap') incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board. The day-to-day management of the companies is vested with the Managing Board, supervised by the Supervisory Board. The members of the Managing Board and Supervisory Board of RBS Holdings N.V. and NWM N.V. are the same.

Changes during 2021

On 23 September 2021, Harm Bots stepped down from his role as Chief Executive Officer and Chairman of the Managing Board and has been replaced on an interim basis by Cornelis Visscher.

The report of the Supervisory Board

This report provides an overview of the tasks and the activities of the Supervisory Board during 2021.

In 2017, NatWest Group's NatWest Markets business (NWM Plc) announced its plan to repurpose NWM N.V. Group's existing banking licence in the Netherlands to minimise disruption to the business and to serve customers following the loss of EU passporting after the UK's departure from the EU.

NWM Plc and NWM N.V. Group have been working together to ensure the banking licence is maintained and NWM N.V. Group is operational. NWM N.V. started trading on 25 March 2019.

The Supervisory Board supervised the execution of this strategy by challenging and advising the Managing Board on client focus, timing and speed to ensure the banking licence is maintained and NWM N.V. Group is made operational. Furthermore, the corporate strategy and further de-risking of NWM N.V. Group has been discussed during all the Supervisory Board meetings in 2021.

The composition of the Supervisory Board was discussed during all meetings in 2021.

On 1 February 2021, Mr David King – Chief Financial Officer of NWM Plc – effectively joined as a member of the Supervisory Board after receiving regulatory approval in December 2020. On 16 November 2021, Mr David King announced that he would be stepping down as Chief Financial Officer of NWM Plc and as a result also as a member of the Supervisory Board during 2022.

The tasks of the Supervisory Board

The main task of the Supervisory Board is to supervise the Managing Board, as well as the general affairs of NWM N.V. Group and its associated enterprises. It assists and advises the Managing Board and supervises the corporate governance structure of NWM N.V. Group.

In performing their duties, the members of the Supervisory Board are guided by the interests of NWM N.V. Group, and the businesses connected to it, taking into account the relevant interests of

NWM N.V. Group's stakeholders. Certain powers are vested in the Supervisory Board, including the approval of certain resolutions of the Managing Board. A complete overview of the powers of the Supervisory Board can be found in the Rules Governing the Supervisory Board's Principles and Best Practices. These rules also include specific provisions on remuneration and nomination topics as prescribed by the implementation of CRD IV in the Netherlands.

Members of the Supervisory Board

The Supervisory Board is an independent corporate body. Members of the Supervisory Board are appointed by the General Meeting of Shareholders. For each vacant seat the Supervisory Board nominates one or more candidates. The candidates must meet the criteria of the membership profile, which are set out in the Rules Governing the Supervisory Board's Principles and Best Practices of NWM N.V. Group.

The Chairman and Vice-Chairman of the Supervisory Board are appointed by the Supervisory Board from among its members.

The Supervisory Board confirms that its current composition has the necessary experience, expertise and independence to execute their duties. They have also sufficient accounting and financial management expertise to understand NWM N.V. Group's business, financial statements and risk profile.

All appointments were made in accordance with the Supervisory Board profile resulting in the current composition of the Supervisory Board. Two members are female which aligns with NatWest Group's policy on diversity and inclusion.

Supervisory Board members are appointed for a term of four years and may be re-appointed after the end of their term, with a maximum term of 12 years from the date of their first appointment.

Newly appointed Supervisory Board members undertake an induction programme which is tailor-made and adjusted to the specific needs of each new Supervisory Board member. They also undertake a series of meetings with the management of NWM N.V.

Group to gain insight and understanding of NWM N.V. Group and its enterprises.

In case of a material (potential) conflict of interest between a member of the Supervisory Board and NWM N.V. Group, the Chairman of the Supervisory Board shall be notified. If the Chairman of the Supervisory Board has a material (potential) conflict of interest, the Vice-Chairman is notified. The respective Supervisory Board member will not take part in the resolution and decision-making process by the Supervisory Board where a conflict of interest exists. During 2021, no conflicts of interest have arisen.

Details of the remuneration of the Supervisory Board can be found in Note 27 to the consolidated financial statements.

Activities of the Supervisory Board

Risk and audit topics are discussed on a regular basis and a report with deliberations and findings is prepared for each regular meeting. This included discussion on progress on the remediation programmes.

Specific nomination and remuneration topics are also discussed on a regular basis. For instance, the Supervisory Board was asked to approve the appointment of Mr Cornelis Visscher as Interim Chief Executive Officer and has been involved in the nomination and selection process of the new Chief Executive Officer.

The Supervisory Board works alongside the NatWest Group and NWM Plc Remuneration Committees to ensure the implementation of a restrained and long-term remuneration policy that is aligned with the organisation's strategy and risk appetite for NWM N.V. Group. The Supervisory Board extensively discussed remuneration at two of its meetings highlighting the focus that this topic continues to receive in the organisation. In addition, specific remuneration provisions have been included into the Rules Governing the Supervisory Board's Principles and Best Practices.

Regular and ad-hoc Supervisory Board meetings were held during 2021. All members of the Supervisory Board have complied with the requirement to attend meetings on a frequent basis.

Composition of the Supervisory Board

The members of the Supervisory Board as at 17 February 2022 are as follows:

		Date of first appointment	Date for re-election
Robert Begbie (Chairman)	(60, British, male)	1 April 2020	1 April 2024
Maarten Klessens (Vice-Chairman)	(63, Dutch, male)	2 September 2015	30 August 2023
Annelies van der Pauw	(61, Dutch, female)	3 March 2019	3 March 2023
Anne Snel	(53, Irish, female)	25 March 2019	25 March 2023
David King	(53, British, male)	1 February 2021	1 February 2025

Robert Begbie

Chairman of the Supervisory Board

Mr Begbie was appointed CEO of NWM Plc and joined the executive management team of NatWest Group in December 2019. NWM Plc supports corporate and institutional customers, helping them to manage their risk and access international capital markets. Mr Begbie was appointed as the Chairman of the NWM N.V. Supervisory Board on 1 April 2020.

Mr Begbie has been with NatWest Group for 40 years and has extensive experience in treasury and capital markets. During his career, he has built successful capital markets businesses across fixed income, derivatives, asset management and cash markets and led teams in the UK, Europe, Asia and the US.

After spending 20 years in our Markets business, Mr Begbie joined NatWest Group Treasury in 2009 where he was instrumental in transforming the NatWest Group balance sheet. In 2017 Mr Begbie was appointed as NatWest Group Treasurer with responsibilities for all aspects of Treasury and the management of the bank's balance sheet.

He holds an MBA from CASS Business School and is a former president of The Chartered Institute of Bankers in Scotland (London Branch).

Maarten Klessens

Vice-Chairman of the Supervisory Board and Chairman of the Board Risk and Audit Committee

Mr Klessens was appointed as an independent member of the Supervisory Board on 2 September 2015 and re-appointed on 30 August 2019.

In 2016 he joined the Supervisory Board of Bank of Africa Holding S.A. and in 2017 he joined the Supervisory Board of DHB Bank N.V. in the Netherlands. He was senior advisor Benelux for StormHarbour Securities LLP, London in 2014 and 2015. From 2011 he was acting head of Global Country Risk for NatWest Group and was responsible for country appetite setting and exposure management, with special attention for the financial stress in the Eurozone periphery.

Mr Klessens started his career with ABN AMRO in 1986, in structured aircraft finance. In 1997 he was appointed Corporate Executive Vice President for ABN AMRO and had subsequent responsibilities in wholesale product teams, client management and Group Risk. For 12 years he was a voting member of ABN AMRO's Group Risk Committee. Mr Klessens holds a postgraduate in Financial Economics of

Tilburg University and a Masters in Business Economics of Erasmus University Rotterdam and has had executive training at IMD, INSEAD and University of Michigan.

Annelies van der Pauw

Ms Van der Pauw was appointed as an independent member of the Supervisory Board on 3 March 2019.

Ms Van der Pauw was a partner of the international law firm Allen & Overy LLP (A&O) until 2020 and has chaired the Amsterdam corporate practice group of A&O since 2006. In her practice, Ms Van der Pauw focused on mergers and acquisitions and corporate governance issues. Ms Van der Pauw also has extensive equity capital markets experience. In addition to a strong understanding of the legal environment in the Netherlands, Ms Van der Pauw was also the co-chair of the A&O global corporate responsibility programme for many years and a member of the board of the global A&O Foundation. Ms Van der Pauw has been with A&O and its predecessors since 1987. Presently Ms Van der Pauw continues to hold various non-executive board memberships in the private and public sector.

Anne Snel

Ms Snel was appointed as an independent member of the Supervisory Board on 25 March 2019.

Ms Snel is currently Partner Risk, Legal and Compliance at DIF, a fund manager specialised in infrastructure investment. She has held senior risk roles at Rabobank including Head of Operational Risk and Head of Integrated Risk. She brings a strong understanding of risk and regulation and excellent relationships with both the DNB and ECB, having previously worked in banking supervision at the DNB. Through her last role at Rabobank, she established the Supervisory Relations and Regulatory Oversight function in order to enhance the relationship with Dutch and European regulators. She also has many years of experience in wholesale banking and private equity with ABN AMRO. Ms Snel is experienced in the local legal, regulatory and commercial environment. Her strong European regulatory experience provides her with a thorough understanding of banking and regulation across the continent. Ms Snel is also a member of the Supervisory Board of NN Bank N.V.

David King

Mr King joined the Supervisory Board of NWM N.V. on 1 February 2021.

Mr King is the Chief Financial Officer of NWM Plc, which he joined in July 2020. As a member of the NatWest Markets

Management Team and an Executive Director of the NatWest Markets Board, he is collectively responsible for the long-term success of NatWest Markets and the delivery of sustainable shareholder value. Prior to joining NWM Plc Mr King was Chief Executive Officer at MUFG Securities, where he was previously Chief Financial Officer. He has held senior finance roles at Lloyds, HBOS and Halifax, and worked in the RBS Financial Markets Finance team between 1995 and 2001. Mr King has a bachelor's degree in Mathematics from the University of Surrey.

The Report of the Managing Board

The members of the Managing Board and NWM N.V. Group are responsible for the general affairs of NWM N.V. Group and its subsidiaries. The members are appointed by the General Meeting of Shareholders.

On 23 September 2021, Mr Harm Bots stepped down as Chief Executive Officer of NWM N.V. and as a result stepped down as a member of the Managing Board. Mr Cornelis Visscher, Chief Financial Officer of NWM N.V., took on the role and accountabilities as interim Chief Executive Officer and Chairman of the Managing Board of NatWest Markets N.V. and a member of NatWest Markets Executive Committee in advance of Mr Bots leaving the Group on 30 September 2021. This appointment is in addition to his existing responsibilities as Chief Financial Officer of NatWest Markets N.V.. Regulatory approval was received on 23 September 2021 for a 6-month period.

On 18 January 2022, Mr Vincent Goedegebuure was nominated as CEO of NatWest Markets N.V. and will be joining in early May 2022 subject to regulatory approval and the conclusion of the consultation with the Dutch works council.

The Supervisory Board of NWM N.V. nominates one or more candidates for each vacant seat in the Managing Board. If the Supervisory Board nominates two or more candidates for a vacant seat in the Managing Board, the nomination list is binding. The members of the Managing Board are accountable both collectively and individually for all decisions taken by the Managing Board. The members of the Managing Board are appointed by the General Meeting of Shareholders of NWM N.V..

The Chairman of the Managing Board leads the members of the Managing Board in its overall management of NWM N.V. Group to achieve its performance goals and ambitions. The Chairman of the Managing Board is the main point of liaison with the Supervisory Board. The

Chief Financial Officer is responsible for the financial affairs of NWM N.V. Group. Alongside their overall corporate responsibilities, the members of the Managing Board are responsible for the management of the control and support functions. The Managing Board has

delegated certain tasks to a number of Managing Board committees which are described on page 54 of this report.

Composition of the Managing Board

The members of the Managing Board as at 17 February 2022 are as follows:

		Date of first appointment	Date for re-election
Cornelis Visscher (Interim Chairman)	(56, Dutch, male)	18 July 2013	18 July 2025
Marije Elkenbracht	(53, Dutch, female)	15 February 2019	15 February 2023
Angelique Slach	(50, Dutch, female)	18 March 2019	18 March 2023

Cornelis Visscher

Interim Chairman of the Managing Board

Mr Visscher graduated from the Vrije Universiteit in Amsterdam with a degree in Business Economics, specialised in Financial Accounting and Management Accounting. He started his career at ABN AMRO in 1988, where, after several functions in Divisional and Group Finance, he ultimately became responsible for the delivery of ABN AMRO's Group Management Information. Following the acquisition of ABN AMRO by NatWest Group and Consortium members, Mr Visscher became the head of Group Consolidation, in which he was responsible for the split of the ABN AMRO accounts between the Consortium members.

In 2011 Mr Visscher was seconded to Edinburgh where he became the Head of Financial Control for the Retail & Wealth, Corporate and Business Services Divisions of NatWest Group. In this role, he was, amongst other things, responsible for the Offshore programme. As of 2013 he is the Chief Financial Officer for NWM N.V. Group and a member of the NWM N.V. Managing Board.

On 23 September 2021, Mr Visscher took on the role and accountabilities of interim Chief Executive Officer and Chairman of the Managing Board of NatWest Markets N.V. and a member of NatWest Markets Executive Committee.

Angelique Slach

Chief Operating Officer

Ms Slach started her career in Technology at Rabobank's International division after finalising her Business and Financial Economics studies. She fulfilled roles within the international organisation ranging from programme management, strategy, regulatory compliance to managerial roles in both front- and back-office. She gained vast experience working in Wholesale Banking and Capital Markets with her latest roles as Chief Operations Officer for Global Financial

Markets, Global Head of Operations and Chief Innovation Officer for Trade and Commodity Finance.

Marije Elkenbracht

Chief Risk Officer

Ms Elkenbracht brings 22 years of experience in various risk and strategy roles in ABN AMRO and NIBC. Before joining NWM N.V. Group, Ms Elkenbracht was Managing Director Risk Modelling at ABN AMRO and a member of the Supervisory Board of the ABN AMRO Mortgage group. Prior to these roles, she held the position of Managing Director Market, ALM and Treasury Risk also at ABN AMRO. Ms Elkenbracht holds a Master's degree and a PhD in Mathematics from the University of Leiden

Managing Board committees

In order to provide effective oversight and leadership, the Managing Board has three sub-committees; the Risk & Control Committee (RCC), the Asset & Liability management Committee (ALCo) and the Disclosure Committee.

Risk & Control Committee (RCC)

The RCC oversees the risk framework within NWM N.V. Group, monitors the actual risk profile and advises the Managing Board on these matters. Its scope is, amongst others, credit, market, operational, compliance, financial crime, and regulatory risk within NWM N.V. Group.

Asset & Liability Committee (ALCo)

The Managing Board has delegated to the ALCo the responsibility for the management of capital, liquidity, interest rate and foreign exchange risk. This includes responsibility for reviewing, approving and allocating balance sheet, capital, liquidity and funding limits.

Disclosure Committee

The Disclosure Committee advises and assists the Managing Board in fulfilling its responsibilities for overseeing the accuracy and timeliness of public

disclosures made by NWM N.V. Group. This inter alia includes advising the Managing Board on the disclosure of financial information.

Code of conduct

NatWest Group's Code of Conduct (Our Code) informs everyone what to expect of each other, what to do when unsure of a decision, and where to go for advice when needed. It is available at www.natwestgroup.com/who-we-are/our-values.html, or upon request by contacting the Company Secretariat at the telephone number listed on page 116. In 2016 we incorporated five new standards of behaviour into Our Code: (1) You must act with integrity; (2) You must act with due skill, care and diligence; (3) You must be open and cooperative with the Financial Conduct Authority (FCA), the Prudential Regulatory Authority (PRA) and other regulators; (4) You must pay due regard to the interests of customers and treat them fairly; and (5) You must observe proper standards of market conduct. These new conduct rules are part of the changes our UK banking regulators, the PRA and FCA, are making to improve accountability across the financial sector as part of the Individual Accountability Regime. The rules are very much in keeping with the values and behaviours that we follow across NatWest Group and NWM N.V. Group.

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association of NWM N.V. Group may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board.

Meetings of shareholders and convocation

The General Meetings of Shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). The Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General

Meetings of Shareholders shall be held as frequently as deemed necessary by the Shareholder, the Managing Board or the Supervisory Board and when required by law or by the Articles of Association.

General Meetings of Shareholders shall be convened by the Shareholder, the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices. Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Employees

Our colleagues

As at 31 December 2021, NWM N.V. Group employed approximately 200 people within continuing operations. Details of related costs are included in Note 3 to the consolidated financial statements.

Employee consultation

NWM Group recognises employee representatives such as employee bodies and work councils in a number of businesses and countries, and management regularly discuss developments and updates on the progress of its strategic plans with the European Employee Council (EEC). NWM Group has ongoing engagement and discussion with those bodies given the scale of change taking place across NWM Group.

Inclusion

NatWest Group's inclusion guidelines apply to all NWM N.V. Group colleagues globally and cover being LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to an Inclusive Culture. Detailed information can be found on pages 58 to 61 of the 2021 NatWest Group Annual Report and Accounts and on the Sustainable Banking pages at natwestgroup.com.

The Dutch Banking Code (Code Banken)

Introduction

The Code Banken was drawn up by the Netherlands Bankers' Association (NVB) and is mandatory for NWM N.V. Group as stated in Book 2 of the Civil Code from 1 January 2010.

The renewed Code Banken was drawn up by the NVB and applies to NWM N.V. Group from 1 January 2015.

The Code Banken offers specific provisions, but underlying these provisions, its aim is to instil learning in the banking sector following the financial crisis. Drawing lessons and implementing change with the aim to restore trust among all our stakeholders, clients, staff, investors and society at large. NatWest Group, including NWM N.V. Group, has undergone, and continues to undergo, profound change following the crisis and is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Corporate Governance codes and the global footprint of NatWest Group

NWM N.V.'s ultimate parent company is NatWest Group plc. When implementing the Code Banken, the Managing Board and Supervisory Board of NWM N.V. take into account the effects of similar codes of conduct implemented across NatWest Group with the aim to align all businesses within the wider NatWest Group.

Compliance with the Code Banken

NWM N.V. Group considers the Code Banken as an important yardstick for the way banks draw lessons from the crisis. NWM N.V. Group takes account of all relevant remuneration regulatory regimes, including the Code Banken and the requirements as included in the Dutch Financial Supervision Act, in designing and implementing its remuneration policy as well as NWM N.V. Group's corporate governance structure.

Supervisory Board

The required expertise and experience are well embedded in the Supervisory Board providing for an independent board with a diverse composition. The Supervisory Board consists of an executive of NatWest Group with broad banking experience in addition to three independent members. A clearly defined process for the engagement and recruitment of a Supervisory Board member has been established.

If a vacancy for a new member exists, a new member is sought based on an established supervisory board profile to ensure that the knowledge and expertise obtained when filling the vacancy is fully complementing the composition of the board. This profile is amended to reflect the specific requirements for the role.

If the position of Chairman of the Supervisory Board became vacant, a separate individual profile would be drawn up based on an established Chairman's profile to ensure alignment with the specific socio-economic and

political culture and the social environment of the bank's main markets.

All Supervisory Board members have committed themselves to fulfil their responsibilities as board members to the best of their ability. Their attendance at meetings is recorded. The Board furthermore operates according to a set of rules governing the Supervisory Board's principles and best practices. These have been agreed by all Board members. The remuneration received by Supervisory Board members is not dependent on NWM N.V. Group's results. A lifelong learning programme covering aspects as included in the Code Banken being amended to reflect the repurposed banking license.

Managing Board

The composition of the Managing Board of NWM N.V. Group ensures that all business areas and all control and support functions are well represented on the board. The board comprises a Chief Executive Officer (CEO), a Chief Financial Officer (CFO), a Chief Risk Officer (CRO) and a Chief Operating Officer (COO). To further clarify the specifics of each role on the board and to ensure adherence to agreements made on procedure and governance, a set of rules governing the Managing Board's principles and best practices has been agreed.

The Managing Board will continuously ensure a prudent risk appetite, based on the risk appetite framework approved by the Supervisory Board. The risk appetite framework shall be approved by the Supervisory Board at least once a year and is actively monitored during the year. Any material changes in the interim shall also require the Supervisory Board's approval. The Managing Board takes the interests of all stakeholders (e.g. employees, clients, shareholders) into account in their decision making. The Managing Board recognises that duty of care for clients is an important component of doing business.

In line with the requirement of the Code Banken, Managing Board members take the Banker's Oath.

The principles in the Banker's Oath are incorporated into NatWest Group's code of conduct which is issued to all new employees joining NWM N.V. Group.

Risk Policy

The Managing Board has arranged risk management in an adequate manner in order to ensure the Managing Board is aware in good time of any material risks run by the bank and to enable the Managing Board to manage these risks properly. The Chief Risk Officer reports into the Chief Executive Officer. The

Managing Board, through its sub committees, the RCC and the ALCo, takes any decision that is of material significance to the risk profile, the capital position or the liquidity impact.

The Supervisory Board reviews and discusses the risk profile of NWM N.V. Group during each of its meetings. This is based on a risk appetite statement which it reviews on a regular (i.e. a minimum of once a year) basis. More information on the risk organisation of NWM N.V. Group can be found on pages 17 to 20 of this report.

Audit

To ensure the function's independence, the Head of NWM N.V. Internal Audit reports to the Chair of the Audit Committee of NWM N.V. and the Chief Audit Executive, NWM Plc, who in turn reports to the Chair of the Audit Committee of NWM Plc. Internal Audit reports its opinion and findings on the quality of the control framework, the system of governance and the risk management of NWM N.V. Group to the Supervisory Board on a bi-annual basis and provides the Supervisory Board with their audit review in the remaining quarters of the year. Internal Audit furthermore presents its annual audit plan to the Supervisory Board. The Managing Board shall ensure that a systemic audit is conducted of the risks managed in relation to the business activities of NWM N.V. Group.

The external auditors are invited to share their findings and opinion concerning the quality and effectiveness of the system of governance, risk management and NWM N.V. Group's control procedures with the Supervisory Board on a quarterly basis. The external auditors present the annual audit plan to the Supervisory Board and both NWM N.V. Internal Audit and the external auditors take part in a tri-partite meeting with DNB (NWM N.V. Group's regulators in the Netherlands) to share their audit plans, analysis and findings at least once per annum. There is a clear escalation process by which the external auditors can raise, with management, any significant concerns.

Remuneration Policy

Set out below is an overview of the NWM N.V. Group Remuneration Policy.

Remuneration

This section contains a number of disclosures which are required in accordance with Article 450 of the Capital Requirements Regulation, the Basel Committee on Banking Supervision Pillar 3 disclosure requirements and the EBA guidelines on sound remuneration policies. This section should be read in conjunction with the NatWest Group 2021

Pillar 3 Report which contains a number of quantitative remuneration disclosures and can be found on natwestgroup.com.

Remuneration policy for all colleagues

As NWM N.V. Group is an indirectly owned subsidiary of NatWest Group, its remuneration policy is fully aligned to NatWest Group's remuneration policy principles with amendments only to comply with Dutch remuneration rules, as set down in regulation Book 1 of the FSA. The NWM N.V. Group's remuneration policy is annually reviewed and approved by the Supervisory Board, lastly at its meeting on 14 December 2021.

The remuneration policy supports the business strategy and is designed to promote the long-term success of NWM N.V. Group. It aims to reward the delivery of good performance provided this is achieved in a manner consistent with NWM N.V. Group's values and within acceptable risk parameters.

The remuneration policy applies the same principles to everyone who is working on its behalf, including Material Risk Takers (MRTs), with some minor adjustments to the policy where necessary to comply with local regulatory requirements. The remuneration policy is compliant with CRD IV, UK and Dutch regulatory requirements. The key elements of the policy are set out below.

Base salary

The purpose is to provide a competitive level of fixed cash remuneration.

Operation

Base salaries are reviewed annually and should reflect the talents, skills and competencies that the individual brings to the business.

Role-based allowance

Certain MRT roles receive a role-based allowance. The purpose is to provide fixed pay that reflects the skills and experience required for the role.

Operation

Role-based allowances are fixed allowances which form an element of overall fixed remuneration for regulatory purposes and are based on the role the individual performs.

They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are subject to a three-year retention period.

Benefits and pension

The purpose is to provide a range of flexible and competitive benefits.

Operation

In most jurisdictions, benefits or a cash equivalent are provided from a flexible benefits account.

Pension funding forms part of fixed remuneration and NWM N.V. Group does not actively provide discretionary pension benefits.

Annual bonus

The purpose is to support a culture where individuals recognise the importance of serving customers well and are rewarded for superior performance.

Operation

The annual bonus pool is based on a balanced scorecard of measures including Customer, People & Culture, Financial & Business Delivery, and Risk & Control measures. Allocation from the pool depends on performance of the business area and the individual.

Individual performance assessment is supported by a structured performance management framework. This is designed to assess performance against longer term business requirements across a range of financial and non-financial metrics as well as an evaluation of adherence to internal controls and risk management. A balanced scorecard is used to align with the business strategy. Each individual will have defined measures of success appropriate to their role.

Risk and conduct performance is also taken into account. Control functions are assessed independently of the business units that they oversee, with the objectives and remuneration being set according to the priorities of the control area, not the targets of the businesses they support. The NWM N.V. Group Chief Risk Officer and the Head of Internal Audit have the authority to escalate matters to Board level if management do not respond appropriately.

Independent control functions exist in NWM N.V., with dual solid reporting lines into both the NWM N.V. CEO and the NWM Plc Control Function Head.

The variable remuneration of colleagues who work the majority of their time in the Netherlands will, as a rule, not exceed 20% of fixed pay. For colleagues who work the majority of their time outside the Netherlands, their variable remuneration will, as a rule, not exceed 100% of fixed pay.

For awards made in respect of the 2021 performance year, immediate cash awards continue to be limited to a maximum of the EUR equivalent of

€2,000. In line with regulatory requirements, a significant proportion of annual bonus awards for more senior roles is deferred and includes partial delivery in shares. Deferral of annual bonus awards ranges from a three to seven year period depending on an individual's MRT categorization.

Deferral is in a form that meets relevant regulatory requirements, including cash, bonds or shares. At least 40% is deferred over a period which is not less than three years, vesting no faster than on a pro-rata basis; in the case of a variable pay component of €500,000 (or EUR equivalent) or more, at least 60% of the total amount is deferred; at least 50% is delivered in NatWest Group shares and all shares are subject to a 12 month retention period.

In certain circumstances NatWest Group can reduce or cancel awards before they vest ('malus') or recover awards after they have vested ('clawback'). Variable pay of MRTs is subject to a minimum clawback period of seven years from the date of award. Awards made to all other individuals are subject to a clawback period of five years from the date NatWest Group or NWM N.V. Group becomes aware of information that should result in clawback.

The fifth Capital Requirements Directive (CRD V) took effect on 28 December 2020 which impacts remuneration requirements for the 2021 performance year. This includes extending the minimum deferral period from three to four years for MRTs. In the case of senior management, the minimum deferral period is five years. The definition of MRTs is now contained in CRD V instead of the relevant Regulatory Technical Standard (art. 92). This includes any staff that receives:

- (i) remuneration of EUR 500,000 or more; or
- (ii) remuneration which is higher than the average remuneration that is awarded to senior management.

Listed institutions are allowed to use share-linked instruments to fulfil the requirement of paying a portion of remuneration in instruments. Remuneration policies need to be gender-neutral and based on equal pay for women and men for equal work or work of equal value. Last, CRD V provides that the remuneration principles will not apply on a consolidated basis to subsidiaries that are subject to other specific EU remuneration requirements. This is however subject to exceptions including where the subsidiary's staff's activities have a direct material impact on the business of the institutions within the group.

Criteria for identifying MRTs

The EBA has issued criteria for identifying MRT roles, which captures those staff whose activities have a material influence over NatWest Group's performance or risk profile. The criteria are both qualitative (based on the nature of the role) and quantitative (for example those who exceed the stipulated total remuneration threshold).

In 2021, MRTs were identified for eleven key 'institutions' within NatWest Group, which included NWM N.V. Group, to bring greater focus on MRT identification across subsidiary entities. The MRT criteria are applied for each of these institutions, and consequently some MRTs are identified in relation to more than one of these entities.

The qualitative criteria can be summarised as: staff within the management body; senior management; other staff with key functional or managerial responsibilities; and staff who individually, or as part of a Committee, have authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.

The quantitative criteria are: individuals earning €500,000 or more in the previous year; individuals in the top 0.3% of earners of the relevant institution for the previous year; and individuals who earned more than the lowest paid identified staff per certain qualitative criteria. In addition to the qualitative and quantitative criteria, NatWest Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile.

Personal hedging strategies

The conditions attached to discretionary share-based awards prohibit the use of any personal hedging strategies to lessen the impact of a reduction in value of such awards. These conditions are explicitly acknowledged and accepted by recipients when any share-based awards are granted.

Risk in the remuneration process

NatWest Group's and NWM N.V. Group's approach to remuneration promotes effective risk management through having a clear distinction between fixed remuneration, which reflects the role undertaken by an individual, and variable remuneration, which is directly linked to performance and can be risk-adjusted. Fixed pay is set at an appropriate level to discourage excessive risk-taking, and at a level which would allow NatWest Group and NWM N.V. Group to pay zero variable pay.

Focus on risk is achieved through clear risk input into performance goals, performance reviews, the determination of variable pay pools, incentive plan design and the application of malus and clawback.

A robust process is used to assess risk performance. A range of measures are considered, specifically capital, liquidity and funding risk, credit risk, market risk, pension risk, compliance & conduct risk, financial crime, operational risk, business risk and reputational risk. Consideration is also given to overall risk culture.

Remuneration arrangements are in line with regulatory requirements and the steps taken to ensure appropriate and thorough risk adjustment are also fully disclosed and discussed with regulators where appropriate.

Variable pay determination

For the 2021 performance year, NatWest Group operated a robust multi-step process, which is control function led, to assess performance and determine the appropriate bonus pool by business area and function. At multiple points throughout the process, reference is made to Group-wide business performance (from both affordability and appropriateness perspectives) and the need to distinguish between go-forward and resolution activities.

The process considers a balanced scorecard of performance assessments at the level of each business area or function, across financial, customer and people measures. Risk and conduct assessments at the same level are then undertaken to ensure that performance achieved without appropriate consideration of risk, risk culture and conduct controls, is not inappropriately rewarded.

NatWest Group Board Risk Committee (BRC) reviews any material risk and conduct events and, if appropriate, an underpin may be applied to the individual business and function bonus pools or to the overall bonus pool. BRC may recommend a reduction of a bonus pool if it considers that risk and conduct performance is unacceptable or that the impact of poor risk management has yet to be fully reflected in the respective inputs.

Following further review against overall performance and conduct, and taking into account affordability, the CEO of NatWest Group will make a final recommendation to the NatWest Group Performance and Remuneration Committee (RemCo), informed by all the previous steps in the

process and her strategic view of the business. RemCo will then make an independent decision on the final bonus pool taking all of these earlier steps into account.

Bonus funding is allocated by the NatWest Group RemCo at a franchise level which in the case of NWM N.V. will be at the NWM Plc parent entity level. The allocation for NWM N.V. is determined by the NatWest Markets Subsidiary RemCo in cooperation with the NatWest Markets CEO. The NWM N.V. Supervisory Board have the opportunity to review the allocation to ensure it is fit for purpose for the entity and to ensure it meets capital adequacy requirements at the N.V. level.

Remuneration and culture

NatWest Group continues to assess conduct and its impact on remuneration as part of the annual Group-wide bonus pool process and also via the accountability review framework. NatWest Group has taken steps in recent years to remove incentives for colleagues where this could drive unintended behaviours.

The governance of culture is clearly laid out with Senior Management Function roles having clearly defined accountabilities, which is taken into account in their pay decisions. The NatWest Group Board and Sustainable Banking Committee also play key roles in building cultural priorities. Frameworks are in place to measure progress.

Accountability review process and malus/clawback

The accountability review process was introduced in 2012 to identify any material risk management, control and general policy breach failures, and to ensure accountability for those events.

The circumstances in which malus, clawback or in-year bonus reduction may be applied include:

- conduct which results in significant financial losses;
- the individual failing to meet appropriate standards of fitness and propriety;
- an individual's misbehaviour or material error;
- NatWest Group or the individual's business unit suffering a material failure of risk management; and
- for malus and in-year bonus reduction only, circumstances where there has been a material downturn in financial performance.

The above list of circumstances is not exhaustive, and NatWest Group may consider any further circumstances as it deems appropriate.

This allows NatWest Group and NWM N.V Group to respond to instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year.

Potential outcomes under the accountability review process are:

- Malus - to reduce (to zero if appropriate) the amount of any unvested variable pay awards prior to payment;
- Clawback - to recover awards that have already vested; and
- In-year bonus reductions - to adjust variable pay that would have otherwise been awarded for the current year.

As part of the acceptance of variable pay awards, MRTs must agree to terms that state that malus and clawback may be applied. Any variable pay awarded to MRTs in respect of the 2014 performance year onwards is subject to clawback for seven years from the date of grant.

For awards made in respect of the 2016 performance year onwards, this period can be extended to ten years for MRTs who perform a 'senior management function' under the Senior Managers Regime where there are outstanding internal or regulatory investigations at the end of the normal seven year clawback period.

Management's report on internal control over financial reporting under the Dutch Corporate Governance Code

Although NWM N.V. Group is not obliged to adhere to the Corporate Governance Declaration for the purposes of Corporate Governance Degree (Besluit Corporate Governance), NWM N.V.'s Managing Board has decided nevertheless to adhere to the best practice provision II.1.5 of the Dutch Corporate Governance Code and to substantiate the operation of the internal risk management and control system during the year under review, and to state its adequacy and effectiveness.

NWM N.V. Group's internal risk management and control system is a process, effected by the Managing Board, management, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; and (iii) compliance with laws and regulations.

Different sections of this 2021 Annual Report and Accounts, including risk and capital management on pages 15 to 50, elaborate on NWM N.V. Group's identified risks, such as capital, liquidity and funding risk, credit risk, market risk, conduct risk, operational risk, business risk and reputational risk.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Based on its assessment, management has concluded that, as of 31 December 2021, NWM N.V. Group's internal control over financial reporting is effective.

Managing Board
Amsterdam, 17 February 2022

Management's report on the 2021 Annual Report and Accounts for purposes of Section 5:25 sub 2 Financial Supervision Act

The Managing Board certifies that, to the best of their knowledge:

- the financial statements give a true and fair view, in all material respects, of the assets, liabilities, financial position and profit of NWM N.V. Group and its consolidated entities; and
- the Annual Report gives a true and fair view, in all material respects, of NWM N.V. Group and its consolidated entities as at 31 December 2021 and their state of affairs during 2021; and the 2021 Annual Report and Accounts describes the material risks that NWM N.V. Group is facing.

Managing Board
Amsterdam, 17 February 2022

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Consolidated income statement for the year ended 31 December 2021

	Note	2021 €m	2020 €m
Interest receivable		41	54
Interest payable		(50)	(64)
Net interest income	1	(9)	(10)
Fees and commissions receivable		202	205
Fees and commissions payable		(25)	(46)
Income from trading activities		8	(15)
Other operating income		(3)	17
Non-interest income	2	182	161
Total income		173	151
Staff costs		(71)	(55)
Premises and equipment		(6)	(7)
Other administrative expenses		(55)	(27)
Depreciation and amortisation		(3)	(4)
Operating expenses	3	(135)	(93)
Profit before impairment releases/(losses)		38	58
Impairment releases/(losses)	12	13	(42)
Operating profit before tax		51	16
Tax credit/(charge)	6	59	(10)
Profit for the year		110	6
Attributable to:			
Ordinary shareholders		96	(8)
AT1 capital securities		14	14
		110	6

The appropriation of net profits pursuant to articles 37.2 and 37.3 of the Articles of Association includes the release from reserves of all profits/(losses) attributable to controlling interests.

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

	2021 €m	2020 €m
Profit for the year	110	6
Items that do not qualify for reclassification		
Loss on fair value of credit in financial liabilities designated at FVTPL due to own credit risk	(23)	(27)
FVOCI financial assets	(1)	2
Tax	—	—
	(24)	(25)
Items that do qualify for reclassification		
FVOCI financial assets	(2)	1
Currency translation	4	(3)
Tax	—	—
	2	(2)
Other comprehensive loss after tax	(22)	(27)
Total comprehensive income/(loss) for the year	88	(21)
Attributable to:		
Ordinary shareholders	74	(35)
AT1 capital securities	14	14

The accompanying notes on pages 69 to 99, the accounting policies on pages 65 to 68 and the audited sections of the Financial review and Risk and capital management on pages 1 to 50 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2021

	Note	2021 €m	2020 €m
Assets			
Cash and balances at central banks	9	5,145	4,452
Trading assets	10	4,174	4,380
Derivatives	11	7,767	6,935
Settlement balances		391	358
Loans to banks - amortised cost	9	139	190
Loans to customers - amortised cost	9	660	946
Amounts due from holding companies and fellow subsidiaries	9	1,380	3,540
Other financial assets	14	1,027	896
Other assets	15	95	47
Total assets		20,778	21,744
Liabilities			
Bank deposits	9	—	52
Customer deposits	9	880	1,258
Amounts due to holding companies and fellow subsidiaries	9	3,923	3,551
Settlement balances		186	943
Trading liabilities	10	2,080	1,512
Derivatives	11	8,854	9,309
Other financial liabilities	16	1,907	2,200
Subordinated liabilities	17	652	655
Other liabilities	18	49	91
Total liabilities		18,531	19,571
Total equity		2,247	2,173
Total liabilities and equity		20,778	21,744

The accompanying notes on pages 69 to 99, the accounting policies on pages 65 to 68 and the audited sections of the Financial review and Risk and capital management on pages 1 to 50 form an integral part of these financial statements.

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

	2021 €m	2020 €m
Share capital and share premium account - at 1 January and 31 December ⁽¹⁾	1,700	1,700
AT1 capital securities - at 1 January and 31 December	250	250
Fair value through other comprehensive income - at 1 January	7	4
Unrealised (loss)/gains	(4)	1
Realised loss	1	2
Tax	—	—
At 31 December	4	7
Foreign exchange reserve - at 1 January	9	12
Gains arising during the year	4	4
Tax	—	—
Recycled to profit or loss on disposal of business	—	(7)
At 31 December	13	9
Retained earnings - at 1 January	207	242
Profit attributable to controlling interests	110	6
AT1 capital securities dividends paid	(14)	(14)
Changes in fair value of credit in financial liabilities designated at FVTPL		
- gross	(23)	(27)
- tax	—	—
At 31 December	280	207
Equity attributable to controlling interests	2,247	2,173

(1) Includes Ordinary share capital of €50,000 (2020 - €50,000) – Refer to Note 19 for further details.

The accompanying notes on pages 69 to 99, the accounting policies on pages 65 to 68 and the audited sections of the Financial review and Risk and capital management on pages 1 to 50 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2021

	Note	2021 €m	2020 €m
Cash flows from Operating activities			
Operating profit before tax		51	16
Adjustments for:			
Impairment (releases)/losses		(13)	42
Depreciation and amortisation		3	4
Change in fair value taken to profit or loss of other financial assets		—	2
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		20	48
Elimination of foreign exchange differences		(26)	(12)
Other non-cash items		(4)	4
Income receivable on other financial assets		(8)	(10)
Loss on sale of other financial assets		1	2
Profit on sale of subsidiaries and associates		—	(5)
Interest payable on MREs and subordinated liabilities		38	22
Charges and releases on provisions		9	(5)
Net cash flows from trading activities		71	108
Decrease/(increase) in trading assets		828	(1,091)
Increase in derivative assets		(832)	(3,037)
Increase in settlement balance assets		(33)	(217)
Decrease in loans to customers		299	387
Decrease/(increase) in amounts due from holding companies and fellow subsidiaries		842	(1,050)
Decrease in other financial assets		—	5
Decrease in other assets		2	22
Decrease in banks deposits		(52)	(7)
Decrease in customers deposits		(378)	(189)
Increase in amounts due to holding companies and fellow subsidiaries		372	531
(Decrease)/increase in settlement balance liabilities		(757)	734
Increase/(decrease) in trading liabilities		568	(320)
(Decrease)/increase in derivative liabilities		(455)	4,721
(Decrease)/increase in other financial liabilities		(317)	1,932
Decrease in other liabilities		(11)	(119)
Changes in operating assets and liabilities		76	2,302
Income taxes paid		(34)	(48)
Net cash flows from operating activities ⁽¹⁾		113	2,362
Cash flows from investing activities			
Sale and maturity of other financial assets		791	428
Purchase of other financial assets		(924)	(768)
Income received on other financial assets		8	10
Net movement in business interests	24	—	16
Net cash flows from investing activities		(125)	(314)
Cash flow from financing activities			
Movement in subordinated liabilities		(80)	(35)
Dividends paid		(14)	(14)
Net cash flows from financing activities		(94)	(49)
Effects of exchange rate changes on cash and cash equivalents		49	(10)
Net (decrease)/increase in cash and cash equivalents		(57)	1,989
Cash and cash equivalents at 1 January		7,286	5,297
Cash and cash equivalents at 31 December	26	7,229	7,286

(1) Includes interest received of €56 million (2020 - €54 million) and interest paid of €50 million (2020 - €66 million).

The accompanying notes on pages 69 to 99, the accounting policies on pages 65 to 68 and the audited sections of the Financial review and Risk and capital management on pages 1 to 50 form an integral part of these financial statements.

Accounting policies

1. Corporate information

NatWest Markets N.V. (NWM N.V.) is a public limited liability company, incorporated under Dutch law on 30 May 1990 and registered at Claude Debussylaan 94, 1082 MD Amsterdam, the Netherlands. NWM N.V. Group provides financial services principally in Europe.

RBS Holdings N.V., the parent company of NWM N.V., is a wholly owned subsidiary of NatWest Markets Plc (NWM Plc), and NWM Plc is owned by NatWest Group plc. NatWest Group plc is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. NatWest Group plc is the ultimate parent company of NWM N.V.

The consolidated financial statements of NWM N.V. are included in the consolidated financial statements of NatWest Group plc. The consolidated financial statements of NWM N.V. Group incorporate financial information of NWM N.V., its controlled entities and interest in associates and joint ventures.

The consolidated financial statements were signed and authorised for issue by the Managing Board on 17 February 2022 and by the Supervisory Board on 17 February 2022. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for an amendment of the financial statements.

2 Basis of preparation

The Managing Board, having made such enquiries as they considered appropriate, including: a review of NWM N.V. Group's activity, forecasts, projections and other relevant evidence regarding the continuing availability of sufficient resources from NatWest Group have prepared the financial statements on a going concern basis based on the directors' assessment that the NWM N.V. Group will continue in operational existence for a period of twelve months from the date the financial statements are approved. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are presented in the functional currency, euro.

The consolidated financial statements are prepared under consistent accounting policies.

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

The significant accounting policies and related judgments are set out below. Except for certain financial instruments as described in Accounting policies notes 8 and 14 the financial statements are presented on a historical cost basis.

Accounting policy changes effective 1 January 2021.

The IASB amended IFRS 16 Leases with "COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases (IFRS 16)" The effect of the amendment on NWM N.V. Group's financial statements is immaterial.

3. Revenue recognition

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

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

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

4. Staff costs

Employee costs, such as salaries, paid absences, and other benefits are recognised over the period in which the employees provide the related services to NWM N.V. Group. Employees may receive variable compensation in cash, in deferred cash or debt instruments issued by NWM Group or in ordinary shares of NatWest Group plc subject to deferral, clawback and forfeiture criteria. NatWest Group operates a number of share-based compensation schemes under which it grants awards of NatWest Group plc shares and share options to its employees. Such awards are subject to vesting conditions and are operated as part of wider NWM Group share compensation schemes.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

5. Foreign currencies

Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences are recognised in the income statement except for differences arising on non-monetary financial assets classified as fair value through other comprehensive income.

Income and expenses of foreign subsidiaries and branches are translated into euro at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to the income statement on disposal of a foreign operation.

6. Provisions and contingent liabilities

NWM N.V. Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to pay to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when NWM N.V. Group has a constructive obligation. An obligation exists when NWM N.V. Group has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or by announcing its main features.

NWM N.V. Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting its contractual obligations that exceed the expected economic benefits. When NWM N.V. Group intends to vacate a leasehold property or right of use asset, the asset would be tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs, such as rates.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable, or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

7. Tax

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

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

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

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

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

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

Group recognises the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

8. Financial instruments

Financial instruments are measured at fair value on initial recognition on the balance sheet.

Monetary financial assets are classified into one of the following subsequent measurement categories (subject to business model assessment and review of contractual cash flow for the purposes of sole payments of principal and interest where applicable):

- **amortised cost** measured at cost using the effective interest rate method, less any impairment allowance;
- **fair value through other comprehensive income (FVOCI)** measured at fair value, using effective interest rate method and changes in fair value through other comprehensive income;
- **mandatory fair value through profit or loss (MFVTPL)** measured at fair value and changes in fair value reported in the income statement; or
- **designated at fair value through profit or loss (DFV)** measured at fair value and changes in fair value reported in the income statement.

Classification by business model reflects how NWM N.V. Group manages its financial assets to generate cash flows. A business model assessment helps to ascertain the measurement approach depending on whether cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives for the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest; are considered in determining whether cash flows are solely payments of principal and interest.

Certain financial assets may be designated at fair value through profit or loss (DFV) upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch.

Equity shares are measured at fair value through profit or loss unless specifically elected as at fair value through other comprehensive income (FVOCI).

Upon disposal, the cumulative gains or losses in fair value through other comprehensive income reserve are recycled to the income statement for monetary assets and non-monetary assets (equity shares) the cumulative gains or losses are transferred directly to retained earnings.

Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

Financial liabilities are classified into one of following measurement categories:

- **amortised cost** measured at cost using the effective interest rate method;
- **held for trading** measured at fair value and changes in fair value reported in income statement; or
- **designated at fair value through profit or loss** measured at fair value and changes in fair value reported in the income statement except changes in fair value attributable to the credit risk component recognised in other comprehensive income when no accounting mismatch occurs.

9. Impairment: expected credit losses (ECL)

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

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

Judgment is exercised as follows:

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

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

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

Impaired financial assets are written off and therefore derecognised from the balance sheet when NWM N.V. Group concludes that there is no longer any realistic prospect of

recovery of part, or all, of the loan. For financial assets that are individually assessed for impairment, the timing of the write-off is determined on a case-by-case basis. Such financial assets are reviewed regularly and write-off will be prompted by bankruptcy, insolvency, re-negotiation, and similar events.

- Business loans are generally written off within five years.

10. Financial guarantee contracts

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

11. Derecognition

A financial asset is derecognised (removed from the balance sheet) when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised in a contract under which NWM N.V. Group retains substantially all the risks and rewards of ownership.

A financial liability is removed from the balance sheet when the obligation is paid, or is cancelled, or expires. Cancellation includes the issuance of a substitute instrument on substantially different terms.

12. Netting

Financial assets and financial liabilities are offset, and the net amount presented on the balance sheet when, and only when, NWM N.V. Group currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. NWM N.V. Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented separately on the balance sheet.

13. Capital instruments

NWM N.V. Group classifies a financial instrument that it issues as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if it evidences a residual interest in the assets of NWM N.V. Group after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

14. Derivatives

Derivatives are reported on the balance sheet at fair value.

NWM N.V. Group uses derivatives as part of its trading activities, or to manage its own risk such as interest rate, foreign exchange, or credit risk.

Critical accounting policies and key sources of estimation uncertainty

The reported results of NWM N.V. Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. Dutch company law and The accounting standards used in the preparation of the financial statements (see basis of preparation above) require the directors, in preparing NWM N.V. Group 's financial statements, to select suitable accounting policies, apply them consistently and make judgments and estimates that are reasonable and prudent. In the absence of accounting guidance, standards used in the preparation of the financial statements require the directors to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

The judgments and assumptions involved in NWM N.V. Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by NWM N.V. Group would affect its reported results. Estimation uncertainty continues to be affected by the COVID-19 pandemic. The COVID-19 pandemic continued to cause significant economic and social disruption during 2021. Key financial estimates are based on management's latest five-year revenue and cost forecasts. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. Other reasonably possible assumptions about the future include a prolonged financial effect of the COVID-19 pandemic on the economy of the the Netherlands and other countries.

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

Critical accounting policies	Note
Deferred tax	6
Fair value - financial instruments	8
Loan impairment provisions	12

Future accounting developments

International Financial Reporting Standards

Effective 1 January 2022

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to Conceptual Framework (Amendments to IFRS 3); and
- Fees in the “10 per cent” test for Derecognition of Financial Liabilities (Amendments to IFRS 9).

Other new standards and amendments that are effective for annual periods beginning after 1 January 2023, with earlier application permitted, are set out below.

Effective 1 January 2023

- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Definition of Accounting Estimates (Amendments to IAS 8) and
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

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

Notes to the consolidated financial statements

1 Net interest income

	2021 €m	2020 €m
Loans and advances to banks	1	1
Loans and advances to customers	22	42
Amounts due from holding companies and fellow subsidiaries	10	10
Other financial assets	8	1
Interest receivable	41	54
Balances with banks	21	—
Customer deposits	1	23
Amounts due to holding companies and fellow subsidiaries	8	9
Subordinated liabilities	18	31
Internal funding of trading businesses	2	1
Interest payable	50	64
Net interest income	(9)	(10)

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

For accounting policy information see Accounting policies note 3.

2 Non-interest income

	2021 €m	2020 €m
Net fees and commissions (1)	177	159
Foreign exchange	—	(11)
Interest rate	8	(4)
Income from trading activities	8	(15)
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (2)	1	3
(Loss)/profit on sale of securities	(1)	(2)
Profit on sale of subsidiaries and associates	—	5
Release of IBNER reserve (3)	1	4
Other income (4)	(4)	7
Other operating income	(3)	17
Non-interest income	182	161

(1) Net fees and commissions includes transfer pricing income from NWM Plc of €106 million (2020 – €125 million), refer to Note 28 for further details.

(2) Including related derivatives.

(3) Review of insurance liabilities pertaining to claims resulted in a €1 million release (2020 – €4 million).

(4) Other income relates to loss on disposal of loans to customers of €12 million and insurance recoveries of €6 million. 2020 included other claims reserves release of €7 million.

For accounting policy information see Accounting policies note 3.

3 Operating expenses

	2021 €m	2020 €m
Staff costs	70	53
Temporary and contract costs	1	2
Premises and equipment	6	7
Other administrative expenses (1)	58	31
Operating expenses	135	93

(1) Other administrative expenses include €31 million of cost recharges from NatWest Group companies (2020 – €26 million).

For accounting policy information see Accounting policies note 4.

There were 200 people employed (rounded to the nearest hundred) in continuing operations at 31 December 2021 (2020 – 200). The average number of persons employed in continuing operations during the year was 200 (2020 – 200).

There were 107 people employed in the Netherlands in continuing operations at 31 December 2021 (2020 – 94).

4 Segmental analysis

NWM N.V. Group is managed as a single reportable segment.

Geographical segments

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

	Netherlands	RoW	Total
	€m	€m	€m
2021			
Interest income	39	2	41
Interest expenses	(50)	—	(50)
Net fees and commissions	123	54	177
Income from trading activities (dealing profits)	(1)	9	8
Other operating income	(11)	8	(3)
Total income	100	73	173
Operating profit before tax	35	16	51
Total assets	20,192	586	20,778
Total liabilities	18,412	119	18,531
Contingent liabilities and commitments	6,444	—	6,444
2020			
Interest income	51	3	54
Interest expenses	(64)	—	(64)
Net fees and commissions	100	59	159
Income from trading activities (dealing profits)	(6)	(9)	(15)
Other operating income (1)	4	13	17
Total income	85	66	151
Operating profit before tax	8	8	16
Total assets	21,035	709	21,744
Total liabilities	19,237	334	19,571
Contingent liabilities and commitments	7,005	—	7,005

Analysis of net fees and commissions

	2021	2020
	€m	€m
Fees and commissions receivable		
- Lending and financing	21	18
- Brokerage	—	8
- Underwriting fees	74	18
- Other (1)	107	161
Total	202	205
Fees and commissions payable	(25)	(46)
Net fees and commissions	177	159

(1) Fees and commissions receivable – other includes transfer pricing income from NWM Plc of €106 million (2020 - €125 million). Refer to Note 28 for further details.

5 Auditor's remuneration

Amounts payable to NWM N.V. Group's auditors for statutory audit and audit related services are set out below.

	2021	2020
	€m	€m
Fees for the audit of NWM N.V. Group's annual accounts	1.2	1.0
Audit related services (1)	1.0	0.8
Total audit and audit related services	2.2	1.8

(1) Fees incurred in relation to regulatory audits and statutory audits of subsidiaries and branches.

There are no non-audit services rendered to NWM N.V. Group.

6 Tax

	2021 €m	2020 €m
Current tax		
Charge for the year	(5)	(10)
Over/(under) provision in respect of prior periods	3	(6)
	(2)	(16)
Deferred tax		
Credit for the year	4	6
Increase in the carrying value of deferred tax assets in respect of available tax losses and tax credits to be carried forward	57	—
Tax credit/(charge) for the year	59	(10)

The actual tax charge differs from the expected tax charge computed by applying the statutory tax rate of the Netherlands of 25.8% as follows:

	2021 €m	2020 €m
Expected tax charge	(13)	(4)
Non-taxable items (including recycling of foreign exchange reserve)	(3)	(1)
Increase in the carrying value of deferred tax assets in respect of available tax losses and tax credits to be carried forward	57	—
Foreign profits taxed at other rates	3	2
Losses in year not recognised	—	(1)
Losses brought forward and utilised	12	—
Adjustments in respect of prior years ⁽¹⁾	3	(6)
Actual tax credit/(charge)	59	(10)

(1) Prior period tax adjustments include tax provision movements, adjustments to reflect submitted tax computations in the Netherlands and overseas, recovery of previously written-off current tax assets and changes in the valuation of deferred tax assets previously recognised.

For accounting policy information see Accounting policies note 7.

	2021 €m	2020 €m
Deferred tax asset	(57)	—
Deferred tax liability	5	9
Net deferred tax (asset)/liability	(52)	9

	Revaluations/ deferred gains €m	Tax losses carried forward €m	Other €m	Total €m
At 1 January 2020	—	—	15	15
Charge to income statement	—	—	(6)	(6)
At 1 January 2021	—	—	9	9
Charge to income statement	—	(57)	(4)	(61)
At 31 December 2021	—	(57)	5	(52)

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

Critical accounting policy: Deferred tax

The deferred tax assets of €57 million as at 31 December 2021 (2020 - nil) comprises tax losses which arose in the Netherlands, and Dutch tax credits. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgment – NWM N.V. Group has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover the carrying value of the recognised deferred tax assets.

Estimate

The existence of unused tax losses is usually strong evidence that future taxable profit may not be available. However the unused tax losses and tax credits of NWM N.V. Group do result from identifiable causes which are unlikely to recur. Pursuant to the new business model, from March 2019 onwards, NWM N.V. is subject to transfer pricing arrangements with its parent entity, NWM Plc. NWM N.V. Group's Dutch fiscal unit has reported profits in the period after the repurposing of NWM N.V.'s banking license in 2019. In addition, NatWest Group strategic review of NWM Group has been largely completed in 2021, which has removed material uncertainties around the future business of NWM N.V.. As a result, NWM N.V.

6 Tax continued

Group now considers it to be probable, based on its 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised. The carrying amount of the deferred tax assets is sensitive to certain significant assumptions made in management's assessment. Significant assumptions relate to:

- The 5 year forecast period;
- The future macro-economic environment of NWM N.V.;
- Transfer pricing model parameters;
- The impact of strategic decisions made in 2021;
- Decisions to be made within the strategy of NWM N.V.;
- Dutch tax law.

NWM N.V. Group's evaluation of alternative assumptions revealed that the recognition of the deferred tax asset is highly sensitive to the significant assumptions used in the assessment and therefore subject to high estimation uncertainty. Due to the uncertainty associated with the underlying forecast of probable taxable income, the final outcome of the utilisation of the deferred tax asset may vary significantly. This can lead to material increase or decrease of the deferred tax assets depending on the result of the strategic decisions made in 2021 and to be made in future periods.

Dutch tax law – As from 2022, tax losses can be carried forward indefinitely pursuant to Dutch tax law. However, the utilisation of losses in a year is limited. The taxable profit up to €1 million can be fully offset against prior year tax losses, the taxable profit in excess thereof can only be reduced by tax losses up to 50 percent. There is no change in Dutch tax law on the utilisation of available tax credits for which taxable profit can still be fully offset against available tax credits.

The corporate income tax rate has increased to 25.8% in 2022 (2021: 25%).

Tax losses – NWM N.V. Group's tax losses arose principally as a result of running down its legacy business between 2013 and 2017.

Tax credits – NWM N.V. Group's Dutch tax credits relate to foreign profits. In taxable years before 2012, Dutch resident corporate taxpayers were fully liable to Dutch corporate income tax on their worldwide income, including any income derived from a foreign permanent establishment. Double taxation was avoided by way of a tax reduction for income attributable to the foreign permanent establishment. Foreign profits which could not be exempted because no attributable Dutch corporate income tax was due against which the foreign profit could be offset, were carried forward to be used in a later year. As from 2012, income (gains and losses) arising from a foreign permanent establishment are in principle exempt from the Dutch corporate income tax base (object exemption). Pre-2012 carried forward foreign profits can still be used for the elimination of double taxation in 2012 and subsequent years.

Deferred tax assets – A deferred tax asset of €57 million has been recognised in respect of tax losses and tax credits to be carried forward of €222 million.

Unrecognised deferred tax – Deferred tax assets of €800 million (€2020 - €803 million) have not been recognised in respect of tax losses and unused tax credits of €3,101 million (2020 - €3,213 million). The tax losses and the tax credits have no expiry date.

7 Financial instruments - classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks			5,145		5,145
Trading assets	4,174				4,174
Derivatives	7,767				7,767
Settlement balances			391		391
Loans to banks - amortised cost			139		139
Loans to customers - amortised cost			660		660
Amounts due from holding companies and fellow subsidiaries	765	—	612	3	1,380
Other financial assets	1	904	122		1,027
Other assets				95	95
31 December 2021	12,707	904	7,069	98	20,778
31 December 2020					
Cash and balances at central banks			4,452		4,452
Trading assets	4,380				4,380
Derivatives	6,935				6,935
Settlement balances			358		358
Loans to banks - amortised cost			190		190
Loans to customers - amortised cost			946		946
Amounts due from holding companies and fellow subsidiaries	2,254	—	1,285	1	3,540
Other financial assets	1	850	45		896
Other assets				47	47
31 December 2020	13,570	850	7,276	48	21,744
Liabilities					
Bank deposits			—		—
Customer deposits			880		880
Amounts due to holding companies and fellow subsidiaries	2,068	—	1,825	30	3,923
Settlement balances			186		186
Trading liabilities	2,080				2,080
Derivatives	8,854				8,854
Other financial liabilities	—	586	1,321		1,907
Subordinated liabilities (1)		394	258		652
Other liabilities (2)			7	42	49
31 December 2021	13,002	980	4,477	72	18,531
31 December 2020					
Bank deposits			52		52
Customer deposits			1,258		1,258
Amounts due to holding companies and fellow subsidiaries	2,247	—	1,298	6	3,551
Settlement balances			943		943
Trading liabilities	1,512				1,512
Derivatives	9,309				9,309
Other financial liabilities	—	886	1,314		2,200
Subordinated liabilities (1)		414	241		655
Other liabilities (2)			12	79	91
31 December 2020	13,068	1,300	5,118	85	19,571

Comparatives have been re-presented to aid comparability.

(1) The cumulative own credit adjustment, representing a reduction of the subordinated liability value, was €28 million (2020 - €51 million).

Judgment: classification of financial assets

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

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

For accounting policy information see Accounting policies notes 8, 11, 12 and 14.

7 Financial instruments – classification continued

Amounts due from/to holding companies and fellow subsidiaries are as below:

	2021			2020		
	Holding companies €m	Fellow subsidiaries €m	Total €m	Holding companies €m	Fellow subsidiaries €m	Total €m
Assets						
Trading assets	765	—	765	2,254	—	2,254
Loans to banks - amortised cost	61	24	85	281	31	312
Loans to customers - amortised cost	135	—	135	124	—	124
Settlement balances	392	—	392	849	—	849
Other assets	3	—	3	—	1	1
Amounts due from holding companies and fellow subsidiaries	1,356	24	1,380	3,508	32	3,540
Derivatives (1)	2,592	—	2,592	2,968	—	2,968
Liabilities						
Trading liabilities	2,068	—	2,068	2,247	—	2,247
Bank deposits - amortised cost	1,037	3	1,040	973	16	989
Customer deposits - amortised cost	—	179	179	—	—	—
Other financial liabilities - subordinated liabilities	150	—	150	150	—	150
Settlement balances	456	—	456	157	—	157
Other liabilities	23	7	30	6	2	8
Amounts due to holding companies and fellow subsidiaries	3,734	189	3,923	3,533	18	3,551
Derivatives (1)	2,141	—	2,141	2,230	—	2,230

Comparatives have been re-presented to aid comparability.

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

7 Financial instruments – classification continued

Interest rate benchmark reform

The Natwest Group IBOR program successfully delivered the conversion of the vast majority of the IBOR exposures to RFR in advance of the cessation date. This encompasses loans, deposits, capital instruments and derivatives, which, have been converted using fallback provisions, switch provisions or as part of market-wide conversion events in the case of derivatives subject to clearing. These instruments will convert at the first repricing date post cessation.

The total amount of exposure at 31 December 2021 subject to above conversion provisions is €2 million of assets, €10 million of liabilities, €8 million of loan commitments and above €49.2 billion of derivative notionals.

Despite certain instruments remain in discussion with customers and counterparties to achieve consensual conversion. If consensual conversion is not achieved these instruments will default to synthetic LIBOR in line with relevant legislation.

The level of exposures without explicit or agreed conversion provisions as of 31 December 2021 is: €123 million in relation to USD IBOR loans to customers; €125 million GBP LIBOR and €70 million USD IBOR(1) loan commitments; and €16.2 billion USD IBOR(1) derivative notionals.

At December 2021, NWM N.V. held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 2021, but not the entire contract. These include currency swaps of GBP LIBOR of €0.1 billion with USD IBOR of €0.1 billion; currency swaps of USD IBOR of €0.4 billion with GBP LIBOR of €0.1 billion and EONIA and Other IBOR of €0.3 billion.

	Rates subject to IBOR reform				Total €m
	GBP LIBOR €m	USD IBOR (1) €m	EURIBOR (2) €m	EONIA and Other IBOR €m	
2020					
Loans to customers - amortised cost	127	151	423	7	708
Other financial assets	—	—	56	—	56
Amounts due from holding companies and fellow subsidiaries	—	—	—	588	588
Amounts due to holding companies and fellow subsidiaries	—	—	1,232	530	1,762
Loan commitments (3)	102	134	5,325	—	5,561
Derivatives notional (€bn)	332.7	15.1	891.5	120.5	1,359.8

Comparatives have been re-presented to aid comparability.

- (1) In 2021 the FCA declared that USD IBOR will be non-representative post 30 June 2023; at the time of preparing the 2020 Annual Report and Accounts this date was expected to be 31 December 2021.
- (2) In 2021 management concluded that EURIBOR is not expected to be significantly reformed further and therefore any uncertainty due to interest benchmark rate reform for EURIBOR has ended. 31 December 2020 data includes EURIBOR exposure as subject to reform
- (3) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

Included within the table above for derivatives were currency swaps with corresponding legs also subject to IBOR reform of USD IBOR of €2.0 billion with GBP LIBOR €0.4 billion, EURIBOR €1.2 billion and EONIA and other IBOR €0.4 billion. Currency swaps of EURIBOR of €3.4 billion with GBP LIBOR €1.7 billion, USD IBOR €1.2 billion and EONIA and other IBOR €0.5 billion. Currency swaps of EONIA and other IBOR of €0.2 billion with EURIBOR.

Additionally, included above are basis swaps for GBP LIBOR of €30.0 billion, USD IBOR of €0.3 billion, EURIBOR of €16.4 billion and EONIA and other IBOR of €11.5 billion.

AT1 issuances

NWM N.V. has issued a capital instrument (AT1) which are included within equity (€250 million EURIBOR) under which coupons are linked to IBOR rates subject to reform. EURIBOR has been reformed however this instrument has been reported within the scope of the IBOR reform in 2020.

7 Financial instruments – classification continued

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

	Offsetable potential not recognised by IFRS								
	Offsetable instruments			Effect of master netting and similar arrangements	Cash collateral	Securities collateral	Net amount after the effect of netting arrangements and related collateral	Amounts not subject to offset	Balance sheet total
	Gross	IFRS offset	Balance sheet						
	€m	€m	€m	€m	€m	€m	€m	€m	€m
2021									
Derivative assets	14,524	(6,844)	7,680	(4,888)	(1,827)	(534)	431	87	7,767
Derivative liabilities	13,916	(5,190)	8,726	(4,888)	(3,105)	(365)	368	128	8,854
Net position (1)	608	(1,654)	(1,046)	—	1,278	(169)	63	(41)	(1,087)
Trading reverse repos	686	(82)	604	(73)	—	(531)	—	342	946
Trading repos	668	(82)	586	(73)	—	(513)	—	—	586
Net position	18	—	18	—	—	(18)	—	342	360
2020									
Derivative assets	13,753	(6,886)	6,867	(4,735)	(1,721)	(56)	355	68	6,935
Derivative liabilities	13,449	(4,231)	9,218	(4,735)	(3,230)	(942)	311	91	9,309
Net position (1)	304	(2,655)	(2,351)	—	1,509	886	44	(23)	(2,374)
Trading reverse repos	662	(56)	606	—	—	(606)	—	302	908
Trading repos	362	(56)	306	—	—	(306)	—	—	306
Net position	300	—	300	—	—	(300)	—	302	602

(1) The net IFRS offset balance of €1,654 million (2020 – €2,655 million) relates to variation margin netting reflected on other balance sheet lines.

8 Financial instruments – valuation

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(D) = Descriptive; (T) = Table

Critical accounting policy: Fair value - financial instruments

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

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

Natwest Markets N.V. manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs (see 'Valuation Adjustments').

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

For accounting policy information see Accounting policies notes 8 and 14.

Valuation

Fair value hierarchy

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

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

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

Level 2 – instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade

corporate bonds, certain mortgage products - including CLOs, most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most OTC derivatives.

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

8 Financial instruments – valuation continued

Valuation techniques

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

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

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

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

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

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

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

Inputs to valuation models

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

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

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

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

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

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

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

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

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

Valuation control

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

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

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

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

8 Financial instruments – valuation continued

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

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

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

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

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

Key areas of judgment

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

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

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

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

8 Financial instruments – valuation continued

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

	2021				2020			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Trading assets								
Loans	—	4,112	59	4,171	—	4,325	—	4,325
Securities	—	—	3	3	52	—	3	55
Derivatives	—	7,655	112	7,767	—	6,805	130	6,935
Amounts due from holding companies and fellow subsidiaries	—	765	—	765	—	2,254	—	2,254
Other financial assets - securities	460	445	—	905	378	473	—	851
Total financial assets held at fair value	460	12,977	174	13,611	430	13,857	133	14,420
As % of total fair value assets	3%	96%	1%		3%	96%	1%	
Liabilities								
Amounts due to holding companies and fellow subsidiaries	—	2,068	—	2,068	—	2,247	—	2,247
Trading liabilities								
Deposits	—	2,059	—	2,059	—	1,378	—	1,378
Short positions	—	21	—	21	—	134	—	134
Derivatives	—	8,794	60	8,854	—	9,250	59	9,309
Other financial liabilities - deposits	—	586	—	586	—	886	—	886
Subordinated liabilities	—	394	—	394	—	414	—	414
Total financial liabilities held at fair value	—	13,922	60	13,982	—	14,309	59	14,525
As % of total fair value liabilities	—	100%	0%		—	99%	0%	

Comparatives have been re-presented to aid comparability.

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

8 Financial instruments – valuation continued

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below:

Adjustment	2021 €m	2020 €m
Funding – FVA	(19)	(21)
Credit – CVA	126	126
Bid – Offer	1	1
Product and deal specific	-	1
	108	107

Funding valuation adjustments (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge (positive) or funding benefit (negative).

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the exposure reflects the future valuation of the derivative. For collateralised derivatives, the exposure reflects the difference between the future valuation of the derivative and the level of collateral posted.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that is made to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NatWest Markets N.V. holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Bid-offer

Fair value positions are required to be marked to exit, represented by bid (long positions) or offer (short positions) levels. Non-derivative positions are typically marked directly to bid or offer prices. However derivative exposures are adjusted to exit levels by taking bid-offer reserves calculated on a portfolio basis. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability.

Netting is applied on a portfolio basis to reflect the value at which NatWest Markets N.V. believes it could exit the net risk of the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

Product and deal specific

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

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

Own Credit

NWM N.V. Group considers the effect of its own credit standing when valuing financial liabilities recorded at fair value in. Own credit spread adjustments are made when valuing issued debt held at fair value, including issued structured notes. An own credit adjustment is applied to positions where it is believed that counterparties would consider NWM N.V. Group's creditworthiness when pricing trades.

8 Financial instruments – valuation continued

Level 3 additional information

For illiquid assets and liabilities classified as level 3, additional information is provided on the valuation techniques used and price sensitivity of the products to those inputs. This is to enable the reader to gauge the level of uncertainty that arises from positions with significant unobservable inputs or modelling parameters.

Level 3 ranges of unobservable inputs

The table below provides additional information on level 3 instruments and inputs. This shows the valuation technique used for the fair value calculation, the unobservable input or inputs and input range.

Financial instruments	Valuation techniques	Unobservable inputs	Units	2021		2020	
				Low	High	Low	High
Trading assets and other financial assets							
Loans to customers	Price-based	Price	%	99	100	—	—
Equity shares	Price-based	Price	EUR	1	5,705	1	5,705
Derivative assets and liabilities							
Credit derivatives	Credit derivative pricing	Recovery rate	%	—	—	40	40
		Correlation	%	—	98	(27)	98
		Volatility	%	17	77	17	43
Interest rate & FX derivatives	Option pricing	Constant prepayment rate	bps	5	15	7	18
		Mean reversion	%	—	10	—	10

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

8 Financial instruments – valuation continued

Level 3 sensitivities

The level 3 sensitivities presented below are calculated at a trade or low-level portfolio basis rather than an overall portfolio basis. As individual sensitivities are aggregated with a reflection of the correlated nature between instruments, the overall portfolio sensitivity may not be accurately reflected. For example, some portfolios may be negatively correlated to others, where a downwards movement in one asset would produce an upwards movement in another. However, due to the additive presentation of the above figures this correlation impact cannot be displayed. As such, the actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the below table.

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information considering consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, the uncertainty of these inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios and issued debt.

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

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

	2021			2020		
	Level 3 €m	Favourable €m	Unfavourable €m	Level 3 €m	Favourable €m	Unfavourable €m
Assets						
Trading assets						
Loans	59	—	—	—	—	—
Securities	3	—	—	3	—	—
Derivatives	112	10	(10)	130	10	(10)
Total financial assets held at fair value	174	10	(10)	133	10	(10)
Liabilities						
Derivatives	60	—	—	59	—	—
Total financial liabilities held at fair value	60	—	—	59	—	—

8 Financial instruments – valuation continued

Movement in Level 3 assets and liabilities over the reporting period

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

	2021				2020			
	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m	Trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Total liabilities €m
At 1 January	133	—	133	59	219	—	219	64
Amount recorded in the income statement (1)	3	—	3	(10)	(74)	—	(74)	1
Amount recorded in the statement of comprehensive income	—	—	—	—	—	(2)	(2)	—
Level 3 transfers in	8	—	8	3	—	—	—	2
Level 3 transfers out	(7)	—	(7)	(21)	(6)	—	(6)	(8)
Purchases/originations (4)	64	43	107	42	80	174	254	22
Settlements/other decreases	(7)	(43)	(50)	(2)	(72)	(172)	(244)	(10)
Sales	(26)	—	(26)	(11)	(7)	—	(7)	(12)
Foreign exchange and other	6	—	6	—	(7)	—	(7)	—
At 31 December	174	—	174	60	133	—	133	59
Amounts recorded in the income statement in respect of balances held at year end - unrealised	3	—	3	(10)	(74)	—	(74)	1

Comparatives have been re-presented to aid comparability.

(1) There were €13 million net gains on trading assets and liabilities (2020 - €75 million losses) recorded in income from trading activities.

(2) Trading assets comprise assets held at fair value in trading portfolios.

(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

(4) Movement in the period includes new loan originations classified as HTC&S under IFRS 9 and fair valued through other comprehensive income.

8 Financial instruments – valuation continued

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

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

2021	Items where fair value approximates carrying value €m	Carrying value €m	Fair value €m	Fair value hierarchy level	
				Level 2 €m	Level 3 €m
Financial assets					
Cash and balances at central banks	5,145				
Settlement balances	391				
Loans to banks	18	121	121	62	59
Loans to customers		660	656	—	656
Amounts due from holding companies and fellow subsidiaries		612	612	—	612
Other financial assets		122	122	—	122
2020					
Financial assets					
Cash and balances at central banks	4,452				
Settlement balances	358				
Loans to banks	2	188	188	59	129
Loans to customers		946	929	—	929
Amounts due from holding companies and fellow subsidiaries	849	436	436	—	436
Other financial assets		45	45	—	45
2021					
Financial liabilities					
Bank deposits	—	—	—	—	—
Customer deposits	4	876	876	—	876
Amounts due to holding companies and fellow subsidiaries	31	1,794	1,807	157	1,650
Settlement balances	186				
Other financial liabilities		1,321	1,321	814	507
Subordinated liabilities		258	382	380	2
2020					
Financial liabilities					
Bank deposits	2	50	50	—	50
Customer deposits	2	1,256	1,256	—	1,256
Amounts due to holding companies and fellow subsidiaries	186	1,112	1,112	150	962
Settlement balances	943				
Other financial liabilities		1,314	1,314	949	365
Subordinated liabilities		241	351	351	—

Comparatives have been re-presented to aid comparability.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, carrying value is deemed a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, NWM N.V. Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

Two principal methods are used to estimate fair value:

- Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for portfolios where counterparties have external ratings: institutional and corporate lending.
- Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

Debt securities and subordinated liabilities

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

Bank and customer deposits

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

9 Financial instruments - maturity analysis

Remaining maturity

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

	2021			2020		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	5,145	—	5,145	4,452	—	4,452
Trading assets	4,141	33	4,174	4,328	52	4,380
Derivatives	3,143	4,624	7,767	3,372	3,563	6,935
Settlement balances	391	—	391	358	—	358
Loans to banks - amortised cost	139	—	139	190	—	190
Loans to customers - amortised cost	9	651	660	36	910	946
Amounts due from holding companies and fellow subsidiaries (1)	1,092	285	1,377	2,669	870	3,539
Other financial assets	889	138	1,027	580	316	896
Liabilities						
Bank deposits	—	—	—	52	—	52
Customer deposits	826	54	880	1,225	33	1,258
Amounts due to holding companies and fellow subsidiaries (2)	2,168	1,725	3,893	1,847	1,698	3,545
Settlement balances	186	—	186	943	—	943
Trading liabilities	2,058	22	2,080	1,377	135	1,512
Derivatives	3,018	5,836	8,854	3,351	5,958	9,309
Other financial liabilities	1,907	—	1,907	2,000	200	2,200
Subordinated liabilities	—	652	652	—	655	655
Lease liabilities	1	6	7	2	8	10

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of €3 million (2020 - €1 million) have been excluded from the table.

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €30 million (2020 - €6 million) have been excluded from the table.

Assets and on balance sheet liabilities by contractual cash flows up to 20 years

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NWM N.V.. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM N.V. depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

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

MFVTPL assets of €12.7 billion (2020 - €13.6 billion) and HFT liabilities of €13 billion (2020 - €13.1 billion) have been excluded from the following tables.

2021	0 - 3 months €m	3 - 12 months €m	1 - 3 years €m	3 - 5 years €m	5 - 10 years €m	10 - 20 years €m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	5,145	—	—	—	—	—
Settlement balances	391	—	—	—	—	—
Loans to banks - amortised cost	124	14	1	—	—	—
Loans to customers - amortised cost	4	8	420	247	5	—
Amounts due from holding companies and fellow subsidiaries (1)	477	—	—	—	—	—
Other financial assets (2)	96	510	213	26	7	13
	6,237	532	634	273	12	13

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

9 Financial instruments - maturity analysis continued

2021	0 - 3 months €m	3 - 12 months €m	1 - 3 years €m	3 - 5 years €m	5 - 10 years €m	10 - 20 years €m
Liabilities by contractual maturity up to 20 years						
Bank deposits	—	—	—	—	—	—
Customer deposits	519	307	30	16	—	19
Amounts due to holding companies and fellow subsidiaries (3)	663	30	480	652	—	—
Settlement balances	186	—	—	—	—	—
Subordinated liabilities	—	—	136	—	—	395
Other financial liabilities	507	1,400	—	—	—	—
Lease liabilities	—	1	3	3	—	—
	1,875	1,738	649	671	—	414
Guarantees and commitments notional amount						
Guarantees (4)	486	—	—	—	—	—
Commitments (5)	5,822	—	—	—	—	—
	6,308	—	—	—	—	—
2020	0 - 3 months €m	3 - 12 months €m	1 - 3 years €m	3 - 5 years €m	5 - 10 years €m	10 - 20 years €m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	4,452	—	—	—	—	—
Settlement balances	358	—	—	—	—	—
Loans to banks - amortised cost	190	—	—	—	—	—
Loans to customers - amortised cost	3	54	501	434	7	—
Amounts due from holding companies and fellow subsidiaries (1)	1,162	—	—	—	—	—
Other financial assets (2)	10	570	136	61	60	—
	6,175	624	637	495	67	—
Liabilities by contractual maturity up to 20 years						
Bank deposits	2	50	—	—	—	—
Customer deposits	852	372	25	—	—	20
Amounts due to holding companies and fellow subsidiaries (3)	194	16	327	761	—	—
Settlement balances	943	—	—	—	—	—
Subordinated liabilities	—	—	137	—	—	—
Other financial liabilities	365	1,634	201	—	—	—
Lease liabilities	—	2	4	2	2	—
	2,356	2,074	694	763	2	20
Guarantees and commitments notional amount						
Guarantees (4)	493	—	—	—	—	—
Commitments (5)	6,415	—	—	—	—	—
	6,908	—	—	—	—	—

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

(2) Other financial assets excludes equity shares.

(3) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

(4) NWM N.V. Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM N.V. Group expects most guarantees it provides to expire unused.

(5) NWM N.V. Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The NWM N.V. Group does not expect all facilities to be drawn, and some may lapse before drawdown.

10 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

	2021 €m	2020 €m
Assets		
Loans		
Reverse repos	946	908
Collateral given	3,164	3,417
Other loans	61	—
Total loans	4,171	4,325
Securities (1)	3	55
Total	4,174	4,380
Liabilities		
Deposits		
Repos	586	306
Collateral received	1,468	1,067
Other deposits	5	5
Total deposits	2,059	1,378
Short positions	21	134
Total	2,080	1,512

(1) Securities are primarily non-domestic in both periods.

For accounting policy information see Accounting policies note 8.

11 Derivatives

NWM N.V. Group uses derivatives as part of its trading activities or to manage its own risk such as interest rate, foreign exchange, or credit risk.

The following table shows the notional amounts and fair values of the NWM N.V. Group's derivatives.

	2021			2020		
	Notional €bn	Assets €m	Liabilities €m	Notional €bn	Assets €m	Liabilities €m
Exchange rate contracts	307	4,494	4,488	273	4,429	4,438
Interest rate contracts	1,904	3,273	4,356	2,320	2,506	4,865
Credit derivatives	1	—	10	—	—	6
		7,767	8,854		6,935	9,309

For accounting policy information see Accounting policies notes 8 and 14.

Refer to note 7 for amounts due from/to fellow NatWest Group companies.

12 Loan impairment provisions

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

	2021 €m	2020 €m
Loans - amortised cost		
Stage 1	732	832
Stage 2	50	343
Stage 3	39	72
Inter-Group (1)	220	436
Total	1,041	1,683
ECL provisions		
Stage 1	—	1
Stage 2	1	41
Stage 3	39	69
Total	40	111
ECL provisions coverage (2)		
Stage 1 (%)	—	0.12
Stage 2 (%)	2.00	11.95
Stage 3 (%)	100.00	95.83
Total	4.87	6.60
Other financial assets - Gross exposure	6,072	5,285
Other financial assets - ECL provision	—	—
Impairment (releases)/losses		
ECL (release)/charge - third party (3)	(13)	42
Amounts written off	63	5

(1) The NWM N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was €0.1 million (2020 – €0.3 million).

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

(3) Includes €0.1 million (2020 – nil) related to other financial assets and €1.0 million (2020 – €1.0 million release) relating to contingent liabilities.

(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 39 for Financial instruments within the scope of the IFRS 9 ECL framework in the NatWest Markets N.V. 2021 Annual Accounts and Report for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €5.1 billion (2020 – €4.5 billion) and debt securities of €0.9 billion (2020 – €0.8 billion).

(5) NWM N.V. Group held collateral against third party loans in Stage 3 of nil (2020 – €3 million) and against Stage 1 and Stage 2 third party loans of €275 million (2020 – €51 million). Inter-group loans were uncollateralised.

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

Accounting policies note 9 sets out how the expected loss approach is applied. At 31 December 2021, customer loan impairment provisions amounted to €40 million (2020 – €111 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes, changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

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

IFRS 9 ECL model design principles

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

Approach for multiple economic scenarios (MES)

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

13 Business transfers

In 2021 €1.4 billion of assets and €1.6 billion of liabilities were transferred from NWM Plc to NWM N.V.. These transfers which covered both FSMA scheme and non-FSMA scheme portfolios, included trading assets of €0.4 billion, derivative assets of €1.0 billion, trading liabilities of €0.4 billion and derivative liabilities of €1.2 billion.

In 2021 an amount of €0.3 billion of contingent liabilities and commitments were transferred from NatWest Markets Plc to NWM N.V. in relation to the Western European Corporate Portfolio. An amount of €0.9 billion on contingent liabilities and commitments were transferred from Natwest Bank Plc to NWM N.V.. This was partly offset with an amount of €0.4 billion on contingent liabilities and commitments that were transferred from NWM N.V. to NatWest Bank Plc.

14 Other financial assets

	Debt securities						
	Central and local government					Equity shares	Total
	UK	US	Other central and local government	Other debt	Total		
€m	€m	€m	€m	€m	€m	€m	
2021							
Mandatory fair value through profit or loss	—	—	—	—	—	1	1
Fair value through other comprehensive income	328	176	50	251	805	99	904
Amortised cost	—	—	—	122	122	—	122
Total	328	176	50	373	927	100	1,027
2020							
Mandatory fair value through profit or loss	—	—	—	—	—	1	1
Fair value through other comprehensive income	116	81	158	433	788	62	850
Amortised cost	—	—	—	45	45	—	45
Total	116	81	158	478	833	63	896

For accounting policy information see Accounting policies note 8.

15 Other assets

	2021	2020
	€m	€m
Property and equipment	30	35
Deferred tax	57	—
Other assets	8	12
	95	47

16 Other financial liabilities

	2021	2020
	€m	€m
Customer deposits - designated as at fair value through profit or loss	586	886
Debt securities in issue - amortised cost	1,321	1,314
	1,907	2,200

For accounting policy information see Accounting policies notes 8 and 13.

17 Subordinated liabilities

		2021	2020
		€m	€m
Dated loan capital		652	655

(1) Excludes amounts due to holding company and fellow subsidiaries of €150 million (2020 – €150 million).

	Capital treatment	2021	2020
		€m	€m
Maturities and redemptions in the period (values as at date of transaction)			
€15 million 6.00% notes 2020	Tier 2	—	13

(1) There were no issuances in 2021 or 2020.

Subordinated liabilities held at 31 December:

	Capital treatment	2021	2020
		€m	€m
Dated loan capital			
€170 million floating rate notes 2041	Tier 2	395	414
US\$136 million 7.75% notes 2023	Tier 2	123	117
US\$150 million 7.13% notes 2093	Tier 2	134	124
		652	655

(1) Since the introduction of CRDIV and CRR, all Tier 2 subordinated debt issuances are eligible for grandfathering only and therefore subject to transitional rules.

The following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries, refer to Note 7.

	Capital treatment	2021	2020
		€m	€m
Dated loan capital			
€150 million 1.72% notes 2029 (callable 2024)	Tier 2	150	150

For accounting policy information see Accounting policies notes 8 and 13.

18 Other liabilities

	2021 €m	2020 €m
Lease liabilities	7	10
Provisions for liabilities and charges	6	8
Accruals	10	8
Deferred income	8	11
Current tax	2	32
Deferred tax	5	9
Other liabilities	11	13
	49	91

Included in other liabilities are provisions for liabilities and charges of €6 million (2020 - €8 million), of which litigation provisions are €0.4 million (2020 - €2 million) and restructuring provisions of €3 million (2020 - nil). Arising out of its normal business operations, the NWM N.V. Group is party to legal proceedings in the Netherlands, the United Kingdom, the United States of America and other jurisdictions.

Litigation provisions at 31 December 2021 related to numerous proceedings; no individual provision is material. Detailed descriptions of the NWM N.V. Group's legal proceedings and discussion of the associated uncertainties are given in Note 23.

For accounting policy information see Accounting policies note 6.

19 Share capital and reserves

NWM N.V.'s share capital at 31 December 2021 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50.

All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash.

In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

For accounting policy information see Accounting policies note 13.

Share premium reserve

As a part of the Dutch Scheme one share was issued against the share premium account.

Ordinary shares carry certain pre-emption rights and rank equally in voting, dividend and liquidation rights.

Dutch law prescribes that only the freely distributable reserves of NWM N.V. are taken into account for the purpose of making distributions and in determining the permissible applications of the share premium account. NWM N.V. Group optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. The remittance of reserves to NWM N.V. or the redemption of capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator

Dividends

No dividends were paid in 2021 (2020 - nil).

20 Structured entities

Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose. They do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities to segregate custodial duties from the fund management advice.

Unconsolidated structured entities

NWM N.V. Group's interest in unconsolidated structured entities is analysed below.

	2021			2020		
	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m	Asset backed securitisation vehicles €m	Investment funds and other €m	Total €m
Trading assets and derivatives						
Trading assets	2	—	2	2	—	2
Non-trading assets						
Loans to customers	43	—	43	176	96	272
Other financial assets	99	23	122	45	—	45
Total	142	23	165	221	96	317
Liquidity facilities/loan commitments	32	14	46	—	65	65
Maximum exposure	176	37	213	223	161	384

21 Asset transfers

Transfers that do not qualify for derecognition

NWM N.V. Group enters into securities repurchase and securities lending agreements in accordance with normal market practice which includes the provision of additional collateral if necessary. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transaction.

Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if NWM N.V. Group retains substantially all the risks and rewards of ownership. Securities received as collateral under reverse repurchase agreements were €1.6 billion (2020 - €2.6 billion) of which €1.3 billion (2020 - €2.2 billion) had been sold or repledged as collateral of the NWM N.V. Group's own transactions.

For accounting policy information see Accounting policies note 11.

	2021	2020
	€m	€m
The following assets have failed derecognition		
Trading assets	—	51
Other financial assets	148	—

(1) Associated liabilities were €148 million (2020 - €51 million).

Assets pledged as collateral

NWM N.V. Group pledges collateral with its counterparties in respect of derivative liabilities. There were €3.2 billion of assets pledged against liabilities in 2021 (2020 - €3.4 billion).

22 Capital resources

NWM N.V. Group's regulatory capital resources were as follows:

	2021	2020
	€m	€m
Tier 1		
Controlling interests	1,998	1,923
Adjustment for:		
- Other regulatory adjustments (1)	(311)	(285)
Common equity Tier 1	1,687	1,638
Hybrid capital	250	250
Additional Tier 1	250	250
Total Tier 1	1,937	1,888
Tier 2		
Subordinated debt	315	325
Deductions from Tier 2 capital	(132)	(122)
Total Tier 2 capital	183	203
Total regulatory capital	2,120	2,091

(1) Includes reversal of own credit risk of €28 million (2020 - €51 million) plus the elimination of the profit that has not been approved yet.

It is NWM N.V. Group's policy to maintain an appropriate capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NWM N.V. Group has regard to the supervisory requirements of DNB. DNB uses capital ratios as a measure of capital adequacy in the Dutch banking sector, comparing a bank's capital resources with its risk-weighted assets (RWAs) (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks). NWM N.V. Group has complied with its capital requirements during the year.

A number of subsidiaries and sub-groups within NWM N.V. Group are subject to various individual regulatory capital requirements. Furthermore, the payment of dividends by subsidiaries and the ability of members of NWM N.V. Group to lend money to other members of NWM N.V. Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

23 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 NWM N.V. 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 NWM N.V. Group's expectation of future losses.

For accounting policy information see Accounting policies note 6.

	Less than 5 years €m	Over 5 years €m	2021 €m	2020 €m
Contingent liabilities and commitments (1)				
Guarantees and assets pledged as collateral security	—	486	486	493
Other contingent liabilities	1	—	1	1
Standby facilities, credit lines and other commitments	5,860	97	5,957	6,511
	5,861	583	6,444	7,005

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. NWM N.V. Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NWM N.V. Group's normal credit approval processes.

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

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

Standby facilities and credit lines - under a loan commitment NWM N.V. Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

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

Risk-sharing agreements

NWM Plc and NWM N.V. have limited risk-sharing arrangements to facilitate the smooth provision of services to NatWest Markets' customers. The arrangements include:

- The provision of a funded guarantee of up to €1.2 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2021 the deposits amounted to €1.0 billion and the guaranteed fees in the year were €6.5 million.
- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2021 the exposure at default covered by the guarantees was approximately €0.2 billion (of which €44 million was cash collateralised). The guarantee fees in the year were €7.9 million. Receivable for indemnification recognised in the period were €6.1 million.

Obligations with ABN AMRO Bank N.V.

Included within guarantees and assets pledged as collateral security as at 31 December 2021 is €0.5 billion (2020 - €0.5 billion), which relates to NWM N.V. Group's obligations over liabilities held within the Dutch State acquired businesses included in ABN AMRO Bank N.V..

On the division of an entity by demerger, Dutch law establishes a cross liability between surviving entities in respect of the creditors at the time of the demerger. NWM N.V. Group's cross liability is limited by law to the lower of its equity and the eligible debts of ABN AMRO Bank N.V. on 6 February 2010. The likelihood of cross liability crystallising is considered remote.

Litigation and regulatory matters

NWM N.V. and certain members of NatWest Group are party to legal proceedings and involved in regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the Netherlands, the United Kingdom (UK), the European Union (EU), the United States (US) and other jurisdictions.

NWM N.V. 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.

23 Memorandum items continued

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

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

The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM N.V. Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. Please refer to Note 18 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.

NatWest Group is involved in ongoing litigation and regulatory matters that are not described below but are described on pages 368 to 374 in NatWest Group's Annual Report & Accounts 2021. NatWest Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. While NWM N.V. Group may not be directly involved in such NatWest Group matters, any final adverse outcome of those matters may also have an adverse effect on NWM N.V. Group.

Litigation

Madoff

NWM N.V. is a defendant in two actions filed by the trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US\$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals for the Second Circuit (US Court of Appeals), they will now proceed in the bankruptcy court subject to NWM N.V.'s legal and factual defences.

Australian Bank Bill Swap Reference Rate (BBSW)

In August 2017, a class action complaint was filed in the United States District Court for the Southern District of New York (SDNY) against certain NatWest Group companies (including NWM N.V.) and a number of other financial institutions. The complaint alleges that the defendants conspired to manipulate the BBSW and asserts claims under the U.S. antitrust laws, the Commodity Exchange Act, RICO (Racketeer Influenced and Corrupt Organizations Act), and the common law. The court dismissed all claims against NatWest Group companies for lack of personal jurisdiction in November 2018, but plaintiffs filed an amended complaint. In February 2020, the court declined to dismiss the amended complaint as against NWM Plc and certain other defendants, but reiterated its prior dismissal of all claims asserted against NWM N.V. The claims against non-dismissed defendants (including NWM Plc) are now proceeding in discovery.

FX litigation

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission of 16 May 2019 (relating to NatWest Group plc and NWM Plc) is unlawful, along with unspecified damages. The claimant has indicated that it may seek to amend its claim to also refer to a December 2021 decision by the EC also relating to NatWest Group plc and NWM Plc. A hearing is scheduled for June 2022.

Fondazione Monte dei Paschi di Siena

A claim for €285.9 million was brought by Fondazione Monte dei Paschi di Siena (FMPS) in July 2014 against former directors and 13 syndicate banks, including NWM N.V. and NWM Plc, in connection with an Italian law-governed term facility agreement for €600 million dated 4 June 2011. The claim was based on a non-contractual liability arising from the alleged breach of the by-laws of FMPS which set a 20 per cent limit for its debt to equity ratio (the Ratio). FMPS and the syndicate banks settled the claim between them within provision in December 2021.

Anti-Terrorism Act litigation against NWM N.V.

NWM N.V. and certain other financial institutions are defendants in several actions filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells that committed the attacks, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. The plaintiffs are appealing the decision to the US Court of Appeals. Another action, filed in the SDNY in 2017, was dismissed in March 2019 on similar grounds, but remains subject to appeal to the US Court of Appeals. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

23 Memorandum items continued

Regulatory matters (including investigations)

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

NWM Group companies have been providing information regarding a variety of matters, including, for example, offering of securities, the setting of benchmark rates and related derivatives trading, conduct in the foreign exchange market, product mis-selling and various issues relating to the issuance, underwriting, and sales and trading of fixed income securities, including structured products and government securities, some of which have resulted, and others of which may result, in investigations or proceedings.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by NWM N.V. Group, remediation of systems and controls, public or private censure, restriction of NWM N.V. Group's business activities and/or fines. Any of these events or circumstances could have a material adverse effect on NWM N.V. 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.

24 Analysis of the net investment in business interests

	2021	2020
	€m	€m
Acquisitions and disposals		
Net assets sold	—	16
Net inflow of cash in respect of disposals	—	16
Net inflow	—	16

25 Analysis of changes in financing during the year

	Share capital and AT1		Subordinated liabilities	
	2021	2020	2021	2020
	€m	€m	€m	€m
At 1 January	1,950	1,950	805	792
Redemption of subordinated liabilities			—	(13)
Interest on subordinated liabilities			(80)	(22)
Net cash outflow from financing	—	—	(80)	(35)
Effects of foreign exchange			19	(22)
Changes in fair value of subordinated liabilities			20	48
Interest on subordinated liabilities			38	22
At 31 December	1,950	1,950	802	805

26 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash, loans to banks and treasury bills with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	2021 €m	2020 €m
At 1 January		
- cash	4,452	3,191
- cash equivalents	2,834	2,106
	7,286	5,297
Net (decrease)/increase in cash and cash equivalents	(57)	1,989
At 31 December	7,229	7,286
Comprising:		
Cash and balances at central banks	5,145	4,452
Trading assets	1,265	645
Loans to banks including intragroup balances ⁽¹⁾	819	2,189
Cash and cash equivalents	7,229	7,286

(1) Cash collateral posted with bank counterparties in respect of derivative liabilities is €863 million (2020 - €504 million).

The NWM N.V. Group had mandatory reserve deposits with De Nederlandsche Bank N.V. of €60 million (2020 - €81 million).

27 Remuneration of the Managing Board and Supervisory Board

Remuneration of the Managing Board

The Managing Board during the year comprised the following members:

- (1) H. Bots (till 23 September 2021)
- (2) C. Visscher
- (3) M. Elkenbracht
- (4) A. Slach

Members receive pension benefits through their employment in NatWest Group.

The remuneration of the Managing Board is presented in aggregate in the table below. NatWest Group plc and its subsidiaries adhere to relevant statutory requirements and NatWest Group discloses individual remuneration of NatWest Group executive directors, compliant with the UK PRA Remuneration Code.

	2021 €000	2020 €000
Salaries and short-term benefits	1,564	1,682
Pensions	280	301
Profit sharing and bonus payments	216	236
Total	2,060	2,219

(1) There are no loans from NWM N.V. Group to the Managing Board members.

(2) The vesting of long-term incentive awards in the form of shares in NatWest Group will normally be subject to the satisfaction of financial and non-financial performance conditions. The performance conditions will be set by the NatWest Group Performance and Remuneration Committee for each award. In addition, awards will only vest to the extent the Committee is satisfied that the vesting outcome reflects underlying financial results and if conduct and risk management during the performance period has been effective.

Remuneration of the Supervisory Board

The Supervisory Board during the year comprised the following members:

- (1) R. Begbie
- (2) M. Klessens
- (3) A. van der Pauw
- (4) A. Snel
- (5) D. King (from 1 February 2021)

The Supervisory Board included members employed elsewhere within NatWest Group. The Supervisory Board members from NatWest Group were not remunerated for time spent on matters relating to NWM N.V..

The table below provides information on the remuneration of the Supervisory Board in aggregate.

	2021 €000	2020 €000
Remuneration ⁽¹⁾	145	144

(1) There are no loans from NWM N.V. Group to the Supervisory Board members.

28 Related parties

NWM N.V. Group has a related party relationship with associates, joint ventures, key management and shareholders. The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. NWM N.V. Group enters into a number of banking transactions with related parties in the normal course of business. These transactions include loans, deposits, foreign currency transactions and receiving of services. These transactions are carried out on commercial terms and at market rates. Employees are offered preferential terms for certain banking products. No allowances for loan losses have been recognised in respect of loans to related parties in 2021 and 2020.

Transfer pricing

The NWM N.V. Group is a party to transfer pricing arrangements with its parent entity, NWM Plc. Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is remunerated on the same basis as two independent parties negotiating a contract covering similar activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties.

Since 2019 individual transfer pricing models for each of the main business line interactions with NWM Plc are in place. Each type of transaction relies on a transfer pricing model with an appropriate remuneration, based on cost-plus, (hurdle rate of) return on equity or revenue split. Under the 2021 transfer pricing arrangements, NWM N.V. reported income of €106 million (2020 - €125 million) for the activities it performed for European customers as part of the NWM Plc post Brexit operating model. The at arm's length nature of the transfer pricing arrangements is confirmed by transfer pricing documentation which has been prepared by an external expert.

Judgment and estimation uncertainty - NWM N.V. Group management has concluded it is probable that the Dutch and UK tax authorities will accept the current transfer pricing models. The transfer pricing models are sensitive to parameters used, such as the mark-ups and the return on capital. The tax authorities could have a different interpretation of the OECD Transfer Pricing Guidelines and / or facts and circumstances.

Any adjustments requested by the Dutch and UK tax authorities to the current transfer pricing models may therefore have a material impact on the NWM N.V. Group's non-interest income and hence its taxable profit and unused taxable losses and tax credits. For the cost-plus, NWM N.V. Group has considered a range of mark-ups from benchmarking studies. Applying the lower quartiles of the benchmarks used for the cost-plus calculations and reducing the return on equity percentage by 2%, would decrease the transfer pricing income by €15 million to €91 million. Applying the upper quartiles of the benchmarks used for the cost-plus calculations and increasing the return on equity percentage by 2%, would increase the transfer pricing income by €24 million to €130 million.

Business transfers

For business transfers with NWM Plc and NWB Plc refer to Note 13.

Loan purchases via NWM Plc

In Q4 2021 NWM N.V. started purchasing loans onto the banking book as part of a larger initiative to increase its risk and portfolio diversity. NWM N.V. has identified a list of loans it wishes to purchase which NWM Plc has purchased from market participants on behalf of NWM N.V.. NWM N.V. subsequently purchased the loans at the same price for which NWM Plc had purchased them for and paid a fee to NWM Plc in respect of each loan purchased. As at 31 December 2021, loans of €24 million have moved onto NWM N.V. balance sheet.

Transactions and balances with the UK Government

Transactions conducted directly with the UK Government are limited to normal banking transactions, taxation and other administrative relationships. There may be other significant transactions with entities under the common control of or subject to significant influence by the UK Government. These would include, amongst others, loans, deposits, guarantees, fee based relationships, or equity holdings. Disclosure is made of any significant transactions with these entities.

Transactions with directors or key management

At 31 December 2021 there were no transactions outstanding with directors or key management (for NWM N.V. Group this comprises the members of the Managing and Supervisory Boards). Refer to Note 27 for further details of remuneration of the Managing and Supervisory Boards.

The table below discloses transactions between NWM N.V. and subsidiaries of NatWest Group.

	2021	2020
	€m	€m
Interest receivable	10	11
Interest payable	(8)	(9)
Fees and commissions receivable	112	155
Fees and commissions payable	(12)	(34)
	102	123

29 Post balance sheet events

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

Parent Company financial statements

Basis of preparation

NWM N.V. financial statements are prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. The NWM N.V. Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies applied in NWM N.V. financial statements are the same as those applied in the consolidated financial statements on pages 65 to 68.

Interest in subsidiaries are accounted for using the equity method.

The financial statements are presented in euros, which is the presentation currency of the NWM N.V.. Refer to Accounting policies note 2 to the consolidated financial statements for further information on going concern.

In these parent company financial statements the legal reserves for 31 December 2020 should have included the restricted capital invested in subsidiaries as disclosed in note 12. The effect of this correction has been disclosed in the Company Statement of changes in Equity and in Note 20.

Future accounting developments

International Financial Reporting Standards

A number of IFRSs and amendments to IFRS were in issue at 31 December 2021. NWM N.V. is assessing the effect of adopting these standards and amendments on its financial statements but does not expect the effect to be material.

Company income statement for the year ended 31 December 2021

	Note	2021 €m	2020 €m
Interest receivable		39	52
Interest payable		(50)	(64)
Net interest income	1	(11)	(12)
Income from subsidiaries and associates	12	5	4
Fees and commissions receivable		202	205
Fees and commissions payable		(24)	(47)
Net fees and commissions income	2	178	158
Results from financial transactions	2	8	(2)
Other income	2	(5)	(1)
Total income		175	147
Staff costs	3	(70)	(55)
Other expenses		(61)	(31)
Depreciation and amortisation		(3)	(4)
Operating expenses before impairment releases/(losses)		(134)	(90)
Impairment releases/(losses)	11	13	(42)
Operating expenses including impairment releases/(losses)		(121)	(132)
Operating profit before tax		54	15
Tax credit/(charge)	5	56	(9)
Profit for the year		110	6
Attributable to:			
Ordinary shareholders		96	(8)
AT1 capital securities		14	14

The accompanying notes on pages 103 to 115 form an integral part of these financial statements.

Company balance sheet as at 31 December 2021 (before appropriation of result)

	Note	2021 €m	2020 €m
Assets			
Cash and balances at central banks	8	5,145	4,452
Short term government paper		301	148
Loans to banks (1), (2)	4,8,11	2,303	3,378
Loans to customers (3), (4)	4,8,11	3,655	4,752
Derivatives (5)	7	7,767	6,934
Debt securities	6	418	493
Equity securities		3	3
Investment in subsidiaries	12	440	439
Property and equipment	15	8	13
Other assets (6)	14	852	1,218
Total assets		20,892	21,830
Liabilities			
Bank deposits (7)	8	3,645	4,173
Customer deposits (8)	8	3,288	2,737
Derivatives (9)	7	8,854	9,309
Debt securities in issue	6	1,320	1,314
Other liabilities (10)	18	730	1,285
Provisions	18	6	34
Subordinated liabilities (11)	17	802	805
Total liabilities		18,645	19,657
Equity			
Share capital and share premium account		1,700	1,700
Revaluation reserves		—	7
Legal reserves		384	380
Other reserves		(197)	(170)
AT1 capital securities		250	250
Unappropriated results		110	6
Total equity	20	2,247	2,173

Comparatives have been re-presented to aid comparability.

- (1) Loans to banks includes amounts due from holding company and fellow subsidiaries of €841 million (2020 - €2,566 million).
- (2) Loans to banks includes amounts held for trading of €2,093 million (2020 - €2,899 million). Of this €1,081 million reverse repos (2020 - €1,796 million). Collateral given €863 million (2020 - €504 million). Other loans €149 million (2020 - €599 million).
- (3) Loans to customers includes amounts due from holding company and fellow subsidiaries of €152 million (2020 - €124 million).
- (4) Loans to customers includes amounts held for trading of €2,843 million (2020 - €3,681 million). Of this €481 million reverse repos (2020 - €768 million). Collateral given €2,301 million (2020 - €2,913 million). Other loans €61 million (2020 - nil).
- (5) Derivative assets include amounts due from holding company and fellow subsidiaries of €2,592 million (2020 - €2,968 million).
- (6) Other assets includes amounts due from holding company and fellow subsidiaries of €396 million (2020 - €849 million).
- (7) Bank deposits includes amounts due to holding company and fellow subsidiaries of €3,109 million (2020 - €3,336 million).
- (8) Customer deposits includes amounts due to holding company and fellow subsidiaries of €297 million (2020 - nil).
- (9) Derivative liabilities include amounts due to holding company and fellow subsidiaries of €2,141 million (2020 - €2,230 million).
- (10) Other liabilities includes amounts due to holding company and fellow subsidiaries of €487 million (2020 - €157million).
- (11) Subordinated liabilities includes amounts due to holding company and fellow subsidiaries of €150 million (2020 - €150 million).
- (12) As at 31 December 2021 contingent liabilities and commitments were €6,444 million (2020 - €7,005 million).

The accompanying notes on pages 103 to 115 form an integral part of these financial statements.

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

	2021 €m	2020 €m
Share capital and share premium account - at 1 January and 31 December ⁽¹⁾	1,700	1,700
Revaluation reserves		
At 1 January	7	4
Changes in equity securities and debt securities at fair value through other comprehensive income	(7)	3
At 31 December	—	7
Legal reserves		
At 1 January	380	22
Correction for restricted capital in subsidiaries	—	361
Changes in foreign exchange reserve	4	(3)
At 31 December	384	380
Other reserves		
At 1 January	(170)	(402)
Correction for restricted capital in subsidiaries	—	(361)
Transfer from unappropriated results	6	634
AT1 capital securities dividends paid	(14)	(14)
Changes in fair value of credit in financial liabilities designated at fair value	(23)	(27)
Other movements	4	—
At 31 December	(197)	(170)
AT1 capital securities - at 1 January and 31 December	250	250
Unappropriated results		
At 1 January	6	634
Transfer to other reserves	(6)	(634)
Net result for the year	110	6
At 31 December	110	6
Total equity	2,247	2,173

(1) Includes Ordinary share capital of €50,000 (2020 - €50,000) – refer to Note 20 for further details.

1 Net interest income

	2021 €m	2020 €m
Loans to customers	28	40
Loans to banks	1	1
Amounts due from holding companies and fellow subsidiaries	10	11
Interest receivable	39	52
Balances with banks	21	—
Customer deposits	1	22
Amounts due to holding companies and fellow subsidiaries	8	10
Subordinated liabilities	16	31
Other financial liabilities	3	—
Internal funding of trading businesses	1	1
Interest payable	50	64
	(11)	(12)

2 Non-interest income

	2021 €m	2020 €m
Fees and commissions receivable	202	205
Fees and commissions payable	(24)	(47)
Net fees and commissions (1)	178	158
Results from financial transactions (2)	8	(2)
Other operating income	(5)	(1)

(1) Fees and commissions is mainly driven by transfer pricing income from NWM Plc of €106 million (2020 - €125 million).

(2) Results from financial transactions in 2021 and 2020 relate to income from trading activities.

3 Operating expenses

	2021 €m	2020 €m
Wages and salaries	59	46
Social security costs	7	5
Pension costs	4	4
- defined benefit schemes	—	3
- defined contribution schemes	4	1
Staff costs	70	55

There were 200 persons employed (full time equivalent rounded to the nearest hundred) at 31 December 2021 (2020 – 200). The average number of persons employed during the year was 200 (2020 – 200).

This includes 107 persons which were employed in the Netherlands at 31 December 2021 (2020 – 94). The average number of persons employed in the Netherlands during the year was 100 (2020 - 100).

Refer to Note 5 to the consolidated financial statements for details on auditor's remuneration.

4 Segmental analysis

The geographical analyses in the tables below have been compiled on the basis of location of the counterparty.

	Rest of				Total
	United Kingdom	Netherlands	Europe	RoW	
2021	€m	€m	€m	€m	€m
Loans - amortised cost and FVOCI	—	64	686	84	834
2020					
Loans - amortised cost and FVOCI	10	78	895	249	1,232

Refer to Note 4 to the consolidated financial statements for further details on segments.

5 Tax

Refer to Note 6 to the consolidated financial statements for further details.

6 Debt securities

Debt securities - assets

	Debt securities				Total €m
	Central and local government		Financial institutions	Other	
	UK €m	US €m	€m	debt €m	
2021					
Mandatory fair value through profit or loss	—	—	—	—	—
Fair value through other comprehensive income	120	176	—	—	296
Amortised cost	—	—	—	122	122
Total	120	176	—	122	418
2020					
Mandatory fair value through profit or loss	52	—	—	—	52
Fair value through other comprehensive income	116	81	200	—	397
Amortised cost	—	—	—	44	44
Total	168	81	200	44	493

Debt securities in issue - liabilities

Debt securities in issue in both periods represent unlisted instruments. Refer to Note 16 to the consolidated financial statements for further details.

7 Derivatives

The following table shows the notional amounts and fair values of NWM N.V.'s derivatives.

	2021			2020		
	Notional €bn	Assets €m	Liabilities €m	Notional €bn	Assets €m	Liabilities €m
Exchange rate contracts	307	4,494	4,488	273	4,428	4,438
Interest rate contracts	1,904	3,273	4,356	2,320	2,506	4,865
Credit derivatives	1	—	10	—	—	6
		7,767	8,854		6,934	9,309

8 Financial instruments – classification

The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments on an IFRS 9 basis.

	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks			5,145		5,145
Short term government paper		301			301
Loans to banks (1)	2,093	—	210		2,303
Loans to customers (1)	2,843	—	812		3,655
Derivatives	7,767				7,767
Debt securities	—	296	122		418
Equity securities	3	—			3
Investment in subsidiaries				440	440
Property and equipment				8	8
Other assets			783	69	852
31 December 2021	12,706	597	7,072	517	20,892
Cash and balances at central banks			4,452		4,452
Short term government paper		148			148
Loans to banks (1)	2,899	—	479		3,378
Loans to customers (1)	3,681	—	1,071		4,752
Derivatives	6,934				6,934
Debt securities	52	397	44		493
Equity securities	3	—			3
Investment in subsidiaries				439	439
Property and equipment				13	13
Other assets			1,207	11	1,218
31 December 2020	13,569	545	7,253	463	21,830

Comparatives have been re-presented to aid comparability.

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

8 Financial instruments – classification continued

	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits (2)	2,606	—	1,039		3,645
Customer deposits (2)	1,524	584	1,180		3,288
Derivatives	8,854				8,854
Debt securities in issue	—	—	1,320		1,320
Other liabilities (3)	21		649	60	730
Provisions				6	6
Subordinated liabilities		395	407		802
31 December 2021	13,005	979	4,595	66	18,645
Bank deposits (2)	3,033	—	1,140		4,173
Customer deposits (2)	593	886	1,258		2,737
Derivatives	9,309				9,309
Debt securities in issue	—	—	1,314		1,314
Other liabilities (3)	134		1,114	37	1,285
Provisions				34	34
Subordinated liabilities		414	391		805
31 December 2020	13,069	1,300	5,217	71	19,657

Comparatives have been re-presented to aid comparability.

(1) Includes third party reverse repos of €465 million (2020 - €1,796 million) in loans to banks, and €481 million (2020 - €768 million) in loans to customers.

(2) Includes third party repos of €73 million (2020 - €1,025 million) in bank deposits, and €513 million (2020 - €188 million) in customer deposits.

(3) Includes lease liabilities of €7 million (2020 - €12 million) held at amortised cost.

Financial instruments – financial assets and liabilities that can be offset

The tables below present information on the NWM N.V.'s financial assets and liabilities that are offset in the balance sheet under IFRS or subject to enforceable master netting agreement together with financial collateral received or given.

	Instruments which can be offset			Potential for offset not recognised by IFRS			Net amount after the effect of netting arrangement and related collateral €m	Instruments outside netting agreements €m	Balance sheet total €m
	Gross €m	IFRS offset €m	Balance sheet €m	Effect of master netting and similar agreements €m	Cash collateral €m	Other financial collateral €m			
2021									
Derivative assets	14,524	(6,844)	7,680	(4,888)	(1,827)	(534)	431	87	7,767
Derivative liabilities	13,916	(5,190)	8,726	(4,888)	(3,105)	(365)	368	128	8,854
Net position (1)	608	(1,654)	(1,046)	—	1,278	(169)	63	(41)	(1,087)
Trading reverse repos (2)	686	(82)	604	(73)	—	(531)	—	342	946
Trading repos (2)	668	(82)	586	(73)	—	(513)	—	—	586
Net position	18	—	18	—	—	(18)	—	342	360
2020									
Derivative assets	13,753	(6,886)	6,867	(4,735)	(1,721)	(56)	355	67	6,934
Derivative liabilities	13,449	(4,231)	9,218	(4,735)	(3,230)	(942)	311	91	9,309
Net position	304	(2,655)	(2,351)	—	1,509	886	44	(24)	(2,375)
Trading reverse repos (2)	662	(56)	606	—	—	(606)	—	302	908
Trading repos (2)	362	(56)	306	—	—	(306)	—	—	306
Net position	300	—	300	—	—	(300)	—	302	602

(1) The net IFRS offset balance of €1,654 million (2020 – €2,655 million) relates to variation margin netting reflected on other balance sheet lines.

(2) Excludes balances with holding company and fellow group subsidiaries.

9 Financial instruments – valuation

For further information relating to the following tables, refer to Note 8 to the consolidated financial statements.

Valuation hierarchy

The following table shows the financial instruments carried at fair value on the balance sheet by valuation hierarchy.

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Assets								
Short term government paper	50	251	—	301	100	48	—	148
Loans to banks	—	2,093	—	2,093	—	2,899	—	2,899
Loans to customers	—	2,784	59	2,843	—	3,681	—	3,681
Derivatives	—	7,655	112	7,767	—	6,804	130	6,934
Debt securities	296	—	—	296	249	200	—	449
Equity securities	—	—	3	3	—	—	3	3
Total financial assets held at fair value	346	12,783	174	13,303	349	13,632	133	14,114
Liabilities								
Bank deposits	—	2,606	—	2,606	—	3,033	—	3,033
Customer deposits	—	2,108	—	2,108	—	1,479	—	1,479
Derivatives	—	8,794	60	8,854	—	9,250	59	9,309
Other liabilities	—	21	—	21	—	134	—	134
Subordinated liabilities	—	395	—	395	—	414	—	414
Total financial liabilities held at fair value	—	13,924	60	13,984	—	14,310	59	14,369

Comparatives have been re-presented to aid comparability.

- (1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.
- (2) The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty's obligations are liquid or illiquid.

For further information on the level 3 movements and sensitivities, refer to Note 8 to the consolidated financial statements.

9 Financial instruments - fair value of financial instruments not carried at fair value

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

	Items where fair value approximate carrying value €m	Carrying value €m	Fair value €m	Fair value hierarchy level	
				Level 2 €m	Level 3 €m
2021					
Financial assets					
Cash and balances at central banks	5,145				
Loans to banks	18	192	192	62	130
Loans to customers		812	808	—	808
Debt securities		122	122	—	122
Other assets - settlement balances	783				
Financial liabilities					
Bank deposits	31	1,008	1,008	—	1,008
Customer deposits	4	1,176	1,176	—	1,176
Debt securities in issue		1,320	1,320	813	507
Other liabilities - settlement balances	642				
Subordinated liabilities		407	538	536	2
2020					
Financial assets					
Cash and balances at central banks	4,452				
Loans to banks	2	477	477	58	419
Loans to customers		1,071	1,053	—	1,053
Debt securities		44	44	—	44
Other assets - settlement balances	1,207				
Financial liabilities					
Bank deposits	28	1,112	1,112	—	1,112
Customer deposits	2	1,256	1,256	—	1,256
Debt securities in issue		1,314	1,314	949	365
Other liabilities - settlement balances	1,114				
Subordinated liabilities		391	501	501	—

Comparatives have been re-presented to aid comparability.

10 Financial instruments - maturity analysis

Remaining maturity

The following table shows the NWM N.V.'s residual maturity of financial instruments, based on contractual date of maturity.

	2021								
	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years not relevant €m	Maturity not relevant €m
Assets									
Cash and balances at central banks	5,145	—	—	—	—	—	—	—	—
Short term government paper	—	—	—	50	251	—	—	—	—
Loans to banks	1,073	1,050	30	—	—	—	—	150	—
Loans to customers	2,284	417	138	—	—	358	318	140	—
Derivatives	—	949	1,102	664	415	673	731	3,233	—
Debt securities	—	211	—	—	207	—	—	—	—
Equity securities	—	—	—	—	—	—	—	—	3
Other assets (1)	—	783	—	—	—	—	—	—	—
Liabilities									
Bank deposits	493	1,460	88	30	—	27	954	593	—
Customer deposits	1,313	714	314	657	235	30	16	9	—
Derivatives	—	883	1,038	639	456	497	979	4,362	—
Debt securities in issue	—	205	302	179	634	—	—	—	—
Other liabilities (2)	—	642	—	—	1	3	2	22	—
Subordinated liabilities	—	—	—	—	—	123	150	529	—
2020									
	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years not relevant €m	Maturity not relevant €m
Assets									
Cash and balances at central banks	4,452	—	—	—	—	—	—	—	—
Short term government paper	—	—	—	148	—	—	—	—	—
Loans to banks - amortised cost	728	1,211	4	680	9	229	61	456	—
Loans to customers - amortised cost	2,838	342	500	13	25	136	767	131	—
Derivatives	—	1,154	1,128	641	447	396	763	2,405	—
Debt securities	—	—	—	—	397	—	—	96	—
Equity securities	—	—	—	—	—	—	—	—	3
Other assets (1)	—	1,207	—	—	—	—	—	—	—
Liabilities									
Bank deposits	703	1,331	528	50	12	434	921	194	—
Customer deposits	407	539	500	1,017	40	225	—	9	—
Derivatives	—	1,147	1,148	634	423	310	620	5,027	—
Debt securities in issue	—	156	210	322	626	—	—	—	—
Other liabilities (2)	—	1,100	—	1	1	2	4	4	134
Subordinated liabilities	—	—	—	—	—	—	267	538	—

Comparatives have been re-presented to aid comparability.

(1) Includes settlement balances of €783 million (2020 - €1,207 million).

(2) Includes settlement balances of €642 million (2020 - €1,100 million), short positions of €21 million (2020 - €134 million) and lease liabilities of €7 million (2020 - €12 million).

10 Financial instruments - maturity analysis continued

Assets and liabilities by contractual cash flow maturity

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by NWM N.V.. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM N.V. depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

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

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

MFVTPL assets of €12.7 billion (2020 - €13.6 billion) and HFT liabilities of €13 billion (2020 - €13.1 billion) have been excluded from the following tables.

2021	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	5,145	—	—	—	—	—
Short dated government papers	—	301	—	—	—	—
Loans to banks	195	14	1	—	—	—
Loans to customers	22	8	419	246	5	—
Debt securities	96	209	4	26	7	13
Other assets	783	—	—	—	—	—
	6,241	532	424	272	12	13
2021						
Liabilities by contractual maturity						
Bank deposits	28	30	287	694	—	—
Customer deposits	819	891	30	16	—	19
Debt securities in issue	507	813	—	—	—	—
Other liabilities	642	1	4	4	—	—
Subordinated liabilities	—	—	286	—	—	395
	1,996	1,735	607	714	—	414
Guarantees and commitments notional amount						
Guarantees (1)	486	—	—	—	—	—
Commitments (2)	5,822	—	—	—	—	—
	6,308	—	—	—	—	—

For notes to this table refer to the following page.

10 Financial instruments - maturity analysis continued

2020	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	4,452	—	—	—	—	—
Short dated government papers	—	148	—	—	—	—
Loans to banks	479	—	—	—	—	—
Loans to customers	4	54	501	434	7	—
Debt securities	—	396	—	—	45	—
Other assets	1,207	—	—	—	—	—
	6,142	598	501	434	52	—
2020						
Liabilities by contractual maturity						
Bank deposits	136	66	327	611	—	—
Customer deposits	851	1,058	226	—	—	20
Debt securities in issue	365	949	—	—	—	—
Other liabilities	1,101	2	4	2	2	—
Subordinated liabilities	—	—	137	150	—	—
	2,453	2,075	694	763	2	20
Guarantees and commitments notional amount						
Guarantees (1)	493	—	—	—	—	—
Commitments (2)	6,415	—	—	—	—	—
	6,908	—	—	—	—	—

Comparatives have been re-presented to aid comparability.

- (1) The NWM N.V. is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM N.V. expects most guarantees it provides to expire unused. For further information, refer to Note 23 to the consolidated financial statements.
- (2) The NWM N.V. has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The NWM N.V. does not expect all facilities to be drawn, and some may lapse before drawdown.

11 Loan impairment provisions

	31 December 2021										
	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions				
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	
Wholesale	730	48	39	817	5,852	475	—	1	39	40	
Property	23	—	—	23	285	—	—	—	—	—	
Financial institutions	193	1	—	194	927	474	—	—	—	—	
Corporate	514	47	39	600	4,640	1	—	1	39	40	
<i>Of which:</i>											
<i>Airlines and aerospace</i>	—	—	—	—	33	—	—	—	—	—	
<i>Automotive</i>	—	—	—	—	647	—	—	—	—	—	
<i>Health</i>	5	—	—	5	178	—	—	—	—	—	
<i>Land transport and logistics</i>	87	—	—	87	273	—	—	—	—	—	
<i>Leisure</i>	—	4	—	4	174	—	—	—	—	—	
<i>Oil and gas</i>	300	—	—	300	—	—	—	—	—	—	
<i>Retail</i>	—	—	—	—	332	—	—	—	—	—	
Total	730	48	39	817	5,852	475	—	1	39	40	

11 Loan impairment provisions continued

	31 December 2020									
	Loans - amortised cost				Off-balance sheet		ECL provisions			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Wholesale	819	341	72	1,232	6,511	494	1	41	69	111
Property	—	32	—	32	341	—	—	—	—	—
Financial institutions	305	179	—	484	587	474	—	38	—	38
Corporate	514	130	72	716	5,583	20	1	3	69	73
<i>Of which:</i>										
<i>Airlines and aerospace</i>	—	25	—	25	200	—	—	1	—	1
<i>Automotive</i>	—	—	—	—	716	—	—	—	—	—
<i>Land transport and logistics</i>	95	—	1	96	502	—	—	—	—	—
<i>Leisure</i>	—	56	—	56	129	—	—	1	—	1
<i>Oil and gas</i>	12	—	37	49	328	—	—	—	35	35
<i>Retail</i>	—	—	—	—	380	—	—	—	—	—
<i>Shipping</i>	—	—	—	—	—	1	—	—	—	—
Total	819	341	72	1,232	6,511	494	1	41	69	111

Refer to Note 12 to the consolidated financial statements for further details.

12 Investment in Group undertakings

The parent company's subsidiary undertakings, participating interests and branches at 31 December 2021 are shown below:

Group interest 100%	Notes	Group interest <100%	Notes
AA Merchant Services B.V.	<i>i, (2)</i>	Eris Finance S.R.L.	<i>ii, (5)</i>
Alcover A.G.	<i>i, (1)</i>	German Public Sector Finance B.V.	<i>iii, (6)</i>
Alternative Investment Fund B.V.	<i>i, (2)</i>	Maja Finance S.R.L.	<i>iv, (5)</i>
KEB Investors, L.P.	<i>i, (3)</i>		
RBS Hollandsche N.V.	<i>i, (2)</i>	Actively being dissolved or liquidated	Note
RBS Investments (Ireland) Ltd	<i>i, (4)</i>	RBS Asia Holdings B.V.	<i>i, (2)</i>
RBS Nominees (Ireland) Ltd	<i>i, (4)</i>		
RBS Nominees (Netherlands) B.V.	<i>i, (2)</i>		

Branches geographic location

France, Germany, Italy, Republic of Ireland, Spain, Sweden, United Kingdom

Key:

- i* Group interest of 100%
- ii* Group interest of 45%
- iii* Group interest of 50%
- iv* Group interest of 97.87%

Registered addresses

	Registered addresses	Country of incorporation
(1)	Tirolerweg 8, Zug, CH-6300	Switzerland
(2)	Claude Debussylaan 94, 1082 MD, Amsterdam	Netherlands
(3)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(4)	Ulster Bank Head Office, Bock B Central Park, Leopardstown, Dublin 18, D18 N153	Republic of Ireland
(5)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy
(6)	De entree 99 -197, 1101 HE Amsterdam Zuidoost	Netherlands

All subsidiaries and participating interests operate principally in their country of incorporation.

The list of participating interests for which statements of liability have been issued, has been filed with the Chamber of Commerce in Amsterdam.

Some of NWM N.V.'s subsidiaries and participating investments are regulated entities and therefore their ability to transfer funds to NWM N.V. is subject to regulatory approvals.

12 Investment in Group undertakings continued

Changes in investments in subsidiaries

	2021 €m	2020 €m
At 1 January	439	441
Income from subsidiaries	5	4
Capital repatriation/dividends received	(2)	(9)
Other changes	(2)	3
At 31 December	440	439

13 Financial assets – other

Credit risk impairments - refer to Note 12 to the consolidated financial statements and the Risk and capital management - Credit risk section for further details.

Non-traded market risk - refer to the Risk and capital management - Non-traded market risk section for details on structural foreign exchange exposure.

14 Other assets

	2021 €m	2020 €m
Settlement balances	783	1,207
Prepaid expenses	1	1
Accrued income	2	2
Deferred tax	57	—
Other	9	8
	852	1,218

Comparatives have been re-presented to aid comparability.

15 Property and equipment

	2021		
	Right-of-use €m	Computer equipment €m	Total €m
Cost or valuation			
At 1 January 2021	15	4	19
Disposals	(3)	—	(3)
At 31 December 2021	12	4	16
Accumulated impairment, depreciation and amortisation			
At 1 January 2021	4	2	6
Disposals	(1)	—	(1)
Charge for the year	2	1	3
At 31 December 2021	5	3	8
Net book value at 31 December	7	1	8
Cost or valuation			
At 1 January 2020	12	4	16
Additions	3	—	3
At 31 December 2020	15	4	19
Accumulated impairment, depreciation and amortisation			
At 1 January 2020	1	1	2
Charge for the year	3	1	4
At 31 December 2020	4	2	6
Net book value at 31 December	11	2	13

16 Contingent liabilities and commitments and contractual obligations for future expenditure not provided in the accounts

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2021. Although the NWM N.V. 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 the NWM N.V.'s expectation of future losses. In relation to contingent liabilities and commitments and contractual obligations for future expenditure, refer to Note 23 to the consolidated financial statements for further details.

	Less than 5 years €m	Over 5 years €m	2021 €m	2020 €m
Contingent liabilities and commitments				
Guarantees and assets pledged as collateral security	1	486	487	493
Standby facilities, credit lines and other commitments	5,860	97	5,957	6,512
	5,861	583	6,444	7,005

17 Subordinated liabilities

Refer to Note 17 to the consolidated financial statements for further details.

18 Other liabilities and provisions

	2021 €m	2020 €m
Short positions in securities	21	134
Settlement balances	642	1,114
Accruals	10	13
Deferred Income	8	11
Other liabilities	49	13
	730	1,285
	2021 €m	2020 €m
Provisions for liabilities and charges		
Litigation and other regulatory	—	2
Taxation	2	26
Other	4	6
	6	34

Comparatives have been re-presented to aid comparability.

Arising out of its normal business operations, the NWM N.V. is party to legal proceedings in the Netherlands, United Kingdom, the United States of America and other jurisdictions. Litigation provisions at 31 December 2021 related to numerous proceedings; no individual provision is material. Detailed descriptions of the NWM N.V.'s legal proceedings and discussion of the associated uncertainties are given in Note 23 to the consolidated financial statements.

19 Asset transfers

Refer to Note 21 to the consolidated financial statements for further details.

20 Equity

Share capital

NWM N.V.'s share capital at 31 December 2021 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Share premium account

The Share premium account amounts to €1.7 billion (2020 - €1.7 billion).

Revaluation reserves

Revaluation reserves are nil. 2020 Revaluation reserves consisted of €3 million equity securities at fair value through other comprehensive income and €4 million debt securities at fair value through other comprehensive income.

Legal reserves

The Legal reserves consist of €361 million non-distributable profit participations (2020 - €361 million), €10 million non-distributable reserve shares (2020 - €10 million) and €13 million foreign exchange reserve (2020 - €9 million).

AT1 Capital securities

In June 2019 NWM N.V. issued capital securities of €250 million which qualify as Additional Tier 1 capital as described in CRD IV and CRR. These securities are perpetual. They can be called on after five years and have a coupon of 3 month Euribor plus 6.10%, payable on a quarterly basis.

Dividends

No ordinary dividends were paid in 2021 (2020 - nil).

21 Profit appropriation

Profit is appropriated in accordance with article 37 of the Articles of Association. The main stipulations with respect to shares currently in issue are as follows:

The Managing Board may decide to make appropriations to reserves, subject to the approval of the Supervisory Board (article 37.2.a.). The allocation of the amount remaining after these appropriations shall be determined by the General Meeting of Shareholders. The Managing Board, subject to the approval of the Supervisory Board, shall make a proposal to that effect. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders (article 37.2.a.).

NWM N.V.'s policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Managing Board. The adoption of and each subsequent amendment to the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item (article 37.2.b.).

Subject to approval of the Supervisory Board, the Managing Board may make the dividend or interim dividend on the shares payable, at the discretion of the holders, either in cash or, provided it is authorised to issue shares, partly or wholly in shares in the Company's capital or in a combination thereof, such combination to be determined by the Managing Board (article 37.3.).

Subject to the approval of the Supervisory Board, the Managing Board shall be authorised, in so far as such is permitted by the profit as evidenced by an interim balance sheet drawn up with due observance of the provisions of Section 105, Subsection 4 of Book 2 of the Netherlands Civil Code, to make payable an interim dividend on the shares once or more frequently in the course of any financial year and prior to the approval of the Annual Accounts by the General Meeting of Shareholders (article 37.4.).

Subject to the approval of the Supervisory Board, the Managing Board may decide on a distribution charged against reserves in cash or, if the Board is authorised to issue shares, in the form of shares (article 37.5.).

Proposed profit appropriation

Appropriation of net profit pursuant to articles 37.2 and 37.3 of the Articles of Association:

	2021 €m	2020 €m
Addition to reserves	110	6

22 Incorporation and registration

NWM N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Claude Debussylaan 94, 1082 MD Amsterdam, the Netherlands and is entered in the Trade Register of the Amsterdam Chamber of Commerce under no. 33002587.

23 Remuneration of the Managing Board and Supervisory Board

Refer to Note 27 to the consolidated financial statements for further details.

24 Related parties

Refer to Note 28 to the consolidated financial statements for further details.

25 Post balance sheet events

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

The publication of these accounts was approved by the Supervisory Board on 17 February 2022. The financial statements will be presented for adoption at the forthcoming General Meeting. With regard to the adoption of the financial statements of NWM N.V., the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of votes validly cast by the General Members' Council.'

Amsterdam, 17 February 2022

Supervisory Board

Robert Begbie
Maarten Klessens
Annelies van der Pauw
Anne Snel
David King

Managing Board

Cornelis Visscher
Angelique Slach
Marije Elkenbracht

Other information

Articles of Association

The description set out below is a summary of the material information relating to the Company's share capital, including summaries of certain provisions of the Articles of Association and applicable Dutch law in effect at the relevant date. The Articles of Association of NWM N.V. were last amended by a notarial deed executed by Mr B.J. Kuck, civil law notary in Amsterdam on 30 April 2018, under register entry number 33002587.

As stated in the Articles of Association the object of the Company is:

- The participation in, collaboration with and financing, administration and management of other enterprises and companies and the performance of all acts, activities and services which are related or may be conducive thereto.
- The engagement in banking and stockbroking activities, the management of third party assets, acting as trustee, administrator, executor of wills and executive director, non-executive director or liquidator of companies or other organisations, the provision of insurances and the performance of all other acts and activities which are related or may be conducive thereto, all in the broadest possible sense.
- The fostering of the direct and indirect interests of all those who are involved in any way in the Company and the safeguarding of the continuity of the Company and its affiliated enterprise(s).

Shares and voting rights

The company's share capital at 31 December 2021 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. The Company's authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50, and 8,500 preference shares, each with a nominal value of €4.50.

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of the company or of a group company (art.9).

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts will be distributed to the shareholders of ordinary shares on a pro-rata basis (art 39.3).

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association or dissolve NWM N.V. may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board. A copy of the proposal containing the literal text of the proposed amendments shall be made available for inspection by the holders of shares of NWM N.V. at the offices of NWM N.V. and at the offices stated in the convocation to the meeting, from the day of convocation to the end of the Meeting. Each Shareholder may obtain a full copy of the proposal free of charge.

Meetings of shareholders and convocation

General meetings of shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General meetings of shareholders shall be held as frequently as deemed necessary by the Managing Board or the Supervisory Board and when required by law or by the Articles of Association. General meetings of shareholders shall be convened by the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices.

Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Code of conduct

The code of conduct applies to everyone who works for the NWM N.V. Group.

It promotes honest and ethical conduct, including the handling of actual or apparent conflicts of interest between personal and professional relationships. The NWM N.V. Group recognises that personal conduct, business integrity and the NWM N.V. Group's security are crucial, and the code of conduct serves to inform those who work for us of the NWM N.V. Group's expectations of their behaviour and practices.

The code of conduct is available on the NatWest Group's website, [natwestgroup.com](https://www.natwestgroup.com), and will be provided to any person without charge, upon request, by contacting Company Secretariat on the telephone number listed below.

Important addresses

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Independent auditor's report

To: the shareholder and supervisory board of NatWest Markets N.V.

Report on the audit of the financial statements 2021 included in the Annual Report and Accounts

Our opinion

We have audited the financial statements 2021 of NatWest Markets N.V. (NWM N.V., the Company or the group) based in Amsterdam. The financial statements comprise the consolidated and parent company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2021 and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- the accompanying parent company financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2021 and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2021
- the following statements for the year ended 31 December 2021: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity and the consolidated cash flow statement
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The parent company financial statements comprise:

- the company balance sheet as at 31 December 2021
- the company income statement for the year ended 31 December 2021
- the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the *Our responsibilities for the audit of the financial statements* section of our report.

We are independent of NWM N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta, Audit firms supervision act), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA, Dutch Code of Ethics).

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

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

NWM N.V. is a licensed bank which operates as an investment banking firm serving corporates and financial institutions in the European Economic Area ('EEA'). The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€22 million (2020: €22 million)
Benchmark applied	1% of total equity (2020: 1%)
Explanation	Based on our professional judgment, a benchmark of 1% of total equity is an appropriate quantitative indicator of materiality and it best reflects the focus of users of the financial statements on the financial position of the company, while earnings are highly volatile following the start of new business transferred from NWM Plc in 2019 and changes in the strategic business plan of NWM N.V. in 2021.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €1.1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds..

Scope of the group audit

NWM N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements. The banking activities of NWM N.V. are structured in geographical segments: the Netherlands, United Kingdom, other parts of the European Union and the rest of the world. NWM N.V. has one subsidiary in Switzerland that has insurance services which is in run-off.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit had to be carried out on the complete set of financial information or specific items.

We assigned a full scope to the banking activities in the geographical segments mentioned above which are managed centrally and audited by the group audit team. The component in Switzerland, focusing on insurance services, is audited by our Swiss EY member firm. We assigned a specific scope to the component in Switzerland. We sent detailed instructions covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team.

Our audit scope resulted in a nearly full coverage of total equity and total assets.

By performing the procedures mentioned above at components of the group, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics, treasury, income tax, transfer pricing and have made use of our own experts in the areas of valuations of derivatives, expected credit losses and insurance liabilities.

Our focus on climate risks and the energy transition

Climate change and energy transition are emerging topics and lead to significant change for many businesses and society. The banking industry has to respond to these changes and related risks for the business model and valuation of assets. The section "Climate-related disclosures" of the annual report includes disclosures about governance, strategy, risk management and metrics and targets relating to climate change directly and indirectly impacting NWM N.V.'s business.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are materially impacting judgments, estimates and significant assumptions applied by NWM N.V. Furthermore, we read the other information included in the annual report and accounts and considered whether there is any material inconsistency between the non-financial information in the section "Climate-related disclosures" of the annual report and the financial statements. Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgments, estimates or significant assumptions per 31 December 2021. Therefore this did not require significant auditor's attention during our audit.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the company and its environment and the components of the system of internal control, including the risk assessment process and the managing board process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes..

We refer to section "Risk factors" of the annual report and accounts 2021 for the Managing Board's (fraud) risk assessment. We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls and when identifying and assessing fraud risks we presumed that there are risks of fraud in revenue recognition. For the risks related to management override of controls we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgement areas and significant accounting estimates as disclosed in Note "Accounting Policies – Critical accounting policies and key sources of estimation uncertainty" to the financial statements. We have also used data analysis to identify and address high-risk journal entries. These risks did however not require significant auditor's attention in addition to the following fraud risks identified during our audit:

Risk of management override in regard to transfer pricing arrangements, uncertain tax positions and deferred tax asset recognition

Fraud risk and our audit approach	In identifying and assessing fraud risks, we considered the risks of management bias that may represent a risk of material misstatement due to fraud and the presumed risk of fraud in revenue recognition in connection with deferred tax asset recognition and transfer pricing arrangements. We refer to key audit matter "Transfer pricing arrangements, uncertain tax positions and deferred tax asset recognition" that describes this fraud risk and our audit approach..
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Risk of management bias in regard to the valuation of financial instruments with higher risk characteristics including related income from trading activities

Fraud risk and our audit approach	In identifying and assessing fraud risks, we considered the risks of management bias that may represent a risk of material misstatement due to fraud in connection with valuation of financial instruments with higher risk characteristics which requires significant judgement. We refer to key audit matter " Valuation of financial instruments with higher risk characteristics including related income from trading activities" that describes this fraud risk and our audit approach.
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We considered available information and made enquiries of relevant executives, directors including internal audit, legal, compliance, human resources and business heads and the supervisory board.

The fraud risks we identified, enquires and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board specifically about the procedures management performs to be compliant with the banking regulation, reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures. We make a reference to the disclosure in Note "23 Memorandum Items", "Financial crime risk", "Compliance & conduct risk", "Model risk" sections of chapter "Capital and Risk Management" of 2021 annual report and accounts.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. In case of potential non-compliance with laws and regulations that may have a material effect on the financial statements, we assessed whether NWM N.V. has an adequate process in place to evaluate the impact of non-compliance for its activities and financial reporting and, where relevant, whether NWM N.V. implemented remediation plans. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us. We refer to the key audit matter "Identified shortcomings in the areas of financial crime, data management, internal models and outsourcing arrangements" below.

Our audit response related to going concern

The Managing Board made a specific assessment of NWM N.V.'s ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the specific assessment with the management exercising professional judgment and maintaining professional skepticism.

We consider whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify serious doubts on the NWM N.V.'s ability to continue as a going concern for the next 12 months. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

Given that several remediation programmes are in progress to address shortcomings on internal controls and governance a new key audit matter "Identified shortcomings in the areas of financial crime, data management, internal models and outsourcing arrangements" has been defined.

Risk	Our response to the risk
<p>Transfer pricing arrangements, uncertain tax positions and deferred tax asset recognition</p> <p>As part of the commencement of new business in the first half of 2019, NWM N.V. designed a new transfer pricing framework, including a set of profit allocation models for its activities based on cost plus, return on equity and revenue split. The application of local regulations on income tax is complex and requires compliance of the transfer pricing agreements related to intergroup transactions and services. The adequacy of the methodology depends on the underlying business and suitability of the transfer pricing arrangement and is therefore subject to judgement and pending the approval of tax authorities creates uncertainty.</p> <p>Furthermore, there have been major changes in the strategic business plan of NWM N.V. in 2021 as a response to Brexit and wider strategic business plan of the NWM Franchise. Consequently, the recognition and measurement of income from transfer pricing agreements, corporate income tax and deferred tax assets require NWM N.V. to use significant assumptions in estimating future revenue and tax positions as at 31 December 2021. Considering the uncertainties in respect of the Brexit and future strategy of the Company have reduced, management recognised deferred tax assets of €57 million as at 31 December 2021.</p> <p>Deferred tax assets may be misstated due to incorrect management assumptions on the utilization of carry forward tax losses and tax credits and we identified risks of management override of controls with regard to these accounts.</p> <p>Reference is made to the 'Accounting Policies' to the consolidated financial statements, Note 2 'Non-interest income', Note 6 'Tax' and Note 28 'Related Parties'.</p>	<p>We have obtained an understanding of the entity's controls, including control activities, evaluated the design and implementation of internal controls across the processes relevant to transfer pricing adjustments, uncertain tax positions and recognition of deferred tax assets. This included, amongst other, controls governing budget process, transfer pricing model inputs, post model adjustments, posting of journal entries and disclosures.</p> <p>With the support of our internal transfer pricing and income tax specialists, we have assessed the completeness, measurement and accuracy of transfer pricing adjustments and documentation. In order to understand and evaluate management's judgments, we have considered the status of current tax authority enquiries and correspondences, current estimates and developments in the tax environment and challenged management's key assumptions.</p> <p>We have evaluated whether NWM N.V. has appropriately applied the requirements of the IAS 1- Presentation of Financial Statements, IAS 12- Income Taxes and IFRIC 23- Uncertain Tax Positions and whether the methods for making estimates are appropriate and were applied consistently in connection with the recognition of deferred tax assets.</p> <p>We have tested how management has assessed the recognition of deferred tax assets and the data on which these were measured. We have evaluated the appropriateness of the methods and the reasonableness of assumptions used, mainly being the approved forecast of taxable income for future periods. We evaluated the outcome of alternative scenarios and sensitivity analysis to assess if the management's assessment is within the reasonable range.</p> <p>Finally, we have evaluated the completeness and accuracy of the disclosures relating to the uncertain tax positions, deferred tax assets and transfer pricing adjustments in compliance with EU-IFRS. This includes evaluation of particularly whether disclosures adequately convey the degree of estimation uncertainty and the range of possible outcomes.</p>
<p>Key observations</p> <p>We are satisfied that the models and assumptions used by management to determine transfer pricing income and deferred tax assets are reasonable. The related disclosures in the financial statements are considered adequate and appropriate and meet the requirements under EU-IFRS.</p>	

Risk	Our response to the risk
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
<p>As reported in note 8 to the financial statements, as at 31 December 2021 the company held financial instruments with higher risk characteristics. This included (but is not limited to) reported level 3 assets of €174 million (2020: €133 million) and level 3 liabilities of €60 million (2020: €59 million) whose value is dependent upon unobservable inputs.</p> <p>The valuation of those financial instruments with higher risk characteristics can include both significant judgement and the risk of inappropriate recognition of income from trading activities through incorrect pricing as outlined below. The fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on data inputs where there is limited market observability.</p> <p>Areas which required Management estimates and significant judgement include:</p> <ul style="list-style-type: none"> – Complex models – Complex model-dependent Valuations of financial instruments, which include interest rate swaps linked to pre-payment behaviour and interest rate and foreign exchange options with exotic features;; – Unobservable inputs - Pricing inputs and calibrations for illiquid instruments, including debt securities and loans; and – Fair value adjustments - The appropriateness and completeness of fair value adjustments made to derivatives including Funding Valuation Adjustments (FVA) and Credit Valuation Adjustments (CVA). <p>We identified risks of management override of controls and considered that the manipulation of income from trading activities recognition is most likely to arise through the inappropriate valuation of these instruments given the level of judgement involved.</p>	<p>We evaluated the design and tested operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, valuation models governance, collateral management, income statement analysis and the associated controls over relevant information technology systems. We also observed the Valuation Committees meetings where valuation inputs, assumptions and adjustments were discussed and approved.</p> <p>We involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following:</p> <ul style="list-style-type: none"> – Complex models: Testing complex model-dependent valuations by performing independent revaluation to assess the appropriateness of models and the adequacy of assumptions and inputs used by NWM N.V.; – Unobservable inputs: Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources where available to evaluate management's valuation; – Fair value adjustments: Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of market practice and changes in the risk profile of the underlying portfolio; and Revaluing a sample of counterparty level FVA and CVAs, comparing funding spreads to third party data and independently challenging illiquid CVA inputs. <p>Throughout our audit procedures, we considered the appropriateness of modelling changes in relation to IBOR transition. In addition, we assessed whether there were any indicators of aggregate bias in financial instrument marking and methodology assumptions.</p> <p>We performed back-testing analysis of recent trade activity and asset disposals to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We performed an analysis of significant collateral discrepancies with counterparties to assess the potential impact on the fair value of the underlying (and similar) financial instruments.</p>
Key observations	
<p>We are satisfied that the models and assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income are reasonable and in accordance with EU-IFRS.</p>	

Risk**Our response to the risk****Expected Credit Loss**

At 31 December 2021 NWM N.V. reported total gross loans of €1,041 million (2020: €1,683 million) and €40million of expected credit loss (hereafter: "ECL") provisions under IFRS 9 'Financial Instruments' (2020: €111 million). Impairment releases were €13 million compared with losses of €42 million in 2020.

Management's judgments and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty related with the path to recovery from Covid-19 was considered in our risk assessment. Aspects with increased complexity in respect of the timing and measurement of ECL include:

- Staging: Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9;
- Model estimations: Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') models that calculate the ECL;
- Economic scenarios: Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those impacted by Covid-19 including any change to scenarios required through 31 December 2021;
- Individual provisions: Measurement of individual provisions including the assessment of multiple scenarios considering the impact of Covid-19 on exit strategies and time to collect.

Reference is made to 'Credit Risk' section of the 'Risk and capital management' section, 'Accounting policies' to the consolidated financial statements and Note 12 'Loan impairment provisions'.

Our audit procedures included, among others, assessing the appropriateness of the company's accounting policies related to expected credit losses according to IFRS 9 and whether the accounting policies have been applied consistently or whether changes, if any, are appropriate in the circumstances. In addition, we evaluated the design and tested operating effectiveness of controls across the processes relevant to ECL, including the judgments and estimates noted, involving specialists to assist us in performing our procedures where appropriate. These included, among others, controls over the allocation of assets into stages including management's monitoring of stage effectiveness, model governance including monitoring and model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, individual provisions and production of journal entries and disclosures.

In evaluating the governance process, we observed the Group Provisions Committee and Metrics Oversight Committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved.

We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of NWM N.V.'s portfolio, risk profile, credit risk management practices and assessment of the impact of the Covid-19 on customers.

We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the assets in stage 1, 2 and 3, assessed if they were allocated to the appropriate stage, and performed sensitivity analysis to assess the impact of different criteria on the ECL.

To test credit monitoring, which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries. We also assessed whether the credit reviews performed by management appropriately considered risk factors by considering independent publicly available information.

We performed a risk assessment on all models used in the calculation of ECL to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also considered the results of internal model validation results.

To evaluate data quality, we agreed a sample of ECL calculation data points to source systems including balance sheet date data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures.

We involved economic specialists to assist us to evaluate the base case and alternative economic scenarios, including evaluating probability weights and considered contrary evidence by comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to Covid-19 as at 31 December 2021. We assessed whether forecasted macroeconomic variables were appropriate, such as GDP, unemployment rate and interest rates. With the support of our modelling specialists we assessed the correlation and the overall impact of the macroeconomic factors to the ECL.

We recalculated a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned.

We tested the data flows used to populate the disclosures and evaluated the adequacy of disclosures for compliance with the accounting standards and regulatory considerations and in particular whether the disclosures adequately convey the degree of estimation uncertainty.

Key observations

We are satisfied that provisions for the expected credit losses were reasonable and recognised in accordance with IFRS 9. We concur with the related disclosures in the financial statements.

Risk	Our response to the risk
<p data-bbox="113 210 1503 241">Identified shortcomings in the areas of financial crime, data management, internal models and outsourcing arrangements</p> <p data-bbox="113 241 683 772">NWM NV has to comply with a wide range of laws and regulations, including those in relation to anti-money laundering and financing of terrorism. There are shortcomings identified by management and through regulatory inspections in the prior years on internal controls and governance relating to financial crime, outsourcing arrangements, internal models used for calculating regulatory capital and data quality. NWM NV has developed remediation programmes to address these shortcomings. As these remediation programmes are currently still in progress, there is a risk of non-compliance with the laws and regulations. The consequences of non-compliance, such as enforcement actions from the regulator, possible fines, litigation and/or remediation costs, could have a direct or indirect material effect on amounts recognized or disclosures provided in the financial statements.</p> <p data-bbox="113 795 683 884">Due to the significance and complexity of these remediation programmes as well as the possible outcomes, we consider this a key audit matter.</p> <p data-bbox="113 907 683 1041">Reference is made to the disclosure in Note “23 Memorandum Items” and in the sections “Risk management framework”, “Financial crime risk”, “Compliance & conduct risk” and “Model risk” in the chapter “Risk and Capital Management”.</p>	<p data-bbox="687 241 1503 436">We obtained an understanding of the entity level controls and the legal and regulatory framework of NWM NV. Throughout the audit, we have made inquiries with members of the Managing Board, Internal Audit, Compliance and Legal departments to understand and assess existing and potentially new constructive and legal obligations and compliance matters. We have also inspected legal and compliance management reports and read the minutes of the Managing Board, Supervisory Board and its committees.</p> <p data-bbox="687 459 1503 571">Furthermore, we have inspected and discussed progress reports of the remediation programmes. We have inspected the correspondence with the relevant regulatory authorities to assess developments in regulatory matters.</p> <p data-bbox="687 593 1503 683">For the significant remediation programmes, among others, together with our forensic and legal specialists, we have performed the following procedures:</p> <ul data-bbox="687 705 1503 1243" style="list-style-type: none"> – Obtained an understanding of the process and control framework around financial crime, outsourcing arrangements, data management and internal models – Performed a walkthrough regarding the design and implementation of the know your customer procedures, as well as transaction and sanction monitoring process – Read and discussed the internal reports prepared by Internal Audit, Operational Risk Management and Compliance with management – Assessed and discussed the relevant correspondences of inspections and reports from supervisors and regulators with management – Discussed the status and progress of remediation projects regarding financial crime, outsourcing arrangements, data quality and internal models with management – Discussed the impact of new internal models or add-ons imposed by the regulator on the capital adequacy of NWM NV – Evaluated the adequacy of disclosures for compliance with the EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code, in particular IAS 37 ‘Provisions, contingent liabilities and contingent assets’.
<p data-bbox="113 1243 683 1274">Key observations</p> <p data-bbox="113 1274 683 1330">The disclosures related to the remediation programmes to address the shortcomings is considered adequate and appropriate and meet the requirements under EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code.</p>	

Risk	Our response to the risk
IT systems and controls impacting financial reporting	
<p>The IT environment is complex and pervasive to the operations and financial reporting of NWM N.V. due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. The risk is also impacted by the greater dependency on other NatWest Group entities and third-parties, increasing use of cloud platforms, decommissioning of legacy systems, migration to new systems and identified deficiencies on user access related controls.</p>	<p>We evaluated the design and tested operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases of our audit, we performed procedures to assess the cybersecurity program and how management evaluates cyber risks and to determine whether changes in restrictions in different global locations as a result of the ongoing Covid-19 pandemic had caused material changes in IT processes or controls and noted no such changes that would result in an increased IT risk.</p> <p>We tested user access by assessing the controls in place for in-scope applications, in particular those pertaining to the addition and periodic recertification of users' access.</p> <p>As part of our user access testing, we reviewed the core access management processes. We tested controls over approvals, user entitlement reviews, and managements approval process over role combinations.</p> <p>We tested change management controls in relation to amendments to applications. We tested IT application and controls over data interfaces between applications.</p> <p>For relevant external cloud and system migrations completed in 2021, we performed procedures to evaluate the governance structure and key controls in place to manage the audit risks in relation to transformations and migrations. We assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls.</p> <p>Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.</p>
Key observations	
We are satisfied that IT controls impacting financial reporting are designed and operating effectively.	

Report on other information included in the Annual Report and Accounts

The annual report and accounts contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management board report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the managing board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the Supervisory Board as auditor of NWM N.V. on 22 July 2016, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

European Single Electronic Reporting Format

NWM N.V. has prepared the annual report and accounts in the European single electronic reporting format (ESEF). The requirements for this format are set out in the Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the presentation of the annual report and accounts, prepared in the XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by NWM N.V., complies in all material respects with the RTS on ESEF.

The Managing Board is responsible for presenting the annual report and accounts, including the financial statements, in accordance with RTS on ESEF, whereby management combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the presentation of the annual report and accounts in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the entity's financial reporting process, including the preparation of the reporting package
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance and the XBRL extension taxonomy files has been presented in accordance with the technical specifications as included in the RTS on ESEF
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities for the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The *'Information in support of our opinion'* section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Managing Board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication

We communicate with the Supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 17 February 2022

Ernst & Young Accountants LLP

P.J.A.J. Nijssen

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could adversely affect NWM N.V. Group's future results, its financial condition and prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities in issue. These risk factors are broadly categorised and should be read in conjunction with other sections of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement on its own of all potential risks and uncertainties facing NWM N.V. Group. The COVID-19 pandemic may exacerbate any of the risks described below.

Economic and political risk

The impact of the COVID-19 pandemic and related uncertainties continue to affect the UK, Dutch, European and global economies and financial markets and NWM N.V. Group's customers, as well as its competitive environment, which may continue to have an adverse effect on NWM N.V. Group.

In many countries, including the UK (NWM Group's most significant market), the Netherlands and other European countries the COVID-19 pandemic has, at times, resulted in the imposition of strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread and reduce the impact of the COVID-19 pandemic.

Despite widespread COVID-19 vaccination within the geographical regions in which NWM N.V. Group operates, the proliferation of COVID-19 variants continues to affect the UK, Dutch, European and global economies. Further waves of infection or the spread of new strains may result in renewed restrictions in affected countries and regions. As a result, significant uncertainties remain as to how long the impact of the COVID-19 pandemic will last, and how it will continue to affect the global economy.

In response to the COVID-19 pandemic, central banks, governments, regulators and legislatures in the UK, the Netherlands, other European countries and elsewhere have offered unprecedented levels of support and various schemes to assist impacted businesses and individuals. This has included forms of financial assistance and legal and regulatory initiatives. Many of these support schemes have now been curtailed. However, uncertainty remains

as to the impact of the ending or tapering of these schemes and the repayment of the loans involved on customers, the economic environment and NWM N.V. Group. Moreover, it is unclear as to how any further measures, such as rising interest rates and inflation, may affect NWM N.V. Group's business and performance.

The COVID-19 pandemic has prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working from home. These changes may have long-lasting impacts on asset prices, the economic environment and its customers' financial needs.

Uncertainties relating to the COVID-19 pandemic have made reliance on analytical models, planning and forecasting for NWM N.V. Group more complex, and may result in uncertainty impacting the risk profile of NWM N.V. Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for NWM N.V. Group customers, and the UK, the Netherlands, other European countries and global economies and financial markets remain uncertain.

Any of the above may have a negative impact on NWM N.V. Group.

NWM N.V. Group faces continued economic and political risks and uncertainty in the UK, European and global markets.

The value of NWM N.V. Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of NWM N.V. Group's financial instruments, particularly during periods of market displacement. This could cause a decline in the value of NWM N.V. Group's financial instruments. This may have an adverse effect on NWM N.V. Group's results of operations in future periods, or cause inaccurate carrying values for certain financial instruments. Similarly, NWM N.V. Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM N.V. Group's net trading income or result in a trading loss. In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a

reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NWM N.V. Group's counterparty risk. NWM N.V. Group's risk management and monitoring processes seek to quantify and mitigate NWM N.V. Group's exposure to extreme market moves. However, severe market events have historically been difficult to predict and NWM N.V. Group could realise significant losses if extreme market events were to occur.

The outlook for the global economy over the medium-term remains uncertain due to a number of factors including: the COVID-19 pandemic, societal inequalities and changes, trade barriers and the increased possibility and/or continuation of trade wars, widespread political instability (including as a result of populism and nationalism, which may lead to protectionist policies, state and privately sponsored cyber and terrorist acts or threats, efforts to destabilise regimes or armed conflict), changes in inflation and interest rates (including negative interest rates), supply chain disruption, climate, environmental, social and other sustainability-related risks and global regional variations in the impact and responses to these factors

These conditions could be worsened by a number of factors including macro-economic deterioration, increased instability in the global financial system and concerns relating to further financial shocks or contagion (for example, due to economic concerns in emerging markets), market volatility or fluctuations in the value of the pound sterling, new or extended economic sanctions, volatility in commodity prices or concerns regarding sovereign debt. This may be compounded by the changing demographics of the populations in the markets that NWM N.V. Group serves, increasing inequalities, or rapid change to the economic environment due to the adoption of technology and artificial intelligence.

Any of the above developments could adversely impact NWM N.V. Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM N.V. Group's clients and their banking needs).

In addition, NWM N.V. Group is exposed to risks arising out of geopolitical events or political developments, such as exchange controls, and other measures taken by sovereign governments that may hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, including secession movements or the exit of other member states from the EU, armed conflict, pandemics and widespread public health crises (including the current COVID-19 pandemic and any future epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats and the responses to them by governments and markets, could negatively affect the business and performance of NWM N.V. Group, including as a result of the indirect effect on regional or global trade and/or NWM N.V. Group's customers.

NatWest Group faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may impact NWM Group (including NWM N.V. Group) since NatWest Group plc and other NatWest Group entities (including NWM Plc) are incorporated in Scotland. Any changes to Scotland's relationship with the UK or the EU would impact the environment in which NatWest Group and its subsidiaries operate, and may require further changes to NatWest Group (including the structure of NWM Group and NWM N.V. Group), independently or in conjunction with other mandatory or strategic structural and organisational changes which, any of which could adversely impact NWM N.V. Group.

Any of the above may have a negative effect on NWM N.V. Group.

[Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc \(NWM N.V.'s parent company\) and its operating environment and NatWest Group plc \(NWM N.V.'s ultimate parent company\) and may have an indirect effect on NWM N.V. Group.](#)

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA provides for free trade between the UK and EU with zero tariffs and quotas on all goods that comply with the appropriate rules of origin, with minimal coverage. However, for financial services, UK-incorporated financial

services providers no longer have EU passporting rights and there is no mutual recognition regime. Financial services may largely be subject to individual equivalence decisions by relevant regulators. A number of temporary equivalence decisions have been made that cover certain services offered by NWM Group (NWM N.V. Group's parent). The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of third countries have not, to date, covered the provision of most investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. The TCA is accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding, which has yet to be signed. In late 2021 the European Commission proposed draft legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing "banking services" in the EU. If these proposals become law all "banking services" will be licensable activities in each EU member states and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide "banking services" in the EU. Uncertainty remains as to whether "banking services" will also include investment products. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may have a negative impact on customer engagement and/or may significantly negatively impact the operating model and business operations of NWM N.V. Group.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch where permitted. Where these regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead intend to move EEA business to an EEA

licensed subsidiary or branch. There is a risk that these EEA licenses may not be granted or may be withdrawn, and where these permissions are not obtained, further changes to NatWest Group's operating model may be required or some business may need to be ceased. In addition, failure to obtain required regulatory permissions or licences in one part of NatWest Group may impact other parts of NatWest Group (including NWM N.V. Group) adversely. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings would allow NatWest Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. As described in '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*', NWM Group expects that NatWest Group's Transfer Business will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group. Transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or greater than expected costs. The changes to NatWest Group's and NWM Group's operating model have been costly and further changes to their business operations, product offering and customer engagement could result in further costs and operating complexity. Any of the above could, in turn, negatively impact NWM N.V. Group.

The long-term effects of Brexit and the uncertainty regarding NatWest Group's EU operating model may have a negative impact on NWM Group and NWM N.V. Group's business. These may be exacerbated by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact NWM N.V. Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. They may exacerbate the global macro-economic impacts on the UK, the Netherlands, the Republic of Ireland ('ROI') and the rest of the EU/EEA.

Significant uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law (including bank regulation), whether and what equivalence determinations will be made by the various regulators, whether the proposed EEA licensed subsidiary is granted a banking licence, whether banking services will be harmonised across the EEA and, therefore, what the respective legal and regulatory arrangements will be, under which NWM Group and its subsidiaries (including NWM N.V. Group) will operate. This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NWM N.V. Group's EU operating model. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWM Group's businesses, non-UK operations and/or legal entity structure, including NWM N.V. Group, including attendant operating, compliance and costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity of the regulatory environment and tax implications and as a result may adversely impact the profitability, competitive position, business model and product offering of NWM Group and NWM N.V. Group.

Changes in interest rates have affected and will continue to affect NWM N.V. Group's business and results.

NWM N.V. Group is affected by interest rate risk. Monetary policy has been accommodative in recent years including initiatives implemented by the European Central Bank ('ECB') such as its corporate sector purchase programme, which helped to support demand at a time of pronounced fiscal tightening and balance sheet repair. However, market expectations are currently that benchmark interest rates such as UK base rate, could begin to rise further and faster than had been anticipated previously and that this could be accompanied by other measures to reverse accommodative policy, such as quantitative tightening.

While increases in medium term swap rates may support the yield of NWM Group's equity structural hedge, sharp rises could have macroeconomic effects that lead to adverse outcomes for NWM N.V. Group's business or customers. For example, they could lead to generally weaker than expected growth, or even contracting GDP, reduced business confidence and higher levels of unemployment or underemployment, all of which could have an adverse effect on

NWM N.V. Group's business, results of operations and outlook. Conversely, decreases in interest rates and/or continued sustained low, zero or negative interest rates would be expected to put pressure on NWM N.V. Group's interest income and profitability.

Unexpected moves in interest rates will also affect valuations of assets and liabilities that are recognised at fair value on the balance sheet. Changes in these valuations may be adverse. Unexpected movements in spreads between key benchmark rates could have adverse impacts and also adversely affect NWM N.V. Group's financial position. Finally, changes in interest rates and inflation may adversely affect the income from NWM N.V. Group's dealing activity.

HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM N.V. Group is ultimately controlled by NatWest Group.

In November 2019, NWM Plc acquired RBS Holdings N.V. ('RBSH'), NWM N.V.'s immediate parent, from RFS Holdings B.V. ('RFSH'). All entities are wholly owned by NatWest Group plc. As such, NatWest Group plc is the ultimate parent company of NWM N.V.

In its March 2021 Budget, the UK Government announced its intention to continue the process of privatisation of NatWest Group plc and to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2025-2026. As a result of a directed buyback of NatWest Group plc shares by NatWest Group plc from UK Government Investments Limited ('UKGI') in March 2021, sales of NatWest Group plc shares by UKGI by accelerated bookbuild in May 2021 and purchases made under NatWest Group plc's on-market buyback program announced in July 2021, as at 11 February 2022, the UK Government held 50.94% of the issued share capital with voting rights of NatWest Group plc. In addition to the £750 million on-market buyback announced on 18 February 2022, NatWest Group may participate in further directed or on-market buybacks in the future. The timing, extent and continuation of UKGI's sell-downs is uncertain, which could result in a prolonged period of increased price volatility on NatWest Group plc's ordinary shares.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group

entities (including NWM N.V. Group) will continue to have their own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's, as the largest single shareholder, HM Treasury and UK Government Investments Limited ('UKGI', as manager of HM Treasury's shareholding) could exercise a significant degree of influence over the election of directors and appointment of senior management, NatWest Group's (including NWM N.V. Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's (including NWM N.V. Group's) operations, amongst others. HM Treasury or UKGI's approach depends on government policy, which could change, including as a result of a general election. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as the largest single shareholder of NatWest Group could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy. The exertion of such influence over NatWest Group could in turn have an adverse effect on the governance or business strategy of NWM N.V. Group.

In addition, as a wholly owned subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM plc and NatWest Group plc directly and indirectly control NWM N.V. Group's corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWM N.V. Group's ultimate parent may differ from the interests of NWM N.V. Group or of potential investors in NWM N.V. Group's securities.

Strategic risk

NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change.

In February 2020, NatWest Group announced its 'purpose-led strategy', which is focused on becoming a purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. This strategy has required, and continues to require, changes in NWM Group's business, including an increased focus on serving NatWest Group's corporate and institutional customer base. To date, NWM Group has implemented this strategy through its 'NWM Refocusing' initiative by simplifying its operating model and technology platform, as well as reducing its cost

base and capital requirements. The implementation of the NWM Refocusing has been a complex process and although substantial progress has been made, the risk remains that this strategy may not result in the contemplated business outcome.

On 27 January 2022, NatWest Group announced that, in order to further support its customers' growth ambitions and deliver on the next phase of its strategy, it is evolving its Commercial, NatWest Markets and RBS International businesses to form a single franchise to best support its customers across the full non-personal customer lifecycle. The transition is expected to begin over the coming months and be effective from July 2022. Any of the above may result in material execution, commercial and operational risks for NWM Group and NWM Group may continue to be subject to significant structural and other change.

As part of the NWM Refocusing, NWM Group has directed resources to emphasising and growing product capability in the areas of importance to NatWest Group's corporate and institutional customers, including the Fixed Income and Capital Markets businesses, and has refocused its Rates business to best serve its core customers. As a result of focusing further on NatWest Group core corporate customers, NWM Group's prospects are becoming further dependent on the success and strategy of NatWest Group.

In addition, to improve efficiencies and best serve customers, including in light of Brexit planning, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group (including NatWest Group's Western European corporate portfolio, principally including term funding and revolving credit facilities) (the 'Transfer Business'), will be transferred from the ring-fenced subgroup of NatWest Group to NWM Group on a rolling basis, subject to certain regulatory and customer requirements. The timing and quantum of such transfers remains uncertain and NWM Group can give no assurance as to the full impact of such transactions on its go-forward results of operations. As a result, NWM Group's business, results of operations and outlook could be adversely affected.

NWM Group's ability to serve its customers may be diminished by the changed business strategy as a result of the NWM Refocusing. In addition, customer reactions to the changed nature of NWM Group's business model

may be more adverse than expected and previously anticipated revenue and profitability levels (including, for example, in relation to income from the Rates business) may not be achieved in the timescale envisaged or at all. An adverse macroeconomic environment, including due to the COVID-19 pandemic, heightened inflation and rising interest rates, continued political and regulatory uncertainty, market volatility and/or strong market competition may also pose significant challenges to the achievement of the anticipated targets and goals of the NWM Refocusing.

As part of the NWM Refocusing, NWM Group has accepted a number of financial, capital and operational targets and expectations, which entail further reductions to its wider cost base. In addition to requiring cost reductions within NWM Group, this could affect the cost and scope of NatWest Group's provision of services to NWM Group, which individually or collectively may impact NWM N.V. Group's competitive position and its ability to meet its other targets.

The financial, operational and capital targets and expectations envisaged by the NWM Refocusing may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgments, any of which may prove to be inaccurate. The significant scale and scope of the changes implemented (and those that remain to be implemented) as a result of the NWM Refocusing may continue to entail operational, IT system, culture, conduct, business and financial risks to NWM Group.

The NWM Refocusing requires NWM Group to meet cost reduction targets, including through head-count reductions and redirecting investment from certain business areas to others, which could affect NWM Group's (including NWM N.V. Group's) long-term prospects, product offering or competitive position and its ability to meet its other targets and commitments. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised in full if IT capabilities are not delivered in line with assumptions. These risks are expected to continue to last for at least the medium term.

The NWM Refocusing is expected to result in, and the refocused NWM Group

continues to face, increased people risk through the loss of key staff, the recalibration of roles and loss of institutional knowledge. This, combined with the prolonged COVID-19 pandemic, continues to impact NWM Group's (including NWM N.V. Group's) culture and morale. The remaining parts of the NWM Refocusing and other structural changes, may continue to be resource-intensive and disruptive, and may divert management resources. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group may not be successful in maintaining such governance and control frameworks and IT systems. Moreover, whether the NWM Refocusing and further structural changes are successful will depend on how the NWM resulting business is perceived by NWM Group's customers, regulators, rating agencies, stakeholders and the wider market, how it impacts its business, and NWM Group's (including NWM N.V. Group's) ability to retain employees required to deliver its go-forward strategic priorities.

NWM Group has implemented a shared services model and entered into revenue share agreements with some entities within NatWest Group's ring-fenced subgroup (including NatWest Bank Plc, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. A failure of NWM Group to receive these services (on a cost-effective basis or at all) may result in operational risk. See also, *'Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses'*.

The changed nature of NWM Group's business may also adversely affect the credit rating assigned to NWM Plc and certain of its subsidiaries (including NWM N.V.) or any of their respective debt securities, which could adversely affect the availability and cost of funding for NWM N.V. Group and negatively impact NWM N.V. Group's liquidity position.

Each of the risks identified in this risk factor, individually or collectively could adversely impact NWM Group's (including NWM N.V. Group's) products and services offering or office locations, reputation with customers or business model and adversely impact NWM Group's ability to deliver its strategy and the anticipated benefits thereof and meet

its targets and guidance. Any of the above could in turn have a material adverse effect on NWM Group's (including NWM N.V. Group's) business, results of operations and outlook.

While NWM Group has made substantial progress in implementing the NWM Refocusing, there remain certain aspects of the NWM Refocusing and other structural changes that are still to be implemented entail further execution, commercial, operational and other risks.

As a result, there is a risk that the NWM Refocusing and other structural change may not be successful, or that the business resulting from the NWM Refocusing and other structural changes may not be a viable, competitive or profitable business.

Trends relating to the COVID-19 pandemic may adversely affect NWM N.V. Group's strategy and impair its ability to meet its targets and strategic objectives.

The trajectory of the COVID-19 pandemic's impact on the UK, Dutch, European and global economy and NWM N.V. Group remain uncertain. If trends relating to the COVID-19 pandemic negatively impact the UK, Dutch, European and global economy, NWM N.V. Group may be unable to meet its financial, capital and operational targets and expectations.

Whilst NWM N.V. Group, as part of NatWest Group, remains committed to its cost reduction targets, achieving the planned reductions in an environment affected by the COVID-19 pandemic may be more challenging and may require additional savings to be made in a manner that may increase certain operational risks and could impact productivity and competitiveness within NWM N.V. Group and which may have an adverse effect on NWM N.V. Group.

It is uncertain as to how the broader macroeconomic business environment and societal norms may be impacted by the COVID-19 pandemic, causing significant wider societal changes. For example, one of the most notable effects of the COVID-19 pandemic has been its disproportionate impact on the most vulnerable groups of society and concerns about systemic racial biases and social inequalities.

In addition, the COVID-19 pandemic has accelerated existing economic trends that may radically change the way businesses are run and people live their lives. These trends include digitalisation, decarbonisation, intelligence automation,

servitisation, asset tokenisation, e-commerce and agile working, each of which has resulted in significant market volatility in asset prices. There is also increased investor, regulatory and customer scrutiny regarding how businesses address these changes and related climate, environmental, social, governance and other sustainability issues including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management. Any failure or delay by NWM N.V. Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these changes, and to manage emerging climate, environmental, social and other sustainability-related risks and opportunities, may have a material adverse impact on NWM N.V. Group's reputation, business, results of operations, outlook and the value of NWM N.V. Group's securities. See also, *'Any failure by NWM N.V. Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM N.V. Group's ability to manage climate-related risks'* and *'A failure to adapt NWM N.V. Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group, its reputation, business, results of operations and outlook.'*

The COVID-19 pandemic may also result in unexpected developments or changes in financial markets, tax and regulatory frameworks and consumer customer and corporate client behaviour, which could intensify competition in the financial services industry. This could negatively impact NWM N.V. Group if it is not able to adapt or compete effectively.

Financial resilience risk
NWM Group, including NWM N.V. Group, may not meet the targets it communicates, generate returns or implement its strategy effectively.

NWM N.V. Group is subject to transfer pricing arrangements with NWM Plc (NWM N.V.'s parent company). Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is rewarded on the same basis as two independent parties negotiating a contract covering the same

activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties and are subject to audit and/or assessment by Dutch and UK tax authorities. A portion of NWM N.V. Group's income derives from transfer pricing income received from NWM Plc. Should the level of such income change as a result of regulatory intervention or otherwise, this may have a material and adverse impact on NWM N.V. Group's profitability.

As part of NatWest Group's purpose-led strategy and the NWM Refocusing, NWM N.V. Group has set a number of internal and external financial, capital and operational targets including in respect of: balance sheet and cost reductions, CET1 ratio targets (for NWM Plc and NWM N.V.), MREL targets, leverage ratio targets (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets and customer satisfaction targets).

NWM N.V. Group's ability to meet its targets and to successfully implement its strategy is subject to various internal and external factors and risks. These include but are not limited to, the impact of the COVID-19 pandemic, client and staff behaviour and actions, market, regulatory, economic and political factors, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWM N.V. Group's business model and strategy (including risks associated with climate, environmental, social, governance and other sustainability-related issues) and the NWM Refocusing. See also, *'NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change'*.

A number of factors, including the economic and other effects of the COVID-19 pandemic, may impact NWM Plc and NWM N.V.'s ability to maintain their current CET1 ratio targets, including impairments, the extent of organic capital generation or the reduction of RWAs. NWM N.V. may incur disposal losses as part of the process of exiting positions to reduce RWAs. Some of these losses may be recognised ahead of the actual disposals and the losses overall may be higher than currently anticipated.

NWM N.V. Group's ability to meet its planned reductions in annual costs may vary considerably from year to year. Furthermore, the focus on meeting balance sheet and cost reduction targets may result in limited investment in other areas which could affect NWM N.V. Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction. In addition, challenging trading conditions may have an adverse impact on NWM N.V. Group's business and may adversely affect its ability to achieve its targets and execute its strategy. There is a risk that NWM N.V. Group's strategy may not be successfully executed, that it will not meet its targets and expectations, or that it will not be a viable, competitive or profitable banking business.

NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands. NWM N.V. has repurposed its banking licence, and NWM N.V. Group may be subject to further changes.

As part of NatWest Group's strategy, NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands, serves EEA customers, and became a NWM Plc subsidiary in November 2019. The banking licence of NWM N.V. was repurposed for which purpose a declaration of non-objection (DNO) was received from the DNB. Approval from the DNB is required for material changes to NWM N.V.'s operating model. In addition, although the head office for NWM N.V. is located in Amsterdam, NWM N.V. Group also operates branches in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain is due to close in the course of 2022). As a subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM N.V. utilises a number of NWM Group and NatWest Group systems, policies and frameworks (via a shared services model) including in relation to: technology (including innovation) and network infrastructure, marketing, risk frameworks, financial accounting systems, reporting, onboarding processes, model development and validation, certain administrative and legal services and governance. In addition, the products that NWM N.V. offers are based on those offered by NWM Plc. See also, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses*'. As such, any changes made to systems, policies, frameworks or products of NatWest Group or NWM Group may have a corresponding adverse effect on NWM N.V.

A number of other factors described above are outside the control of NWM N.V., and should changes be made, there may be a material and adverse impact on NWM N.V.'s profitability.

NWM N.V. may not meet the prudential regulatory requirements for capital and liquidity.

NWM N.V. Group is required by the DNB to maintain adequate financial resources. Adequate capital provides NWM N.V. Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core European operations.

NWM N.V.'s target CET1 ratio is based on regulatory requirements, internal modelling and risk appetite (including under stress).

NWM N.V.'s 2022 target CET1 ratio is based on expected regulatory requirements, internal modelling and risk appetite (including under stress), taking into account the anticipated extent of transfers of certain parts of NatWest Group's Western European corporate portfolio.

As at 31 December 2021, NWM N.V. Group's CET1 ratio (on a consolidated basis) was 29.7%. NWM N.V.'s current capital strategy is based on the management of RWAs and other capital management initiatives.

Other factors that could influence NWM N.V.'s CET1 ratios include, amongst other things (See also, '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*':

- a depletion of NWM N.V.'s capital resources through losses (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM N.V.'s RWAs, stemming from exceeding target RWA levels, the continued implementation of the NWM Refocusing, regulatory adjustments (for example, from additional market risk back testing exceptions), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs. An

increase in RWAs would lead to a reduction in the CET1 ratio;

- changes in prudential regulatory requirements including the Total Capital Requirement for NWM N.V. (as regulated by the DNB), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- further developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
- further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
- the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM N.V.

Any capital management actions taken under a stress scenario may affect, among other things, NWM N.V. Group's product offering, its credit ratings, its ability to operate its businesses and pursue its current strategies and strategic opportunities, any of which may negatively impact investor confidence and the value of NWM N.V. Group's securities. See also, '*— NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options*' and '*— NatWest Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities).*'

NWM N.V. Group may not be able to adequately access sources of liquidity and funding.

NWM N.V. Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2021, NWM N.V. Group held €880 million in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM N.V. Group's control. These factors include: loss of investor confidence (including in individual NWM N.V. Group entities, the European banking sector or the banking sector as a whole), sustained low or negative interest rates,

government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time.

See also, ‘— *NWM N.V. Group has significant exposure to counterparty and borrower risk.*

An inability to grow, roll-over, or any material decrease in, NWM N.V. Group’s deposits, short-term wholesale funding and short-term liability financing could, particularly if accompanied by one of the other factors described above, materially affect NWM N.V. Group’s ability to satisfy its liquidity needs.

NWM N.V. Group engages from time to time in ‘fee based borrow’ transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM N.V. Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such ‘fee based borrow’ transactions are unwound whilst used to support the financing of parts of NWM N.V. Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM N.V. Group would be unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have an adverse effect on NWM N.V. Group. In addition, because ‘fee base borrow’ transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM N.V. Group’s creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of or perceived lack of creditworthiness may adversely affect NWM N.V. Group.

The effects of the COVID-19 pandemic, current economic uncertainties and any significant market volatility, could affect NWM N.V. Group’s ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM N.V. Group and its subsidiaries could be required to adapt their funding plans. This could exacerbate funding and liquidity risk, which could have a negative effect on NWM N.V. Group.

As at 31 December 2021, NWM N.V. Group reported a liquidity coverage ratio of 255% on a solo basis. If its liquidity position were to come under stress and if NWM N.V. Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected. This would mean that NWM N.V. Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. NWM N.V. Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM N.V. Group’s funding plans. In a time of reduced liquidity or market stress, NWM N.V. Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case could negatively affect NWM N.V. Group’s results.

NWM N.V. Group independently manages liquidity risk on a stand-alone basis, including through holding its own liquidity portfolio. It has restricted access to liquidity or funding from other NatWest Group entities. As a result, NWM N.V.’s liquidity position could be adversely affected, which may also require unencumbered assets to be liquidated or may result in higher funding costs which may adversely impact NWM N.V. Group’s margins and profitability. NWM N.V.’s management of its own liquidity portfolio and the structure of capital support are subject to operational and execution risk, as NWM N.V. is required to meet its own liquidity and capital requirements.

The risks described in the paragraphs above may have a negative effect on NWM N.V. Group’s access to liquidity and funding, which could mean that NWM N.V. Group is required to adapt its funding plan and could adversely affect NWM N.V. Group.

NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group. NWM N.V. Group is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. Such access entails

execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in the NWM N.V. Group if it cannot finance its activities which could be impeded by a number of internal or external factors, including, those referred to above in ‘*NWM N.V. Group faces continued economic and political risks and uncertainty in the UK, European and global markets*’ and ‘*Continuing uncertainty regarding the effects and extent of the UK’s post Brexit divergence from EU laws and regulation, and NWM N.V.’s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.’s parent company) and its operating environment and NatWest Group plc (NWM N.V.’s ultimate parent company) and may have an indirect effect on NWM N.V. Group.*

In addition, NWM N.V. receives capital and funding from NatWest Group plc and NWM N.V. is therefore reliant on the willingness of NatWest Group plc to fund its internal capital targets. NWM N.V. Group has set target levels for different tiers of capital as percentages of its RWAs. The level of capital and funding required for NWM N.V. to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM N.V. and this may vary over time.

Any inability of NWM N.V. Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, may adversely affect NWM N.V. Group, such that NWM N.V. Group may not constitute a viable banking business and/or NWM N.V. may fail to meet its regulatory capital requirements (at present, NWM N.V. does not yet have its own MREL requirements). See also, ‘*The effects of the COVID-19 pandemic could affect NWM N.V. Group’s ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.*’

The effects of the COVID-19 pandemic could affect NWM N.V. Group’s ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements.

The COVID-19 pandemic has at times caused significant market volatility. Should further market volatility arise from COVID-19 pandemic related uncertainties and the impact on capital and RWAs, NWM N.V. Group and its subsidiaries may be required to adapt their funding plans in order to satisfy their respective capital and funding

requirements, which may have a negative impact on NWM N.V. Group. In addition, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM Plc's capital base, and/or that of its subsidiaries (including NWM N.V.). If NatWest Group Plc is unable to issue securities externally as planned, this may have a negative impact on NWM Plc's current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc.

In addition, increased income as a result of higher levels of customer flow activity and balance sheet growth (as a result of increases in corporate deposits and derivative valuations) may not be sustained in the future. Furthermore, market volatility may result in increases to leverage exposure.

Any downgrading to the credit ratings and/or outlooks assigned to NWM Group plc, NWM Plc, NWM N.V. or certain other NatWest Group entities and their respective debt securities as a result of the economic impact of the COVID-19 pandemic could exacerbate funding and liquidity risk, which could have a negative effect on NWM N.V. Group.

NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK and the Netherlands, NatWest N.V. Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM N.V.'s applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM N.V.'s recovery plan, and in turn may prompt consideration of NatWest Group's recovery plan. If, under stressed conditions, the liquidity, capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM N.V. could undertake that may or may not be sufficient to restore adequate liquidity, capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to support NWM N.V.'s capital and leverage requirements. NatWest Group may also address a shortage of capital in NWM N.V. by providing parental support to NWM N.V., subject to evidence that the conditions set out in Article 23 of the

BRRD, as implemented into Dutch law article 3:301 and 3:305 of the FMSA have been met. NatWest Group's and/or NWM N.V.'s regulator may also request that NWM N.V. Group carry out additional capital management actions. The Bank of England has identified single point-of-entry as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as implemented by the FMSA, the Dutch resolution authority, the DNB, also has the power to execute the 'bail-in' of certain securities of NWM N.V. without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may affect, among other things, NWM N.V. Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of NWM N.V. Group's securities. See also, '*— NatWest Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities)*'. In addition, if NWM N.V.'s liquidity position was to be adversely affected, this may require unencumbered assets to be liquidated or may result in higher funding costs, which may adversely impact NWM N.V. Group's operating performance.

Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM N.V.) or any of their respective debt securities could adversely affect the availability of funding for NWM N.V. Group, reduce NWM N.V. Group's liquidity position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc, NWM Plc, NWM N.V. and other NatWest Group entity credit ratings and outlooks, which could be negatively affected by a number of factors that can change over time, including: the credit rating agency's assessment of NWM N.V. Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries in which NWM N.V. Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM N.V. Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative

size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWM N.V. Group's key markets (including the impact of the COVID-19 pandemic and any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

Any reductions in the credit ratings of NatWest Group plc, NWM Plc, NWM N.V. or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM N.V. Group's financial resilience could significantly affect NWM N.V. Group's access to money markets, reduce the size of its deposit base and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements, which could adversely affect NWM N.V. Group's (and, in particular, NWM N.V.'s) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM N.V. Group (and, in particular, with NWM N.V.). This could in turn adversely impact NWM N.V. Group's competitive position and threaten its prospects in the short to medium-term.

NWM N.V. Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.

The markets in which NWM N.V. Group operates are highly competitive, and competition may intensify in response to various changes. These include: evolving customer behaviour, technological changes (including the prospect of new digital currencies such as central bank digital currencies or stablecoins, and the growth of digital banking, from fintech or other entrants), competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors.

Innovations such as biometrics, artificial intelligence, the cloud, blockchain, cryptocurrencies and quantum computing may also rapidly facilitate industry transformation.

Increasingly, many of the products and services offered by NWM N.V. Group are, and will become, more technology intensive. NWM N.V. Group's ability to develop such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM N.V. Group's client businesses across its geographical footprint. There can be no certainty that NWM N.V. Group's innovation strategy (which is based on NWM Group's strategy and which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and partnerships with third party technology providers) will be successful or that it will allow NWM N.V. Group to continue to grow such services in the future.

In addition, certain of NWM N.V. Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients.

These competitors may be better able to attract and retain clients and key employees, may have better IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM N.V. Group. As mentioned above, NWM N.V. operates a shared services model in relation to technology and innovation. Although NWM N.V. Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM N.V. Group's focus on its cost savings targets. This may limit additional investment in areas such as financial innovation and could therefore affect NWM N.V. Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM Group and NWM N.V. Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands. The development of innovative products depends on NWM Group and NWM N.V. Group's ability to produce underlying high quality data, failing which its ability to offer innovative products may be compromised.

If NWM N.V. Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its activities and lose opportunities for growth. In this context, NWM N.V. Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, inadequate or is not fully integrated into NWM N.V. Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWM N.V. Group.

In addition, NatWest Group's purpose-led strategy, as well as employee remuneration constraints may also have an impact on NWM N.V. Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM N.V. Group's ability to provide satisfactory returns.

Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWM N.V. Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors. Any of the above may negatively affect NWM N.V. Group.

NWM N.V. Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.

NatWest Group is subject to annual stress tests by its regulator in the UK and is also subject to stress tests by European regulators with respect to NWM N.V. and Ulster Bank Ireland DAC. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or those elsewhere may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

The impact of the COVID-19 pandemic on the credit quality of NWM N.V. Group's counterparties may negatively impact NWM N.V. Group.

The effects of the COVID-19 pandemic have adversely affected the credit quality of some of NWM N.V. Group's borrowers and other counterparties, and government support schemes may delay the effects of defaults by such counterparties. As government support schemes reduce, defaults are expected to rise with more customers moving from IFRS9 Stage 2 to Stage 3. As a result, NWM N.V. Group may continue to experience elevated exposure to credit risk and demands on its funding, and the long-term effects remain uncertain. If borrowers or counterparties face increasing levels of debt and default or suffer deterioration in credit, this increases impairment charges, write-downs, regulatory expected loss and impacts credit reserves. An increase in drawings upon committed credit facilities may also increase NWM Plc's and/or its subsidiaries' - including NWM N.V. Group - RWAs. If NWM N.V. Group experiences losses and a reduction in future profitability, this is likely to affect the recoverable value of fixed assets, including deferred taxes, which may lead to further write-downs.

Any of the above may have a negative impact on NWM N.V. Group.

NWM N.V. Group has significant exposure to counterparty and borrower risk.

NWM N.V., a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM N.V. Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base.

Furthermore, these risks increase due to the expected transfer of NatWest Group's Transfer Business from its ring-fenced subgroup to NWM Group (see '*NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*').

Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to NWM N.V. Group (including un-collateralised derivatives); providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans. See also, '*Risk and capital management — Credit Risk*'. Any negative developments in the activities listed above may negatively impact NWM N.V. Group's clients and credit exposures, which may, in turn, adversely impact NWM N.V. Group's profitability.

The credit quality of NWM N.V. Group's borrowers and other counterparties may be affected by a deterioration in prevailing economic and market conditions (including those caused by the COVID-19 pandemic) and by changes in the legal and regulatory landscape in countries where NWM N.V. Group takes credit risk (including the extent of the UK's post-Brexit divergence from EU laws and regulation). These could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty may lead to market-wide liquidity problems

and losses for NWM N.V. Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM N.V. Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM N.V. Group interacts on a daily basis. See also, '*— NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group*'.

As a result of the above, adverse changes in borrower and counterparty credit quality may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM N.V. Group and an inability to engage in routine funding transactions.

NWM N.V. Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgment and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM N.V. Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, '*Risk and Capital Management — Credit Risk*'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgments used in the MES and ECL assessment at 31 December 2021 may not prove to be adequate resulting in incremental ECL provisions for the NWM N.V. Group. As government support schemes reduce, defaults are expected to rise with more ECLs cases moving from Stage 2 to Stage 3.

NWM N.V. Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including

providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Due to NWM N.V. Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e. entities which carry out banking activities outside a regulated framework). NWM N.V. Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NWM N.V. Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect the business, results of operations and outlook of NWM N.V. Group.

NWM N.V. Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.

Given the complexity of NWM N.V. Group's business, strategy and capital requirements, NWM N.V. Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWM N.V. Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as fraud risk management (collectively, 'financial crime')). NWM N.V. Group's models, and the parameters and assumptions on which they are based, are periodically reviewed and updated to maximise their accuracy.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macroeconomic environment in which NWM N.V. Group operates (for example to account for the impact of the

COVID-19 pandemic), to capture risks and exposures at the subsidiary level, and to update for changes to NWM N.V. Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group's) or NWM N.V. Group's regulators (including as part of NatWest Group's mandated stress testing) may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NWM N.V. Group to regulatory sanction. NWM N.V. Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, or models that are non-compliant with regulatory standards, or models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

NWM N.V. Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgments and assumptions (particularly those involving the use of complex models).

The accounting policies deemed critical to NWM N.V. Group's results and financial position, based upon materiality and significant judgments and estimates, which include loan impairment provisions, are set out in '*Critical accounting policies and key sources of estimation uncertainty*'. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM N.V. Group are discussed in '*Future Accounting Developments*'.

Changes in accounting standards may materially impact NWM N.V. Group's financial results.

Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM N.V. Group having to recognise

additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and could also significantly impact the financial results condition and prospects of NWM N.V. Group.

NWM N.V. Group's trading assets amounted to EUR4,174 million as at 31 December 2021. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWM N.V. Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM N.V. Group's internal valuation models require NWM N.V. Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require NWM N.V. Group to recognise fair value losses which may have an adverse effect on NWM N.V. Group's income generation and financial position.

NatWest Group (including NWM N.V.) may become subject to the application of statutory stabilisation or resolution powers which may result in, among other actions, the write-down or conversion of certain Eligible Liabilities (including NWM N.V.'s Eligible Liabilities).

The directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (2014/59/EU) ('BRRD') establishes a common approach within the EU for the recovery and resolution of banks. In the UK and the Netherlands, the BRRD has been implemented via national legislation which grants powers to a national resolution authority (the 'NRA'). The UK implementation of the BRRD remains in force now that the Brexit transition has ended. In Europe (which for the avoidance of doubt excludes the UK) the BRRD is also (partly) implemented by a directly binding regulation which established a Single Resolution Mechanism ('SRM') and a single EU Resolution Board ('SRB') with powers which exceed the powers of the EU NRAs.

United Kingdom – NatWest Group plc and its UK affiliates

HM Treasury, the Bank of England and the Prudential Regulation Authority ('PRA') and FCA (together, the 'UK Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities ('Eligible Liabilities'); and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V. in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act (which provides that creditors' losses in resolution should not exceed those that would have been realised in an insolvency of the relevant institution) may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation

power is not also used; Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities of NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain untested in practice.

The Netherlands – NWM N.V.

The special resolution regime measures set out in the BRRD were implemented into Dutch law in 2015. The BRRD, and the SRM, provide that the DNB and the SRB are the resolution authorities responsible for a resolution in relation to NWM N.V. (the 'N.V. Authorities', and together with the UK Authorities, the 'Authorities') with broad powers to implement resolution measures with respect to banks incorporated in the Netherlands which meet the conditions for resolution, which may include (without limitation) measures analogous to the Resolution Stabilisation Tools (options set out at points (i) to (iv) above under the Banking Act). These powers and tools are designed to be used prior to the point at which any insolvency proceedings with respect to NWM N.V. could have been initiated.

In addition to the resolution powers of the N.V. Authorities described above, the Dutch Minister of Finance may, with immediate effect, take measures or expropriate assets and liabilities of, claims against or securities issued by or with the consent of NWM N.V., if in the Minister of Finance's opinion the stability of the financial systems is in serious and immediate danger as a result of the situation in which the firm finds itself (the 'Minister of Finance Powers').

There remains uncertainty regarding the ultimate nature and scope of these powers, and any exercise of the resolution regime powers by the N.V. Authorities or the Minister of Finance Powers may adversely affect holders of NWM N.V.'s Eligible Liabilities that fall within the scope of such powers.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, there may correspondingly be an adverse effect on the business, results of operations and outlook of NWM N.V. Group.

NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NWM N.V. Group could be adversely affected should the Bank of England deem NatWest Group's preparations to be inadequate.

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA, and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. The initial report was submitted to the PRA on 30 September 2021 and the Bank of England's assessment of NatWest Group's preparations is scheduled to be released on 10 June 2022 although the Bank of England may provide feedback before then.

NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. However, if the Bank of England assessment identifies a significant gap in NatWest Group's ability to achieve the resolvability outcomes, or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements which came into effect on 1 January 2022, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional cost and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWM N.V. Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL. This may also impact NatWest Group's (and NWM N.V. Group's) strategic plans and have an adverse effect on the financial position of NWM N.V. Group or may result in reputational damage and/or loss of investor confidence. Additionally, DNB and SRB may exercise similar powers if the recovery and resolution plans of NWM N.V. Group are not satisfactory.

Climate and sustainability-related risks NWM N.V. Group and its customers face significant climate-related risks, including in transitioning to a net zero economy, which may adversely impact NWM N.V. Group.

Climate-related risks and uncertainties are continuing to receive increasing regulatory, judicial, political and societal scrutiny.

Financial and non-financial risks from climate change arise through physical and transition risks. Furthermore, NWM N.V. Group may also face a variety of climate-related legal risks, both physical and transition, from potential litigation and conduct liability. See also, '*— NWM N.V. Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.*

There are significant uncertainties as to the extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events, (flooding, subsidence, heat waves and long-lasting wildfires), rising sea levels, biodiversity loss and resource scarcity. Damage to NWM N.V. customers' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWM N.V. Group's portfolios. In addition, NWM N.V. Group's premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and negatively affecting NWM N.V. Group's business continuity and reputation.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net zero emissions by 2050. The timing, content and implementation of the specific policies and proposals remain uncertain. Widespread transition to a net zero economy across all sectors of the economy and markets in which NWM Group operates will be required to meet the goals of the 2015 Paris Agreement, the UK's Net Zero Strategy and the Glasgow Climate Pact of 2021 and the Dutch Government's commitment to cutting the Netherlands' carbon emissions with 95% by 2050, compared to 1990 levels, and by proposals stemming from the EU Sustainable Finance Action Plan. The impact of the extensive commercial, technological, policy and regulatory changes required to achieve transition remains uncertain, but it is expected to be significant and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. Some sectors such as property, energy (including oil and gas), mining, infrastructure, transport (including automotive and aviation) and agriculture are expected to be particularly impacted. The timing and pace of the transition to

a net zero economy is also uncertain and may be near term, gradual and orderly or delayed, rapid and disorderly, or the combination of these.

Climate-related risks may be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

If NWM N.V. Group fails to adapt its business and operating model in a timely manner to the climate-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate change related physical, transition and legal risks and opportunities that NWM N.V. Group, its customers and value chain face, NWM N.V. Group's reputation, business, operation or value chain and results of operations and outlook may be impacted adversely.

NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM N.V. Group which entails significant execution risk. In February 2020, NatWest Group announced its ambition to become a leading bank on climate in the UK, helping to address the climate challenge by setting itself the challenge to at least halve the climate impact of its financing activity by 2030 and intending to do what is necessary to achieve alignment with the 2015 Paris Agreement. In addition, in April 2021, NatWest Group by joining the Net Zero Banking Alliance 'Business Ambition to 1.5C', stated its ambition to reach net zero by 2050. Furthermore, as part of its efforts to support the transition to a net zero economy, NatWest Group has also announced its ambitions to phase out of coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030; to plan to stop financing new customer relationships with corporate customers who explore for, extract or produce coal or operate unabated coal powered plants; and that it would not provide services to existing customers who are increasing coal mining activity by exploring for new coal, developing new coal mines or increasing thermal coal production.

To achieve its 2030 and 2050 ambitions, NatWest Group has also announced other climate ambitions, targets and commitments, and going-forward it may also announce other climate ambitions, targets and commitments, including science-based targets to be validated by the Science Based Target Initiative. Making the changes necessary to achieving these ambitions may materially affect NWM N.V. Group's business and operations and may require significant reductions to its financed emissions and to its exposure to customers that do not align with a transition to a net zero economy or do not have a credible transition plan. Increases in lending and financing activities may wholly or partially offset some or all of these reductions, which may increase the extent of changes and reductions necessary. It is anticipated that achieving these reductions, together with the active management of climate-related risks and other regulatory, policy and market changes, are likely to necessitate material and accelerated changes to NWM N.V. Group's business, operating model and existing exposures (potentially on accelerated timescales and outside of risk appetite) which may have a material adverse effect on NWM N.V. Group's ability to achieve its financial targets and generate sustainable returns.

NWM N.V. Group's ability to contribute to achieving NatWest Group's climate-related ambitions, targets and commitments through its own specific targets will depend to a large extent on many factors and uncertainties beyond NWM N.V. Group's control. These include the macroeconomic environment, the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to adapt and/or mitigate the impact of climate-related risks, changes in customer behaviour and demand, the challenges related with the implementation and integration of adoption policy tools, changes in the available technology for mitigation and adaptation, the availability of accurate, verifiable, reliable, consistent and comparable data. See also, '*NatWest Group's purpose-led strategy includes climate change as one of its three areas of focus. This is likely to require material changes to the business and operating model of NWM N.V. Group which entails significant execution risk*' and '*There are significant challenges in relation to climate related data due to quality and other limitations, lack of consistency,*

standardisation and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate related risks'.

These internal and external factors and uncertainties will make it challenging for NatWest Group to meet its climate ambitions, targets and commitments and for NWM N.V. Group to contribute to these and there is a significant risk that all or some of them will not be achieved.

Any delay or failure by NWM N.V. Group to contribute to setting, making progress against or meeting NatWest Group's climate-related ambitions, targets and commitments through its own specific targets may have a material adverse impact on NWM N.V. Group, its reputation, business, results of operations, outlook, market and competitive position and may increase the climate-related risks NWM N.V. Group faces.

Any failure by NWM N.V. Group to implement effective and compliant climate change resilient systems, controls and procedures could adversely affect NWM N.V. Group's ability to manage climate-related risks.

The prudential regulation of climate-related risks is an important driver in how NWM N.V. Group develops its risk appetite for financing activities or engaging with counterparties that do not align with a transition to a net zero economy or do not have a credible transition plan. Legislative and regulatory authorities are also publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

The UK

In April 2019, the PRA published a supervisory statement (the 'SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures.

Following the submission of initial plans by UK banks in October 2019, in July 2020 the PRA issued a 'Dear CEO' letter requiring firms to embed fully their approaches to managing climate-related financial risks by the end of 2021. In response, on 8 October 2020, NatWest Group provided the PRA with an update to its original plan noting that the COVID-19 pandemic had disrupted some elements of NatWest Group's original plan and, as a result, the updated plan would require additional operating cycles

reaching into 2022 and beyond to prove embedding. Subsequently the PRA issued its 'Climate Change Adaptation Report' in October 2021 advising firms of the need to continue to refine and innovate ways to further integrate the financial risks from climate change within risk management practices and it restated that by the end of 2021, firms should be able to demonstrate that the expectations set out in SS3/19 have been implemented and embedded throughout the firms' organisation as fully as possible. In January 2022, NatWest Group provided the PRA with an update on how it has addressed the commitments made in its October 2020 plan, noting the delivery of a 1st generation, largely qualitative in nature, approach to supervisory requirements.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its CBES submission to the PRA in October 2021. The Bank of England has since announced that the CBES is likely to include a second round over February and March 2022, which is likely to be largely qualitative in nature.

The Bank of England guidance for the CBES confirmed that it is exploratory in nature and not intended to be used to set capital requirements. In the aforementioned 'Climate Change Adaptation Report 2021', the Bank of England confirmed that over the coming year it will undertake further analysis to explore enhancements to the regulatory capital frameworks as they relate to climate related financial risk. To support this work, the Bank of England will put out a 'Call for Papers' and host a Research Conference on the interaction between climate change and capital in Q4 2022. Informed by these steps and internal analysis, the Bank of England is expected to publish a follow-up report on the use of capital including on the role of any future scenario exercises by the end of 2022. It is therefore likely that in the coming years financial institutions, including NatWest Group (including NWM N.V. Group), may be required to hold additional capital to enhance their resilience against systemic and/or institution specific vulnerabilities to climate-related financial risks, which could, in turn, negatively impact NWM N.V. Group.

European Union and the Netherlands
NWM N.V. Group is subject to regulatory developments in the Netherlands and the wider European Union. In this regard,

legislative and regulatory authorities in the Netherlands and the wider European Union are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules. In November 2020, the European Central Bank ('ECB') published its 'Guide on climate-related and environmental risks' ('ECB Guide') which is applicable to Significant Institutions (NWM N.V. does not qualify as a Significant Institution for the purposes of the ECB Guide), in June 2021, the European Banking Agency ('EBA') published its Report on Environmental, Social and Governance risk management and supervision and in December 2021 the DNB published a paper titled "Towards a sustainable balance" which aligns with the ECB publication of November 2021 on "The state of climate and environmental risk management in the banking sector". Both documents highlight the prudential view and expectations towards financial institutions regarding managing of climate, environmental and social risks as part of their strategy, governance, risk management and reporting practices and will drive the supervisory dialogue in 2022 and beyond. Further to it, in January 2022 the EBA has also published final draft implementing technical standards on Pillar 3 disclosures on ESG risks.

In April 2020, the DNB published its 'Good Practices on Integration of Climate Risks for Banks' document in which it sets out the supervisory expectation that banks (including NWM N.V.) should incorporate climate-related risks into their governance and risk management arrangements in line with the principle of proportionality. In order to achieve this, the DNB provides several non-binding 'good practices' that banks could adhere to, including:

- incorporating an organisation-wide strategic approach toward climate-related risks, along with the integration of climate-related considerations in policy framework;
- embedding the identification, assessment, mitigation and monitoring of climate change related risks in banks' risk management framework; and
- disclosing the carbon footprint of lending and investment portfolio in the annual report.

In addition, the DNB has confirmed that it will perform more stress tests to assess the impact of climate change on the financial sector.

In June 2020, the Dutch Authority for the Financial Markets in the Netherlands (*Stichting Autoriteit Financiële Markten* ('AFM')) published its position paper on

sustainability. In this position paper the AFM describes what it expects from market parties when it comes to sustainability and how the AFM will be supervising this. The AFM confirms, amongst others, that:

- a sustainable economy and society is a supervisory priority of the AFM and is increasingly becoming an integral part of its supervision strategy; and
- it expects market participants to integrate sustainability aspects in a responsible and careful manner in their financial products and services.

In order to ensure that the same high level of supervisory standards is applied consistently among the institutions that DNB supervise, to raise awareness of climate-related and environmental risks, and to better prepare Less Significant Institutions (LSIs) – such as NWM N.V. – for the future, DNB stated its intention to use the ECB Guide as a basis for its supervisory engagements with LSIs from 2021 in a proportionate manner. On 2 February 2021, the DNB requested the Dutch financial institutions to do a self-assessment on climate-related, environmental and social risks, indicating that these risks will feature in prudential supervision with increasing prominence going forward.

Any failure of NWM N.V. Group to fully and timely embed climate and wider environmental related risks into its risk management practices and governance framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may have a material and adverse impact on NWM N.V. Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, business, results of operations and outlook.

There are significant challenges in relation to climate related data due to quality and other limitations, lack of consistency, standardisation and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate related risks.

Meaningful reporting of climate-related risks and opportunities and their potential impacts and related metrics depend on access to accurate, reliable, consistent and comparable climate-related data from counterparties or customers. These may not be generally available or, if available, may not be accurate, verifiable, reliable, consistent or comparable. Any failure of NWM N.V.

Group to incorporate climate-related factors into its counterparty and customer data sourcing and accompanying analytics, or to develop accurate, reliable, consistent and comparable counterparty and customer data, may have a material adverse impact on NWM N.V. Group's ability to prepare meaningful reporting of climate-related risks and opportunities, its regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWM N.V. Group, is necessarily based therefore on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. Accordingly, our climate-related disclosures use a greater number and level of assumptions and estimates than many of our financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these climate related disclosures, make any assessment of materiality inherently uncertain. In particular, in the absence of actual emissions monitoring and measurement, emissions estimates are based on industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps, particularly for private companies, that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, our climate related disclosures may be amended, updated or restated in the future as the quality and completeness of our data and methodologies continue to improve. These data quality challenges, gaps and limitations could have a material impact on NWM N.V. Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, comply with disclosure requirements and our ability to monitor and report our progress in meeting our ambitions, targets and commitments.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations mentioned above, the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is a significant uncertainty about how climate change and the transition to a net zero economy will unfold over the coming decades and affect how and when climate-related risks will manifest. These timeframes are considerably longer than NWM N.V.

Group's historical strategic, financial, resilience and investment planning horizons.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack and/or quality of historical testing capabilities, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example:

- climate scenarios are not predictions of what is likely to happen or what NatWest Group would like to happen, they rather explore the possible implications of different judgments and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- lack of specialist expertise in banks such that NWM N.V. Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- immaturity of modelling of and data on the impact of climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;
- the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;
- the assumptions will be continually evolving with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to emissions.

Accordingly, these risks and uncertainties coupled with significantly

longer timeframes make the outputs of climate-related risk modelling, including emissions reductions targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information.

Capabilities within NWM N.V. Group to appropriately assess, model and manage climate-related risks and the suitability of the assumptions required to model and manage climate-related risks appropriately are developing. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgments and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse impact on NWM N.V. Group's regulatory compliance, reputation, business, results of operations and outlook.

A failure to adapt NWM N.V. Group's business strategy, governance, procedures, systems and controls to manage emerging sustainability-related risks and opportunities may have a material adverse effect on NWM N.V. Group, its reputation, business, results of operations and outlook.

Investors, customers, international organisations, regulators and other stakeholders are increasingly focusing on identification, measurement, management and mitigation of 'sustainability-related' risks and opportunities such as environmental (including biodiversity and loss of natural capital); social (including diversity and inclusion, the living wage, fair taxation and value chains); and governance (including board diversity, ethics, executive compensation and management structure) related risks and opportunities and on long term sustainable value creation.

Financial institutions, including NWM N.V. Group, are directly and indirectly exposed to multiple types of environmental and biodiversity-related risk through their activities, including risk of default by clients. Additionally, there is a growing need to move from safeguards and interventions that focus on reducing negative impacts on environment and biodiversity towards those that focus on increasing positive impact on environment and biodiversity and nature-based solutions. In 2021, NatWest Group (including NWM N.V. Group) accordingly classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group

(including NWM N.V. Group) within its Risk Management Framework.

This is an evolving and complex area which requires collaborative approaches with partners, stakeholders and peers to help measure and mitigate negative impacts of financing activities on the environment, biodiversity and nature as well as supporting the growing sector of nature-based solutions, habitat restoration and biodiversity markets. NatWest Group, including NWM N.V. Group, is in the early stages of developing its approach and NatWest Group, including NWM N.V. Group, recognises the need for more progress. See also, *'There are significant challenges in relation to climate related data due to quality and other limitations, lack of consistency, standardisation and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate related risks'*.

There is also increased investor, regulatory and customer scrutiny regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management which may impact NWM N.V. Group's employees, customers and their business activities or the communities in which they operate. There is also growing attention on the need for a 'just transition' and 'energy justice' – in recognition that the transition to a net zero economy should not disproportionately affect the most disadvantaged members of society. The increased focus on these issues may create reputational and other risks for financial institutions, including NWM N.V. Group.

In addition to climate-related risks, sustainability-related risks (i) may also adversely affect economic activity, asset pricing and valuations of issuers' securities and, in turn, the wider financial system; (ii) may impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes); (iii) may also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to sustainability-related risks; (iv) can trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties and/or investors

associating the NWM N.V. Group or its customers with adverse sustainability-related issues; and (v) intersect with and further complexity and challenge to achieving our purpose-led strategy including climate ambitions, targets and commitments. Together with climate-related risks, these risks may combine to generate even greater adverse effects on our business.

Furthermore, sustainability-related risks may be drivers of several different risk categories simultaneously and may exacerbate the risks described herein, including credit risk, operational risk (business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers).

Accordingly, any failure or delay by NWM N.V. Group to successfully adapt its business strategy and to establish and maintain effective governance, procedures, systems and controls in response to these issues, and to manage these emerging sustainability-related risks and opportunities may have a material adverse impact NWM N.V. Group's reputation, liquidity position, business, results of operations, outlook and the value of NWM N.V. Group's securities.

Any reduction in the ESG ratings of NatWest Group or NWM Group (including NWM N.V. Group) could have a negative impact on NatWest Group's or NWM Group's (including NWM N.V. Group) reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group, NWM Group or NWM N.V. Group.

ESG ratings from agencies and data providers which rate how NatWest Group or NWM Group (including NWM N.V. Group) manages environmental, social and governance risks are increasingly influencing investment decisions or being used as a basis to label financial products and services as green or sustainable. ESG ratings are (i) unsolicited; (ii) subject to the assessment and interpretation by the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWM N.V. Group) by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWM N.V. Group's control (e.g. any change in rating methodology). Any reduction in the ESG ratings of NatWest Group (including NWM N.V. Group) could have a negative impact on NWM N.V. Group's reputation and could influence investors' risk appetite for NWM N.V. Group's and/or its subsidiaries' securities, particularly ESG securities and could affect a customer's

willingness to deal with NWM N.V. Group.

Increasing levels of climate, environmental and sustainability-related laws, regulation and oversight may adversely affect NWM N.V. Group's business and expose NWM N.V. Group to increased costs of compliance, regulatory sanction and reputational damage.

There are an increasing number of UK, Dutch, European and other regulatory and legislative initiatives to address issues around climate, environmental and sustainability risks and opportunities and to promote the transition to a net zero economy. The DNB and the AFM are also increasingly focused on climate change and sustainability and have announced good practices and supervisory expectations relating to these topics. As a result, an increasing number of laws, regulations, legislative actions are likely to affect the financial sector and the real economy, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes.

Many of these initiatives are focused on developing standardised definitions for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers access to green and sustainable financial products and services which may have a significant impact on the services provided by NWM N.V. Group and its associated credit, market and financial risk profile. They could also impact NWM Group's recognition of its climate and sustainable funding and financing activity and may adversely affect NWM N.V. Group's ability to achieve its climate strategy and climate and sustainable funding and financing ambitions.

In addition, NWM N.V. Group and its branches will continue to be subject to an increasing array of the EU/EEA climate and sustainability-related legal and regulatory requirements, such as the EU Taxonomy, EU Green Bond Standards and Pillar 3 disclosures on ESG risks.

In addition, NatWest Group and its subsidiaries (including NWM N.V.) will be subject to increasing entity wide climate-related and other non-financial disclosure requirements pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD') and under other regimes. From February 2022, NatWest Group will be required to provide enhanced climate-related disclosures consistent with TCFD recommendations to comply with the FCA Policy Statement on the new Listing

Rules (PS 20/17) that require commercial companies with a UK premium listing – such as NatWest Group (the ultimate parent company of NWM N.V. Group) – to make climate related disclosures, consistent with TCFD, on a ‘comply or explain’ basis. The FCA is proposing to expand this requirement to a wider scope of listed issuers which would include NatWest Group’s subsidiaries, including NWM Group (the direct parent of NWM N.V. Group), as it moves towards mandatory TCFD reporting across the UK economy by 2025. See also, ‘*There are significant challenges in relation to climate related data due to quality and other limitations, lack of consistency, standardisation and incompleteness which amongst other factors contribute to the significant uncertainties inherent in accurately modelling the impact of climate related risks*’.

NatWest Group (including NWM N.V. Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related requirements is likely to require NWM N.V. Group to implement significant changes to its business models, product and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, entail additional change risk and compliance costs.

Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWM N.V. Group’s regulatory compliance and may result in regulatory sanction, reputational damage and investor disapproval each of which could have an adverse on NWM N.V. Group’s business, results of operations and outlook.

NWM N.V. Group may be subject to potential climate, environmental and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

Due to increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, growing demand from investors and customers for

environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWM Group, may through their business activities face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) failures to meet obligations, targets or commitments relating to or to disclose accurately or provide updates on material climate and/or sustainability related risks or otherwise provide appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and other customer protection type claims; (iii) marketing that portrays products, securities, activities or policies as producing positive climate, environmental or sustainable outcomes to an extent that may not be the case; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) alleged violations of officers’, directors’ and other fiduciaries’ fiduciary duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (v) changes in understanding of what constitutes positive climate, environmental or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations; (vi) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, including any failure in timely implementation, onboarding and/or updating of such systems or processes; or (vii) counterparties, collaborators and third parties in NWM Group’s value chain action who act, or fail to act or undertake due diligence or apply appropriate risk management and product governance in a manner that impacts Natwest Group’s reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWM Group for financing or contributing to climate change and environmental degradation and for not supporting the principles of “just transition” (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating

future shifts to address issues up front and mobilising investments from the public and private sectors).

There is a risk that as climate and the wider environmental science develops and societal understanding of climate the wider environmental science increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate related matters retrospectively when assessing claims about historic conduct or dealings of financial institutions, including NWM Group.

In addition, there is a growing focus on the structural parameters of financial products with climate, environmental and sustainability labels. This focus may give rise to elevated risks of litigation and regulatory enforcement as well as have broader reputational consequences on any such products where NWM N.V. Group is an involved party.

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group’s ability to achieve its strategy, including its climate ambition, and they could have an adverse effect on NWM N.V. Group’s reputation, business, financial results, position and prospects, results of operations and outlook.

Operational and IT resilience risk
Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group’s businesses.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal risks. NWM N.V. Group operates in a number of countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including financial crime and fraud), for which there is now greater scrutiny by third parties on NWM Group’s compliance with financial crime requirements; see ‘*NWM N.V. Group and NWM Plc are exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group*’). These risks are also present when NWM N.V. Group relies on NatWest Group, NWM Group, third-party suppliers or vendors to provide services to it or its clients, as is increasingly the case as NWM N.V. Group outsources certain activities, including with respect to the

implementation of cloud platforms, new technologies, innovation and responding to regulatory and market changes. Furthermore, NWM N.V. is subject to the EBA guidelines on outsourcing arrangements. If the systems and services provided by NatWest Group, NWM Group or any third party do not comply with such EBA requirements, there is a risk of increase in operational and compliance costs, which may negatively affect NWM N.V. Group's business continuity and reputation.

Operational risks continue to be heightened as a result of the NWM Refocusing, NatWest Group's purpose-led strategy, NWM Group's current cost-reduction measures and conditions affecting the financial services industry generally (including the COVID-19 pandemic and other geo-political developments) and in particular the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWM N.V. Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM N.V. Group's ability to maintain effective dependency analysis, internal controls and governance frameworks.

In recent years, NWM Group (including NWM N.V. Group) has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. In addition, NWM N.V. Group has materially increased its dependence on NWM Plc for numerous critical services similar to those outlined above and for certain sales activities, which due to their complexities could potentially trigger regulatory, tax, reputational, financial crime and conduct risks. A failure by NatWest Bank Plc or NWM Plc to adequately supply these services may expose NWM N.V. Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely impact NWM N.V. Group's business, results of operations and outlook.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM N.V. Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in

controlling each of the operational risks faced by NWM N.V. Group. Ineffective management of such risks could adversely affect NWM N.V. Group.

NWM N.V. Group is subject to increasingly sophisticated and frequent cyberattacks.

NWM N.V. Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM N.V. Group) and against NatWest Group and NWM N.V. Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM N.V. Group relies. NWM N.V. Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM N.V. Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2021, NWM N.V. Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the global financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWM N.V. Group's customers. NWM N.V. Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks.

Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWM N.V. Group's IT systems or NWM N.V.'s third party providers. NWM N.V. Group has information and cyber security controls in place to minimise the impact of any attack, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent all attacks in the future. See also, '— *'NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), IT infrastructure and cloud platforms and any IT failure could adversely affect NWM N.V. Group.'*

Any failure in NWM Group's (and therefore NWM N.V. Group's) or third party providers cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or other sensitive information (including as a result of an outage) and may cause

associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for clients and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect NWM N.V. Group's ability to retain and attract clients. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely notification of them, as appropriate.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWM N.V. Group's systems to disclose sensitive information in order to gain access to NWM N.V. Group's data or that of NWM N.V. Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM N.V. Group's employees or third parties, including third party providers, or may result from accidental technological failure.

NWM N.V. Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT and related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which could negatively impact NWM N.V. Group. Due to NWM N.V. Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, it is likely that such attacks may adversely impact NWM N.V. Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework'), the General Data Protection Regulation (EU) 2016/679 (and its subsequent amendments) ('EU GDPR'), Schrems and EBA Guidelines on Resilience, ICT and Security Risk Management, and EU's Digital Operational Resilience Act, NWM N.V. Group is required to ensure it

implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to data of NWM N.V. Group, its clients and its employees. In order to meet this requirement, NWM N.V. Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM N.V. Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage. In addition, whilst NWM N.V. Group takes measures to prevent, detect and minimize attacks, NWM N.V. Group's systems, and those third party providers, are subject to frequent cyberattacks.

NWM N.V. Group operations and strategy are highly dependent on the accuracy and effective use of data. NWM N.V. Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations, including its regulatory reporting obligations and deliver its strategy. The availability of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have that data or the ineffective use, governance or control of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver innovative products and services. This could also result in a failure to deliver NWM N.V. Group's strategy and could place NWM N.V. Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM N.V. Group's strategy. These data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with customer data protection laws could give rise to, for example, conduct and litigation risks and increased risk of operational events, losses or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions. Any of the above may lead to key business processes being negatively impacted by inappropriately managed data, which could lead to material

financial, customer and regulatory impacts.

NWM N.V. Group relies on attracting, retaining, developing and remunerating diverse senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations. NWM N.V. Group's success depends on its ability to attract, retain, through creating an inclusive environment, and develop and remunerate highly skilled and qualified diverse personnel, including senior management, directors, market trading specialists and key employees, especially for technology and data focused roles, in a highly competitive market, in an era of strategic change and under internal cost reduction pressures.

The inability to compensate employees competitively and/or any reduction of compensation as a result of the impact of the NWM Refocusing, the perception that following the Refocusing NWM Group may not be a viable or competitive business, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks in receipt of government support such as NatWest Group), negative economic developments or other factors, could have an adverse effect on NWM N.V. Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which could have an adverse effect on financial position and prospects of NWM N.V. Group.

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of diverse candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may have an adverse impact on NWM Group's employee engagement and the formulation and execution of its strategy and could also have a negative effect on its reputation with customers, investors and regulators. The NWM Refocusing has also reduced NWM N.V. Group's ability to engage in succession planning for critical roles given the recent reduction in headcount. This has placed increased risk on employee turnover within revenue generating areas.

Sustained periods of remote working may also negatively affect workforce morale. Whilst NWM N.V. Group has taken measures seeking to maintain the health, wellbeing and safety of its employees, these measures may be ineffective.

Some of NWM N.V. Group's employees are represented by employee representative bodies, including a works council. Engagement with its employees and such bodies is important to NWM N.V. Group in maintaining good employee relations. Any breakdown of these relationships could affect NWM N.V. Group's business, reputation, results of operations and outlook.

NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), IT infrastructure and cloud platforms and any IT failure could adversely affect NWM N.V. Group. NWM N.V. Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWM N.V. Group's) transactional and payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), is critical to NWM N.V. Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause serious damage to NWM N.V. Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs or regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect its regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers. This risk is heightened as most of NWM N.V. Group's employees continue to work remotely, as it outsources certain functions and as it continues to innovate and offer new digital solutions to its clients as a result of the trend towards online and digital product offerings (see also '*Risks relating to the COVID-19 pandemic — The COVID-19 pandemic has heightened NWM N.V. Group's operational risks as many of its employees are working remotely which may also adversely affect NWM N.V. Group's ability to maintain effective internal controls*').

In 2021, NWM N.V. Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). As part of the NWM Refocusing, NWM Group, including NWM N.V. Group, also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, could negatively affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely impact its competitive position, thereby negatively impacting NWM N.V. Group. See also, '*— NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy (including the NWM Refocusing) and may continue to be subject to significant structural and other change*'.

Remote working may adversely affect NWM N.V. Group's ability to maintain effective internal controls.

From March 2020, many of NWM N.V. Group's employees have worked to a large extent exclusively on a remote basis. Following changes in local requirements in the UK and the jurisdictions NWM N.V. Group operates in, NWM N.V. Group contemplates implementing a new hybrid working policy whereby many employees may work remotely the majority of the time in the ordinary course of their roles.

Remote working arrangements for NWM N.V. Group employees continues to place heavy reliance on the IT systems that enable remote working and increased exposure to fraud, conduct, operational and other risks and may place additional pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities, and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime. See also, '*A failure in NWM N.V. Group's risk management framework could adversely affect NWM N.V. Group, including its ability to achieve its strategic*

objectives.' Moreover, the IT systems that enable remote working interface with third-party systems, and NWM N.V. Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations. See also, '*NWM N.V. Group's operations are highly dependent on its complex IT systems (including those that enable remote working), IT infrastructure and cloud platforms and any IT failure could adversely affect NWM N.V. Group*'.

Sustained periods of remote working may also negatively affect workplace morale. Whilst NWM N.V. Group has taken measures seeking to maintain the health, wellbeing and safety of its employees during the COVID-19 pandemic, these measures may be ineffective. Operational difficulties as a result of the COVID-19 pandemic, which may affect NWM N.V. Group's external stakeholders (including clients), may result in challenges in managing daily cash and liquidity. As a result of remote working, compliance and conduct risk may also be heightened both as a result of internal and external factors.

Any of the above could impair NWM N.V. Group's ability to hire, retain and engage well-qualified employees, especially at a senior level, which in turn may adversely impact NWM N.V. Group's ability to serve its clients efficiently, and impact productivity across NWM N.V. Group. This could adversely affect NWM N.V. Group's reputation and competitive position and its ability to grow its business.

A failure in NWM N.V. Group's risk management framework could adversely affect NWM N.V. Group, including its ability to achieve its strategic objectives.

Risk management is an integral part of all of NWM N.V. Group's activities and includes the definition and monitoring of NWM N.V. Group's risk appetite and reporting on NWM N.V. Group's risk exposure and the potential impact thereof on NWM N.V. Group's financial condition. Risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant

data, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes. Failure to manage risks effectively could adversely impact NWM N.V. Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NatWest Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWM N.V. Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. NWM N.V. Group is dependent on some controls operated by NatWest Group.

NWM N.V. Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM N.V. Group's regulatory obligations, client needs or do not reflect NWM N.V. Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement. NWM N.V. Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM N.V. Group.

These risks may be exacerbated as most of NWM N.V. Group's employees continue to work remotely, which places additional pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks. NWM N.V. Group is seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in its risk management framework. However, such efforts may not insulate NWM N.V. Group from future instances of misconduct and no assurance can be given that NWM N.V. Group's strategy and control framework will be effective. See also, '— *NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and the NWM Refocusing and may continue to be subject to significant structural and other change*'. Any failure in NWM N.V. Group's risk management framework could negatively affect NWM N.V. Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

There is also the risk that the risk management frameworks, as developed by NatWest Group and NWM Group, may not be properly adapted for NWM N.V.'s specific circumstances. Furthermore, NWM N.V. has policies and controls in place to combat financial crime, and has made technological and other investments to detect financial crime. Although NWM N.V. head office is located in Amsterdam (where NWM N.V. risk management function is based), it also operates branches in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain is due to close in the course of 2022). Should such risk policies and controls be inadequate to combat financial crime, particularly in NWM N.V., branches (where there is less direct supervision) there could be an adverse impact on NWM N.V.

NWM N.V. Group's operations are subject to inherent reputational risk. Reputational risk relates to stakeholder and public perceptions of NWM N.V. Group arising from an actual or perceived failure to meet stakeholder expectations, including with respect to the NWM Refocusing and related targets, due to any events, behaviour, action or inaction by NWM N.V. Group, its employees or those with whom NWM N.V. Group is associated. This includes brand damage, which may be

detrimental to NWM N.V. Group's business, including its ability to build or sustain business relationships with clients, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding. Reputational risk may arise whenever there is a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWM N.V. Group's ability to attract and retain clients. In particular, NWM N.V. Group's ability to attract and retain clients may be adversely affected by, amongst others: negative public opinion resulting from the actual or perceived manner in which NWM N.V. Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWM N.V. Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support for NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short timeframes and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although NWM N.V. Group has implemented a Reputational Risk Policy to improve the identification, assessment and management of customers and clients, transactions, products and issues, which represent a reputational risk, NWM N.V. Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Legal, regulatory and conduct risk
NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM N.V. Group.

NWM N.V. Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of Brexit. NWM Group (NWM N.V. Group's parent) expects government and regulatory intervention

in the financial services industry to remain high for the foreseeable future.

In particular, NWM N.V. Group is subject to (i) direct prudential supervision by the DNB and indirect prudential supervision of the ECB; (ii) direct market conduct supervision by the AFM and indirect market conduct supervision by the European Securities and Markets Authority (ESMA); and (iii) supervision by the DNB, as home state supervisor, in respect of NWM N.V. Group's branch offices in France, Germany, Ireland, Italy, Sweden and Spain (although the branch in Spain is due to close in the course of 2022), and to supervision by local regulators in these jurisdictions, as host state supervisors, in respect of certain regulatory aspects of NWM N.V. Group's branch offices' operations that are subject to host state supervision (e.g. anti-money laundering laws). NWM N.V. Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Prudential regulatory requirements:

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Amongst others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the Netherlands, the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced regulations in respect of the provision of 'investment services and activities'), enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations. This has resulted in NWM N.V. Group facing greater regulation and scrutiny in the Netherlands and the other countries in which it operates.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM N.V. Group operates. The competitive landscape for banks and other financial institutions in Europe is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas.

Competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital markets.

Regulatory requirements:

Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the EU have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. For example, NWM N.V. Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risk. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on NWM N.V. Group include, but are not limited to:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM N.V. Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience,

including the EU GDPR, Schrems, the UK Data Protection Framework and the impact of the Court of Justice of the EU (CJEU) decision (known as Schrems II), in which the CJEU ruled that the Privacy Shield (an EU/US data transfer mechanism) is now invalid, leading to more onerous due diligence requirements for the Group prior to sending personal data of its EU customers and employees to non-EEA countries, including the UK and the US;

- the introduction of, and changes to, taxes, levies or fees applicable to NWM N.V. Group's operations, such as the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*), the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in the scope and administration of the Dutch Bank Levy (*bankenbelasting*), changes in tax rates, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- increased regulatory focus on customer protection (such as the FCA's consumer duty consultation paper (CP21/13)) in retail or other financial markets; and
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for banks including NatWest Group (including impact on NWM N.V. Group).

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the Netherlands, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM N.V. Group's authorisations and licences, the products and services that NWM N.V. Group may offer, its reputation and the value of its assets, NWM N.V. Group's operations or legal entity structure, and the manner in which NWM N.V. Group conducts its business. Material consequences could arise

should NWM N.V. Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM N.V. Group to comply with such laws, rules and regulations, may adversely affect NWM N.V. Group's business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWM N.V. Group's ability to engage in effective business, capital and risk management planning.

NWM N.V. Group and NWM Plc are exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group.

NWM N.V. Group's operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant legal proceedings, and civil and criminal regulatory and governmental actions. NWM N.V. Group and NWM Plc have resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM N.V. Group and/or NWM Plc are currently, have recently been and will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, relating to, among other matters, the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer

mistreatment, anti-money laundering, antitrust, VAT recovery and various other compliance issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWM N.V. Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations include NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations, as well as approximately US\$35 million in fines and restitution. For additional information relating to these and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see 'Litigation and regulatory matters' at Note 25 to the consolidated accounts.

The recent guilty plea, other recently resolved matters in the United States, and adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third party scrutiny and could have material collateral consequences for NWM Group's (including NWM N.V. Group's) business and result in restrictions or limitations on NWM Group's (including NWM N.V. Group's) operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM N.V. Group, particularly but not solely in the US, which may take a significant period of time and the results of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely impact NWM N.V. Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties could adversely impact NWM N.V. Group's reported financial results and condition, capital position or reputation. Similar

consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWM N.V. Group to its regulators may result in additional measures or penalties being taken against NWM N.V. Group.

NWM N.V. Group may not effectively manage the transition of LIBOR and other IBOR rates to alternative risk-free rates.

UK, Dutch and other European and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), including LIBOR, to alternative rates, primarily risk-free rates ('RFRs').

As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2 month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1, 3, and 6 month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability) Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have not pro-actively transitioned onto alternative rates. However, the FCA has been clear that the solutions provided under UK BMR and the Critical Benchmarks Act are not permanent and cannot be guaranteed after the end of 2022 (and for JPY the FCA has confirmed that Art23A LIBOR will no longer be available after the end of 2022). This framework and its lack of permanence may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts onto alternative rates and, depending on the notice given for any further restrictions, this transition may need to be completed very quickly; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR as the FCA has chosen not to permit the use of Art23A LIBOR for cleared derivatives. Although the formal cessation date for

the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have been clear that this is only to support the rundown of back book USD LIBOR exposures, and that no new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NatWest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors up until they cease at the end of June 2023.

Natwest Group had significant exposures to IBORs and has actively sought to transition away from these during 2021, in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products on using alternative rates, primarily but not exclusively RFRs rather than LIBOR, pro-actively restructuring existing LIBOR exposures so that they cease to reference LIBOR and instead reference alternative rates and embedding language into contracts that allows for the automatic conversion to alternative rates when LIBOR ceases to be available. The main Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR cleared derivatives to fully transition all outstanding LIBOR exposure to the relevant RFR. Key Natwest Group entities, along with many of their major counterparties, have already adhered to the ISDA IBOR fall-backs supplement and protocol which establishes a clear, industry accepted, contractual process to manage the transition from IBORs to RFRs for non-cleared derivative products.

These transition efforts have involved extensive engagement with customers, industry working groups and regulators, seek to deliver transition in a transparent and economically appropriate manner. Any economic impacts will be dependent on, amongst other things, the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be pro-actively changed which could, depending on any over-arching legislative transition frameworks, potentially result in fundamentally different economic outcomes than originally intended. The uncertainties around the manner of transition to RFRs, and the ongoing broader acceptance and use of RFRs across the market, expose NWM N.V. Group, its clients and the financial services industry more widely to risks.

Examples of these risks may include: (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, but not limited to, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to impacted IBORs that may impact NWM N.V. Group's performance, including its cost of funds, and its risk management related financial models; (iii) pricing, interest rate or settlement risks, such as changes to benchmark rates could impact pricing, interest rate or settlement mechanisms on certain instruments; (iv) operational risks due to the requirement to adapt IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct and litigation risks arising from communication regarding the potential

impact on customers, and engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto alternative rates has been fully completed, and there is greater experience of how RFRs are adopted across different products and customer groups, it remains difficult to determine to what extent the changes will affect the NWM N.V. Group, or the costs of implementing any relevant remedial action. Uncertainty as to the nature and extent of such potential changes, the take up of alternative reference rates or

other reforms, may adversely affect financial instruments originally referencing LIBOR as their benchmark. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of certain financial instruments and could have an adverse effect on the value of, return on and trading market for, certain financial instruments and on the NWM N.V. Group's profitability.

Additional information

Major shareholders

NatWest Markets N.V. is 100% owned by RBS Holdings N.V.. In turn, RBS Holdings N.V. is a 100% subsidiary of NatWest Markets Plc.

Stock exchange listings

None of the shares in the NatWest Markets N.V. Group are listed.

Issued share capital

The issued share capital of NWM N.V. consists of 11,112 ordinary shares with a nominal value of €4.50 each.

Dividends

The NatWest Markets N.V. Group's policy is to pay dividends on ordinary shares taking account the capital position and prospects. For further information on the payment of dividends, refer to Note 19 to the consolidated financial statements.

Off-balance sheet arrangements

NatWest Markets N.V. Group has no off-balance sheet arrangements that have or are reasonably likely to have an adverse effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

For further information on off-balance sheet commitments and contingent liabilities see Note 23 to the consolidated financial 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 NWM N.V. Group's future economic results, business plans and current strategies. In particular, this document may include forward-looking statements relating to NWM N.V. Group in respect of, but not limited to: the impact of the COVID-19 pandemic, NWM N.V.'s regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the NWM Group refocusing and implementation of NatWest Group's Purpose-led strategy, its 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 and ensuring operational continuity in resolution, its credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigation, the transition of LIBOR and other IBOR rates to alternative risk free rates and NWM N.V. Group's exposure to economic and political risks (including with respect to 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, general economic and political conditions and the impact of climate related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWM N.V. Group's actual results are discussed in NWM N.V. Group's 2021 Annual Report and Accounts (ARA) and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and NWM N.V. Group 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.