NatWest Holdings Limited

2022 Annual Report and Accounts

Strategic report

Presentation of information

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

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

Description of business

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

Principal activities and operating segments

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

Two changes to reportable segments have been made:

On 27 January 2022, NatWest Group announced that a new business segment, Commercial & Institutional, would be created, bringing together the Commercial, NatWest Markets and RBSI businesses to form a single business segment, with common management and objectives, to best support our customers across the full non-personal customer lifecycle.

Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021, Ulster Bank RoI continuing operations are now included in Central items & other.

Comparatives have been re-presented. The re-presentation of operating segments does not change the consolidated financial results of NWH Group.

The reportable operating segments are as follows:

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

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

Commercial & Institutional offers SME's, Commercial, Corporate and Institutional customers comprehensive banking and financing solutions throughout the UK and internationally.

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

Business profile

As at 31 December 2022 the business profile of the NWH Group was as follows:

- Total assets of £493.7 billion.
- A Common Equity Tier 1 (CET1) ratio at 31 December 2022 of 12.8% and total risk-weighted assets (RWAs) of £143.6 billion.
- Customers are served through a UK network of branches and ATM services, and relationship management structures in commercial & institutional and private banking.
- The geographic location of customers is predominately the UK.

Performance overview

Strong financial performance

Profit from continuing operations was £3,994 million compared with £2,998 million in 2021, driven by increased total income, partially offset by net impairment losses.

Total income increased by £2,558 million to £12,574 million compared with £10,016 million in 2021, reflecting mortgage balance growth and a beneficial impact from interest rate increases, combined with higher transaction-related fee income.

Operating expenses increased by £3 million to £6,899 million, compared with £6,896 million in 2021, primarily reflecting continued investment in our technology and data capabilities, partially offset by a reduction in conduct and litigation charges. The cost:income ratio decreased from 68.8% to 54.9%.

Net impairment losses of £328 million principally reflects the latest macro-economics, including updated scenarios, with more weight being placed on the downside scenarios. Underlying book performance remains strong. Total impairment provisions reduced by £0.3 billion to £3.3 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.06% as at 31 December 2021 to 0.96%.

Robust balance sheet with strong capital levels.

Total assets decreased by £47.4 billion to £493.7 billion compared with £541.1 billion at 31 December 2021. This was primarily driven by a net decrease of £33.1 billion in cash balances, resulting from deposit outflows due to an overall market liquidity contraction.

Loans to customers increased by £3.8 billion to £339.9 billion primarily driven by growth in retail mortgage balances and an increase in commercial lending due to increased facility utilisation, partially offset by continued UK Government financial support scheme repayments.

Customer deposits decreased by £27.9 billion to £412.1 billion driven primarily by overall market liquidity contraction and the impact of our phased withdrawal from the Republic of Ireland.

The CET1 ratio decreased 310 basis point over the period, due to a £1.3 billion decrease in CET1 and a £19.5 billion increase in RWAs. The CET1 decrease reflects the attributable profit in the period, offset by dividends paid, the removal of an adjustment for prudential amortisation on software development costs, an increase in intangible assets and a decrease in the IFRS 9 transition adjustment.

Total RWAs increased by £19.5 billion mainly reflecting an increase in credit risk RWAs of £20.4 billion, primarily due to model adjustments applied as a result of new regulation, and a decrease in operational risk RWAs of £0.7 billion following the annual recalculation.

Stakeholder engagement and s.172(1) statement

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

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2022, they remained customers, investors, regulators, colleagues, communities and suppliers. Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on page 84 (Corporate governance statement).

Supporting effective Board discussions and decision-making

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

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

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

Principal decisions

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

This statement describes two examples of principal decisions taken by the Board during 2022. Further information on the Board's principal activities can be found in the corporate governance statement on pages 84 to 90.

Key

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

Case Study 1 – Appointing a new non-executive director

Factors considered: A C E

What was the decision-making process?

On 30 September 2022, the Board approved the appointment of Roisin Donnelly as an independent non-executive director with effect from 1 October 2022. The appointment followed a rigorous search process led by the NWH Ltd Nominations Committee on behalf of the Board.

To support the Board's decision, a detailed paper described how Ms Donnelly had been identified as the preferred candidate. Directors considered how the role specification criteria had been met, and how the appointment would enhance the Board's composition, including its diversity.

Following discussion, the Board approved the appointment, noting that Ms Donnelly would bring extensive customer, digital, ESG, marketing and branding experience to the Boardroom.

How did the directors fulfil their duties under section 172 and how were stakeholders considered?

In identifying the skills, knowledge and experience required at Board level to support delivery of NatWest Group's purpose and strategic priorities, a long-term view was taken.

From a customer perspective, the Board discussed how Ms Donnelly's strengths in consumer markets, data and digital transformation would enhance the Board. It would also help with supporting business transformation and growth.

In the context of maintaining a reputation for high standards of business conduct, directors considered detailed character references from Ms Donnelly's current and previous Boards prior to approval, and in order to support their assessment of Ms Donnelly's fitness, propriety and suitability. Directors also noted that Ms Donnelly had sufficient time to devote to the role and that the UK Corporate Governance Code criteria on director independence would be met.

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

Ensuring a diverse Board with an appropriate balance of skills, knowledge and experience is critical in delivering effective Board oversight of the business, which in turn supports our purpose.

Actions and outcomes

Since joining the Board, Ms Donnelly has embarked on a tailored induction programme, spending time with key stakeholders to deepen her knowledge of the business and the context in which it operates.

Further details on the search process leading to Ms Donnelly's appointment can be found in the Group Nominations and Governance Committee report on pages 106 to 107 of the NatWest Group plc 2022 Annual Report and Accounts.

Case Study 2 – Approving capital distributions

Factors considered: A C

What was the decision-making process?
During 2022, the Board approved two interim dividends. The Board received comprehensive papers from management and its decisions were informed by 2022 capital plans as well as regular updates on NWH Ltd's financial and capital positions. The Board Risk Committee also reviewed all capital distributions proposals in advance of Board consideration and recommended them to the Board for approval.

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

How was NatWest Group's purpose considered as part of the decision?
The Board is aware that in taking decisions on capital distributions, it also needs to consider the financial implications of those decisions in terms of continuing to support customers and maintaining financial stability.

Actions and outcomes
The Board approved an interim dividend of £1.9 billion which was paid on 22 February 2022 and an interim dividend of £1.7 billion which was paid on 29 July 2022 with both interim dividends payable to NatWest Group plc as the sole shareholder.

Further details on how NatWest Group engages with its stakeholders can be found in the NatWest Group plc 2022 Annual Report and Accounts and at natwestgroup.com.

Board of directors and secretary

Approval of Strategic report

The Strategic report for the year ended 31 December 2022 set out on pages 2 to 83 was approved by the Board of directors on 16 February 2023.

By order of the Board
Jan Cargill

Chief Governance Officer and Company Secretary
16 February 2023

Chairman
Howard Davies

Executive directors
Alison Rose-Slade DBE (CEO)
Katie Murray (CFO)

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

Board and committee membership

Nominations Committee
Howard Davies (Chair)
Graham Beale
Patrick Flynn
Morten Friis
Mark Seligman
Lena Wilson

Audit Committee
Patrick Flynn (Chair)
Graham Beale
Ian Cormack
Morten Friis
Mark Seligman

Board Risk Committee
Morten Friis (Chair)
Francesca Barnes
Graham Beale
Ian Cormack
Patrick Flynn
Lena Wilson

Performance and Remuneration Committee
Lena Wilson (Chair)
Ian Cormack
Mike Rogers
Mark Seligman

Sustainable Banking Committee
Mike Rogers (Chair)
Francesca Barnes
Graham Beale
Yasmin Jetha
Lena Wilson

Senior independent non-executive director
Graham Beale

Chief Governance Officer and Company Secretary
Jan Cargill

Board changes in 2022
Roisin Donnelly (non-executive director) appointed on 1 October 2022.

Robert Gillespie (non-executive director) resigned on 15 December 2022.

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

Auditor

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London E14 5EY

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250 Bishopsgate
London, EC2M 4AA
Telephone: +44 (0)20 7085 5000

Other principal offices

Ulster Bank Ireland DAC
Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin 18, D18 N153

Ulster Bank Limited
11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland

Coutts & Company
440 Strand
London WC2R 0QS

Lombard North Central PLC
250 Bishopsgate
London EC2M 4AA

NatWest Holdings Limited
Registered in England No. 10142224

Financial review

Summary consolidated income statement for the year ended 31 December 2022

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Year ended 31 December 2022	Year ended 31 December 2021 (1)	Variance	
	£m	£m	£m	£m	£m	£m	£m	%
Net interest income	5,335	774	3,539	(350)	9,298	7,300	*1,998*	*27*
Non-interest income	435	278	1,483	1,080	3,276	2,716	*560*	*21*
Total income	5,770	1,052	5,022	730	12,574	10,016	*2,558*	*26*
Operating expenses	(2,527)	(598)	(2,345)	(1,429)	(6,899)	(6,896)	*(3)*	—
Profit/(loss) before impairment losses/releases	3,243	454	2,677	(699)	5,675	3,120	*2,555*	*82*
Impairment (losses)/releases	(229)	2	(112)	11	(328)	1,086	*(1,414)*	*(130)*
Operating profit/(loss)	3,014	456	2,565	(688)	5,347	4,206	*1,141*	*27*
Tax charge					(1,353)	(1,208)	*(145)*	*12*
Profit from continuing operations					3,994	2,998	*996*	*33*
(Loss)/profit from discontinued operations, net of tax					(262)	464	*(726)*	*(156)*
Profit for the year					3,732	3,462	*270*	*8*

Key metrics and ratios	2022	2021
Cost:income ratio (%) (2)	54.9	68.8
Loan impairment rate (%) (3)	0.10	(0.35)
CET1 ratio (%) (4)	12.8	15.9
Leverage ratio (%) (5)	5.4	5.6
Risk weighted assets (£bn)	143.6	124.1

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Cost:income ratio is total operating expenses divided by total income.
(3) Loan impairment rate is the loan impairment charge divided by gross customer loans.
(4) Common Equity Tier 1 (CET1) ratio is CET1 capital divided by RWAs.
(5) Leverage ratio is Tier 1 capital divided by total exposure. This is in accordance with changes to the UK's leverage ratio framework, refer to page 66 for further details.

NWH Group reported a profit of £3,732 million compared with £3,462 million in 2021, driven by an increase in total income of £2,558 million, partially offset by impairment losses of £328 million and losses from discontinued operations of £262 million relating to the phased withdrawal from the Republic of Ireland.

Total income increased by £2,558 million, or 26%, to £12,574 million compared with £10,016 million in 2021.

Net interest income increased by £1,998 million, or 27%, to £9,298 million compared with £7,300 million in 2021, reflecting mortgage balance growth and a beneficial impact from interest rate increases.

Non-interest income increased by £560 million, or 21%, to £3,276 million compared with £2,716 million in 2021.

Net fees and commissions increased by £138 million to £1,985 million, primarily reflecting increased transaction-related fee income.

Other operating income increased by £422 million to £1,291 million compared with £869 million in 2021, reflecting:

- £429 million higher income from hedging activities, including gains on economic hedging derivatives, due to interest rate rises;
- an additional £129 million of income from the recharging of costs to other NatWest Group entities, principally reflecting the impact of organisational restructure activity;
- reduced losses of £11 million compared to £133 million in 2021 upon partial redemption of debt instruments;
- non-repeat of 2021 incurred losses of £44 million upon the sale of properties;
- an £80 million profit from insurance liabilities; partially offset by bond disposal losses of £88 million in 2022, a reduction of £208 million compared with gains of £120 million in 2021;
- non-repeat of £54 million consideration received upon the sale of Adam & Company's investment management business in 2021; and
- reduced income from the continuing operations of Ulster Bank RoI due to the phased withdrawal from the Republic of Ireland.

Operating expenses are broadly flat at £6,899 million, compared with £6,896 million in 2021, reflecting:

- a staff costs increase of £135 million primarily due to continued investment in key areas, including Data, Technology and Financial Crime, as well as an increase in costs subsequently recharged to other NatWest Group entities;
- additional increases in premises and equipment and outsourcing costs resulting from investment in technology and data capabilities; partially offset by
- non-repeat of a £85 million impairment of goodwill and certain conduct and litigation charges incurred in 2021.

Net impairment losses of £328 million principally reflects the latest macro-economics, including updated scenarios, with more weight being placed on the downside scenarios. Underlying book performance remains strong. Total impairment provisions reduced by £0.3 billion to £3.3 billion in the year, which resulted in a reduction in the ECL coverage ratio from 1.06% as at 31 December 2021 to 0.96%.

Segment Performance

Retail Banking

Operating profit was £3,014 million, compared with £2,050 million in 2021.

Net interest income increased by £1,199 million to £5,335 million compared with £4,136 million in 2021, primarily reflecting £14.3 billion balance growth in mortgages and higher deposit income supported by interest rate rises.

Non-interest income increased by £64 million to £435 million, compared with £371 million in 2021, primarily reflecting higher transaction-related fee income.

Operating expenses increased by £33 million to £2,527 million compared with £2,494 million in 2021, primarily reflecting investment in Financial Crime prevention and Data capabilities, partially offset by non-repeat of a £85 million impairment of goodwill incurred in 2021.

Net impairment losses of £229 million reflects additional losses relating to good book exposures, driven by revision of the economic scenario weightings with more weight being placed on the downside. Stage 3 defaults remain at a low level.

Loans to customers increased by £15.4 billion to £197.6 billion, reflecting strong mortgage growth of £14.3 billion, with gross new mortgage lending of £41.3 billion. Personal advances increased by £0.3 billion and credit card balances increased by £0.2 billion in 2022 reflecting continued strong customer demand.

Customer deposits decreased by £0.6 billion to £188.4 billion driven by higher outflows from savings accounts due to increases in inflation and costs of living.

Private Banking

Operating profit was £456 million compared with £349 million in 2021.

Net interest income increased by £294 million to £774 million in 2022, reflecting lending balance growth, combined with higher deposit returns supported by interest rate rises.

Non-interest income decreased by £58 million to £278 million in 2022, primarily reflecting the non-repeat of £54 million consideration received on the sale of Adam & Company's investment management business in 2021.

Operating expenses increased by £76 million to £598 million in 2022, principally due to continued investment in people and technology to enhance AUMA growth propositions and increased investment in financial crime prevention.

A net impairment release of £2 million in 2022 mainly reflects ECL provision releases in non-default portfolios, partially offset by a revision of the economic outlook scenario assumptions.

Loans to customers increased by £0.8 billion to £19.2 billion, driven by continued strong mortgage lending growth.

Customer deposits increased by £1.9 billion to £41.2 billion, with continued savings growth.

Commercial & Institutional

Operating profit was £2,565 million, compared with a profit of £2,644 million in 2021.

Net interest income increased by £864 million to £3,539 million, compared with £2,675 million in 2021, primarily driven by lending growth and the beneficial impact of increased interest rates.

Non-interest income increased by £208 million to £1,483 million, primarily reflecting higher card payment fees driven by transaction volume growth, and higher income from hedging activities resulting from recent interest rate rises.

Operating expenses decreased by £35 million to £2,345 million, compared with £2,380 million primarily reflecting staff cost efficiencies.

Net impairment losses of £112 million was primarily driven by the downward revision of economic outlook scenario assumptions.

Loans to customers increased by £2.3 billion to £103.5 billion, primarily due to increased facility utilisation, partially offset by continued UK Government financial support scheme repayments.

Customer deposits decreased by £12.6 billion driven by higher outflows from savings and current accounts due to overall market liquidity contraction in the second half of the year.

Central items & other

Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021, Ulster Bank RoI continuing operations are now included in Central items & other.

Operating loss was £688 million in 2022 compared with £837 million in 2021.

Total income decreased by £13 million to £730 million in 2022, compared with £743 million in 2021, primarily due to a £208 million reduction in income from bond disposals, and reduced income from the continuing operations of Ulster Bank RoI due to the phased withdrawal from the Republic of Ireland. These were partially offset by higher income from hedging activities, including gains on economic hedging derivatives, due to interest rate rises; £80 million profit from insurance liabilities, reduced losses of £11 million compared to £133 million in 2021 upon partial redemption of debt instruments and non-repeat of 2021 incurred losses of £44 million upon the sale of properties.

Operating expenses decreased by £71 million to £1,429 million, compared with £1,500 million in 2021, principally due to the non-repeat of 2021 litigation and conduct costs, partially offset by additional costs associated with withdrawal from the Republic of Ireland. £665 million of total expenses were recovered through service charges in non-interest income.

Summary consolidated balance sheet as at 31 December 2022

	2022	2021	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks	**110,813**	143,892	(33,079)	(23)
Derivatives	**1,530**	1,980	(450)	(23)
Loans to banks - amortised cost	**4,338**	5,411	(1,073)	(20)
Loans to customers - amortised cost	**339,909**	336,077	3,832	1
Amounts due from holding company and fellow subsidiaries	**570**	603	(33)	(5)
Other financial assets	**15,683**	31,186	(15,503)	(50)
Intangible assets	**6,769**	6,395	374	6
Other assets	**7,252**	6,564	688	10
Assets of disposal groups	**6,861**	9,015	(2,154)	(24)
Total assets	**493,725**	541,123	(47,398)	(9)
Liabilities				
Bank deposits	**17,045**	24,205	(7,160)	(30)
Customer deposits	**412,080**	440,015	(27,935)	(6)
Amounts due to holding company and fellow subsidiaries	**20,313**	25,548	(5,235)	(20)
Derivatives	**1,808**	4,052	(2,244)	(55)
Other financial liabilities	**5,384**	7,252	(1,868)	(26)
Subordinated liabilities	**273**	284	(11)	(4)
Notes in circulation	**3,218**	3,047	171	6
Other liabilities	**4,363**	4,965	(602)	(12)
Total liabilities	**464,484**	509,368	(44,884)	(9)
Total equity	**29,241**	31,755	(2,514)	(8)
Total liabilities and equity	**493,725**	541,123	(47,398)	(9)

Total assets decreased by £47.4 billion to £493.7 billion as at 31 December 2022, compared with £541.1 billion as at 31 December 2021.

Cash and balances at central banks decreased by £33.1 billion to £110.8 billion, compared with £143.9 billion as at 31 December 2021, driven primarily by:

- £29.7 billion decrease mainly due to customer deposit outflows, driven by an overall market liquidity contraction;
- £8.9 billion decrease in balances held at central banks;
- £3.5 billion decrease due to repo activity; and
- £3.8 billion dividend payments to NWG during the period; partially offset by,
- £11.7 billion net increase in liquidity assets held.

Loans to banks – amortised cost decreased by £1.1 billion to £4.3 billion, compared with £5.4 billion as at 31 December 2021, mainly representing a decrease in US dollar and European Central Bank balances as part of treasury activities.

Loans to customers increased by £3.8 billion to £339.9 billion, compared with £336.1 billion as at 31 December 2021, driven by:

- £15.3 billion mortgage growth as a result of strong gross new lending; and
- £2.3 billion net increase in commercial lending, primarily due to increased facility utilisation, whilst repayments drove further reductions in UK Government scheme balances.
- These were partially offset by £6.8 billion net decrease in reverse repo activity;
- £1.4 billion decrease due to collateral placed for net repo trades; and
- £6.4 billion reduction due to the continued withdrawal from the Republic of Ireland.

Amounts due from holding companies and fellow subsidiaries of £0.6 billion remain broadly flat and reflect intercompany balances with entities outside the ring-fenced bank.

Other financial assets decreased by £15.5 billion to £15.7 billion, primarily reflecting bond disposals of £20.7 billion and maturities of £4.7 billion, partially offset by £11.9 billion of bond purchases.

Assets of disposal groups decreased by £2.2 billion due to disposals related to the phased withdrawal from the Republic of Ireland.

Bank deposits decreased by £7.2 billion to £17.0 billion, driven primarily by a decrease in repo balances.

Customer deposits decreased by £27.9 billion to £412.1 billion, primarily driven by higher outflows from savings and current account balances of £12.6 billion, due to an overall market liquidity contraction, and £12.3 billion due to the phased withdrawal from the Republic of Ireland. There has also been a £5.0 billion decrease in repo positions facing customers, partially offset by £1.9 billion deposit growth in Private Banking.

Amounts due to holding companies and fellow subsidiaries decreased by £5.2 billion to £20.3 billion, compared with £25.5 billion as at 31 December 2021, primarily due to movements on balances with NWG Plc and NWM Plc.

Derivative liabilities decreased by £2.2 billion to £1.8 billion, compared with £4.0 billion as at 31 December 2021, driven by interest rate rises across all currencies and GBP spot rate depreciation.

Other financial liabilities decreased by £1.9 billion to £5.4 billion, compared with £7.3 billion as at 31 December 2021, driven by a reduction in long term fixed rate investment products, as a result of the current market environment and increasing rates outlook.

Other liabilities decreased by £0.6 billion to £4.4 billion, compared with £5.0 billion as at 31 December 2021, primarily due to a reduction in financial guarantees and accruals.

Total equity decreased by £2.5 billion to £29.2 billion, compared with £31.8 billion as at 31 December 2021. The decrease reflects dividends paid to NatWest Group plc and a decrease in cash flow hedging reserves due to interest rate rises, partially offset by attributable profit for 2022 of £3.7 billion.

Risk and capital management

Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 10 to 83) is within the scope of the Independent auditor's report. Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in NWH Group.

Risk management framework

Introduction

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

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

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

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

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

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

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

Risk management framework continued

Culture

Risk culture is at the heart of NWH Group's risk management framework and its risk management practice. In 2022, the approach to risk culture was refreshed under the new banner of Intelligent Risk Taking to re-intensify focus on robust risk management behaviours and practices. NWH Group expects leaders to act as role models for strong risk behaviours and practices building clarity, developing capability and motivating employees to reach the required standards set out in the Intelligent Risk Taking approach. Colleagues are expected to:

- Consistently role-model the values and behaviours in Our Code, based on strong ethical standards which underpin Our Purpose.
- Empower others to take risks aligned to NWH Group's strategy, explore issues from a fresh perspective, and tackle challenges in new and better ways across organisational boundaries.
- Manage risk in line with appropriate risk appetite.
- Ensure each decision made keeps NWH Group, colleagues, customers, communities and shareholders safe and secure.
- Understand their role in managing risk; remaining clear and capable, grounded in knowledge of regulatory obligations.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses, reporting and communicating these transparently.
- Challenge others' attitudes, ideas and actions.

The target Intelligent Risk Taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious. These aim to 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 may be mandatory, role-specific or for personal development. Mandatory learning for all staff is focused on keeping employees, customers and NatWest Group safe. This is easily accessed online and is assigned to each person according to their role and business area. The system allows monitoring at all levels to ensure completion.

Our Code

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

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

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

Risk management framework continued
Governance
Committee structure
The diagram shows NWH Ltd risk committee structure in 2022 and the main purposes of each committee.

NatWest Holdings Ltd Board

Considers material risks and approves, as appropriate, actions recommended by the Board Risk Committee. Monitors performance against risk appetite. Reviews and approves the Risk Management Framework and the risk appetite for key risks in accordance with the Risk Appetite Framework.

Board Risk Committee

Provides oversight and advice to the Board on current and future risk exposures, future risk profile, including risk appetite. Oversees the effectiveness of NWH Risk Management Framework and (with the Audit Committee) the system of internal controls required to manage risk. Reviews the operating model, adequacy and effectiveness of Risk resource.

Audit Committee

Assists the boards of the NWH sub-group in carrying out their accounting, internal control and financial reporting responsibilities, including consideration of non-financial disclosures or related controls. Reviews the effectiveness of the system of internal controls relating to financial management and compliance with financial reporting, asset safeguarding and accounting standards.

Executive Risk Committee

Supports the NWH CEO in discharging her risk management accountabilities. Reviews and challenges all material risk and control matters across NWH. Reviews the NWH Risk Management Framework and supports the NWH CROs NWH CEOs recommendation of it to NWH BRC and oversees its implementation. Reviews the performance of NWH relative to risk appetite and monitors any risk trends and concentrations. Reviews all material risk exposures and proposed mitigating actions and the performance of NWH relative to risk appetite.

Executive Committee

Supports the CEO in discharging her individual accountabilities, reflecting the authority delegated to her by the NWH sub-group Boards. Reviews, challenges and debates all aspects of NWH sub-group; including strategic, financial, capital, risk and operational issues. Supports the CEO in forming recommendations to the boards and committees and in forming recommendations on relevant items before their escalation.

Asset & Liability Management Committee

Supports the CFO in overseeing the effective management of the NWH Group legal entities' current and future balance sheets, ensuring they operate within NatWest Group and NWH subsidiary risk appetites, policies and chosen business strategy, and comply with regulatory and legal requirements (including ring-fencing requirements) on a forward-looking basis.

Executive Disclosure Committee

Supports the CFO in discharging her accountabilities in respect of production and integrity of the NWH Sub-Group's financial information and disclosures. Reviews all significant disclosures made by NatWest sub-group and UBIDAC to ensure they are accurate, complete and fairly represent the business of the NWH legal entities and their financial condition. Supports the CRO in reviewing and evaluating all significant expected credit losses and the CFO in reviewing and evaluating related provisions and valuations.

Business and function risk committees

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

(1) The NatWest Group Chief Executive Officer also performs the role of NWH Group Chief Executive Officer.
(2) The NatWest Group Chief Risk Officer also performs the role of NWH Group Chief Risk Officer.
(3) The NatWest Group Chief Financial Officer also performs the role of NWH Group Chief Financial Officer.

Risk management framework continued

Risk management structure

The diagram shows NWH Group's risk management structure in 2022 and key risk management responsibilities.

NatWest Group Chief Executive Officer

NWH Chief Executive Officer

NatWest Group Chief Risk Officer

NWH Chief Risk Officer

Director of Risk, Retail Banking
Design and delivery of Retail Banking risk strategy and service proposition. Oversight of risk management across Retail Banking. Supports the Ringfence DINEDs[4] through the identification, documentation, resolution and escalation of any potential ring-fencing conflicts of interest relating to decisions made by the Ringfence and Group Chief Risk

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

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

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

Chief Operating Officer
Centralised support for the risk management function. Provides model risk oversight as well as framework design and development. Provides specialist advice on risk culture and risk appetite matters to the Directors of Risk responsible for business oversight.

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

Director of Non-Financial Risk
Centralised oversight of non-financial risk across NWH. Design and delivery of compliance & conduct strategy and service proposition. Design and delivery of financial crime strategy and service proposition, oversight of financial crime risk management. Provides specialist technical advice to the Directors of Risk responsible for business oversight.

Head of Restructuring
Design and delivery of Restructuring strategy and service proposition.

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

Risk management framework continued

Three lines of defence

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

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

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

The first line of defence is responsible for managing its direct risks, and with the support of specialist functions, 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 NWH Group engages in permissible and sustainable risk-taking activities.

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

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

The third line of defence is responsible for providing independent assurance to the NatWest Group Board, its subsidiary legal entity boards and executive management on the overall design and operating effectiveness of the risk management framework and its components. This includes the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the principal 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 on independence and objectivity.

Risk appetite

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

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

Risk appetite framework

The risk appetite framework supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging threats 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 compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

The Board reviews and approves the risk appetite framework annually.

Establishing risk appetite

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

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

The annual process of reviewing and updating risk appetite statements is completed alongside the business and financial planning process. This ensures that plans and risk appetite are appropriately aligned.

The Board sets risk appetite for all principal risks to help ensure NWH Group is well placed to meet its priorities and long-term targets, even in challenging economic environments. This supports NWH Group in remaining resilient and secure as it pursues its strategic business objectives.

NWH Group's risk profile risk profile is continually monitored and frequently reviewed. Management focus is concentrated on all principal risks as well as the top and emerging risk threats that may correlate to them.

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 comprises:

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

Mitigation

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

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that arise from risk mitigation actions themselves) are also considered. Monitoring and review processes are in place to evaluate results. Early identification, and effective management of changes in legislation and regulation are critical to the successful mitigation of compliance and conduct risk. The effects of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Emerging threats 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

Specific activities relating to compliance and conduct, credit and financial crime risks are subject to testing and monitoring by the risk function. This confirms to both internal and external stakeholders – including the Board, senior management, the customer-facing businesses, Internal Audit and NWH Group's regulators – that risk policies and procedures are being correctly implemented and that they are operating adequately and effectively. Selected key controls are also reviewed for adequacy and effectiveness. Thematic reviews and targeted reviews are also carried out where relevant to ensure appropriate customer outcomes.

Independent testing and monitoring is also completed on principal risk processes and controls – including controls within the scope of Section 404 of the Sarbanes-Oxley Act 2002.

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

Stress testing

Stress testing – capital management

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

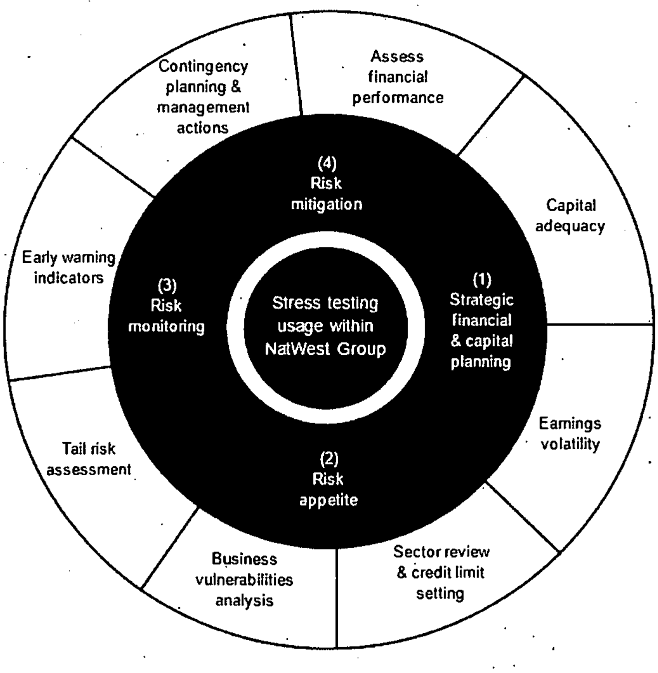
Stress testing includes:

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

The process for stress testing consists of four broad stages:

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

Stress testing is used widely across NatWest Group. The diagram below summarises key areas of focus.



Risk management framework continued

Specific areas that involve capital management include:

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

Reverse stress testing is also carried out in order to identify and assess scenarios that would cause NatWest Group's business model to become unviable. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully.

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They incorporate economic variables and key assumptions on balance sheet and P&L drivers, such as impairments, to demonstrate that NatWest Group and its operating subsidiaries maintain sufficient capital. A range of future states are tested. In particular, capital requirements are assessed:

- Based on a forecast of future business performance, given expectations of economic and market conditions over the forecast period.
- Based on a forecast of future business performance under adverse economic and market conditions over the forecast period. Scenarios of different severity may be examined.

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

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Internal Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of severe but plausible stress scenarios.

Risk management framework continued

Each scenario evaluates either an idiosyncratic, market-wide or combined stress event as described in the table below.

Type	Description
Idiosyncratic scenario	The market perceives NatWest Group to be suffering from a severe stress event, which results in an immediate assumption of increased credit risk or concerns over solvency.
Market-wide scenario	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. NatWest Group is affected under this scenario but no more severely than any other participants with equivalent exposure.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

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

Stress testing – recovery and resolution planning

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

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

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

The plan is intended to enable NatWest Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring NatWest Group's financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The plan is reviewed and approved by the Board prior to submission to the PRA each year. Individual recovery plans are also prepared for NatWest Holdings Limited, NatWest Markets Plc, RBS International Limited and NatWest Markets N.V.. These plans detail the recovery options, recovery indicators and escalation routes for each entity.

Fire drill simulations of possible recovery events are used to test the effectiveness of NatWest Group and individual legal entity recovery plans. The fire drills are designed to replicate possible financial stress conditions and allow senior management to rehearse the responses and decisions that may be required in an actual stress event. The results and lessons learnt from the fire drills are used to enhance NatWest Group's approach to recovery planning.

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

Resolution would be implemented if NatWest Group was assessed by the UK authorities to have failed and the appropriate regulator put it into resolution. The process of resolution is owned and implemented by the Bank of England (as the UK resolution authority). NatWest Group ensures ongoing maintenance and enhancements of its resolution capabilities, in line with regulatory requirements.

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Risk management framework continued

Internal scenarios

During 2022, NatWest Group ran a number of internal scenarios developed in the immediate aftermath of Russia's invasion of Ukraine.

These scenarios considered different outcomes to the conflict, including an assumed broadening of the conflict, and how those might manifest in terms of macroeconomic impact. This included commodity market and associated inflationary pressures, supply chain impacts, financial sector linkages and broader knock-on impacts to the UK labour and asset markets. Impacts on operational aspects to NatWest Group were also considered.

Applying the macro-scenarios to NatWest Group's earnings, capital, liquidity and funding positions did not result in a breach of any regulatory thresholds.

Regulatory stress testing

The Bank of England returned to the annual cyclical scenario (ACS) stress test framework in 2022 and published the scenario on 26 September 2022. This follows two years of COVID-19 crisis-related stress testing and the decision to postpone the test in March following Russia's invasion of Ukraine. NatWest Group has participated in this stress test and the results will be published in summer 2023 and, along with other relevant information, will be used to help inform NatWest Group capital buffers (both the UK countercyclical capital buffer rate and PRA buffers).

The 2022 stress test aims to assess the impact of a UK and global macroeconomic stress on UK banks, spanning a five-year period from Q3 2022 to Q2 2027. It is a coherent 'tail risk' scenario designed to be severe and broad enough to assess the resilience of UK banks to a range of adverse shocks.

The stress scenario is broadly similar to the 2019 ACS and more severe overall than the global financial crisis, with the key difference being elevated levels of inflation. Annual UK inflation averages around 11% over the first three years of the scenario, while peaking at 17% in early 2023 and does not begin to fall until the second half of the year.

The stress is based on an end-of-June 2022 balance sheet starting position.

Further details on the scenario and ACS Stress test can be found at https://www.bankofengland.co.uk/stress-testing/2022/key-elements-of-the-2022-stress-test

Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group will take part in the European Banking Authority stress tests going forward. NatWest Group itself will not participate.

NatWest Group also took part in the Bank of England's Climate Biennial Exploratory Scenario conducted in late 2021 and early 2022.

Credit risk

Definition (audited)

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

Sources of risk (audited)

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

Governance (audited)

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

Governance activities include:

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

Risk appetite

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

Personal

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

Wholesale

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

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

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

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

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

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

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

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios across NWH Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

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

Residential mortgages – NWH Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. NWH Group values residential property individually during the loan underwriting process, either by obtaining an appraisal by a suitably qualified appraiser (for example Royal Institution of Chartered Surveyors (RICS)) or using a statistically valid model. In both cases, a sample of the valuation outputs are periodically reviewed by an independent RICS qualified appraiser. NWH Group updates Retail Banking UK residential property values quarterly using country (Scotland, Wales and Northern Ireland) or English regional specific Office for National Statistics House Price indices.

Credit risk continued

Within the Private Banking segment, properties securing loans greater than £2.5 million are revalued every three years.

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

Commercial real estate valuations – NWH Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which NWH Group takes collateral. Suitable RICS registered valuers for particular assets are typically contracted through a service agreement to ensure consistency of quality and advice. In the UK, an independent third-party market indexation is applied to update external valuations for commercial property once they are more than a year old. For obligations in excess of £2.5 million and where the charged property has a book value in excess of £0.5 million, a formal valuation review is commissioned at least every three years. In the Republic of Ireland, assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value residential assets, but demands regular valuations for higher value assets.

Assessment and monitoring

Practices for credit stewardship – including credit assessment, approval and monitoring as well as the identification and management of problem debts – differ between the Personal and Wholesale portfolios.

Personal

Personal customers are served through a lending approach that entails offering a large number of small-value loans. To ensure that these lending decisions are made consistently, NWH Group analyses internal credit information as well as external data supplied by credit reference agencies (including historical debt servicing behaviour of customers with respect to both NWH Group and other lenders). NWH Group then sets its lending rules accordingly, developing different rules for different products.

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

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

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

Wholesale

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

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

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

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

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

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

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

Credit risk continued
Problem debt management
Personal
Early problem identification
Pre-emptive triggers are in place to help identify customers that may be at risk of being in financial difficulty. These triggers are both internal, using NWH Group's data, and external using information from credit reference agencies. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating which may then require intervention from the Collections and Recoveries teams.

Personal customers experiencing financial difficulty are managed by the Collections team. If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the collections and recoveries process, the customer is identified as being potentially vulnerable, the customer will be separated from the regular process and supported by a specialist team to ensure the customer receives appropriate support for their circumstances.

Collections
When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NWH Group and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions. In the event that an affordable and sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has triggered any other unlikeliness to pay indicators, in which case it is categorised as Stage 3.

Recoveries
The Recoveries team will issue a notice of intention to default to the customer and, if appropriate, a formal demand, while also registering the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, in order to agree an affordable repayment plan with the customer. An option that may also be considered, is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and, under IFRS 9, categorised as Stage 3.

Wholesale
Early problem identification
Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly-listed customer's share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework. Broader macro-economic trends including commodity prices, foreign exchange rates and consumer and government spend are also tracked, helping inform decisions on sector risk appetite. Customer level early warning indicators are regularly reviewed to ensure alignment with prevailing economic conditions, ensuring both the volume and focus of alerts is aligned to the point-in-time risk within each sector.

The aligned Risk of Credit Loss and viability framework
This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. Expert judgment is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NWH Group. There are two classifications in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met NWH Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities.

Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NWH Group's current risk appetite.

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

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

Agreed customer management strategies are regularly monitored by both the business and credit teams. The largest Risk of Credit Loss exposures are regularly reviewed by a Risk of Credit Loss forum. The forum members are experienced credit, business and restructuring specialists. The purpose of the forum is to review and challenge the strategies undertaken for customers that pose the largest risk of credit loss to NWH Group.

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

Credit risk continued

Other potential outcomes of the relationship review are to: return the customer to a satisfactory status, offer additional lending and continue monitoring, transfer the relationship to Restructuring if appropriate, or exit the relationship.

The aligned Risk of Credit Loss and viability framework does not apply to problem debt management for business banking customers. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the business banking recoveries team where a loan has been impaired.

Restructuring
Where customers are categorised as Risk of Credit Loss and the lending exposure is above £1 million, relationships are supported by the Restructuring team. The objective of Restructuring is to protect NWH Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered. Helping viable customers return to financial health and restoring a normal banking relationship is always the preferred outcome, however, where this is not possible, NWH Group will work with customers to achieve a solvent outcome. Throughout this period, the mainstream relationship manager will remain an integral part of the customer relationship. Insolvency is considered as a last resort and if deemed necessary, NWH Group will work to recover its capital in a fair and efficient manner, while upholding the fair treatment of customers and NWH Group's core values.

Forbearance (audited)

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties.

The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A credit exposure may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan's terms.

Loans are reported as forborne until they meet the exit criteria as detailed in the appropriate regulatory guidance. These include being classified as performing for two years since the last forbearance event, making regular repayments and the loan/debt being less than 30 days past due.

Types of forbearance
Personal
In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale
In the Wholesale portfolio, forbearance may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Monitoring of forbearance
Personal
For Personal portfolios, forborne loans are separated and regularly monitored and reported while the forbearance strategy is implemented, until they exit forbearance.

Wholesale
In the Wholesale portfolio, customer PDs and facility LGDs are reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, NWH Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Provisioning requirements on forbearance are detailed in the Provisioning for forbearance section.

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs
(audited)

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

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

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

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

Refer to Accounting policies note 2.3 for further details.

Credit risk continued

IFRS 9 ECL model design principles (audited)

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

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

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

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

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

PD estimates

Personal models

Personal PD models follow a discrete multi-horizon survival approach, predicting quarterly PDs up to lifetime at account level, with a key driver being scores from related IRB PD models. Forward-looking economic information is brought in by economic response models, which leverage the existing stress test model suite. The current suite of PD models was introduced in 2022 replacing the previous, first-generation models to remediate a range of model weaknesses.

Wholesale models

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

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

LGD estimates

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

Personal

Forward-looking information has only been incorporated for the secured portfolios, where changes in property prices can be readily accommodated. Analysis has shown minimal impact of economic conditions on LGDs for the other Personal portfolios.

Wholesale

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

EAD estimates

Personal

The IFRS 9 Personal modelling approach for EAD is dependent on product type.

- Revolving products use the existing Basel models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Wholesale

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

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

Credit risk continued

Governance and post model adjustments
(audited)

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

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes on default levels in the past two years. As a consequence, any potential ECL release was deferred and retained on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with the high inflation environment as well as supply chain disruption, along with the residual effect of COVID-19 and government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the full effects of these issues matures.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL required amendment.

Post model adjustments will remain a key focus area of NWH Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to the high inflation environment and supply chain disruption.

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

	Retail Banking		Private	Commercial	Central	
	Mortgages	Other	Banking	& Institutional	items	Total
2022	£m	£m	£m	£m	£m	£m
Economic uncertainty	102	51	6	189	2	350
Other adjustments	8	20	—	12	15	55
Total	110	71	6	201	17	405
Of which:						
- Stage 1	*62*	*27*	*3*	*59*	*—*	*151*
- Stage 2	*32*	*44*	*3*	*137*	*16*	*232*
- Stage 3	*16*	*—*	*—*	*5*	*1*	*22*
2021						
Deferred model calibrations	58	97	—	62	2	219
Economic uncertainty	60	99	5	372	29	565
Other adjustments	37	—	—	2	156	195
Total	155	196	5	436	187	979
Of which:						
- Stage 1	*9*	*5*	*—*	*13*	*5*	*32*
- Stage 2	*126*	*164*	*5*	*423*	*33*	*751*
- Stage 3	*20*	*27*	*—*		*149*	*196*

(1) Excludes £18 million (2021 – £49 million) of post model adjustments (other £18 million (2021 – mortgages £4 million; other £45 million)) for Ulster Bank RoI disclosed as transfers to disposal groups.

Credit risk continued

Post model adjustments have reduced significantly since 31 December 2021, with notable shifts in all categories. This reflected:

- The reclassification of the Ulster Bank RoI mortgage portfolio, in Q3 2022, from amortised cost to fair value through profit or loss and continued activity on the strategic shift to exit the market.
- Removal of deferred model calibration post model adjustments following the implementation of new models as well as COVID-19 adjustments no longer being required.
- Economic uncertainty adjustments significantly reduced as many COVID-19 adjustments were no longer required, plus the deteriorating economic outlook and improved modelling approaches, resulted in increases in modelled ECL.

- Retail Banking – The judgemental post model adjustment for deferred model calibrations of £155 million held at 31 December 2021 was no longer required in the second half of 2022. This was due, firstly, to the removal of the mortgage element because of the implementation of a new IFRS 9 PD model in Q1 2022. Furthermore, the implementation of new PD models on unsecured portfolios implemented at H1 2022 negated the need for management judgement on PD calibration adjustments.

- The post model adjustments for economic uncertainty were held at a broadly consistent level to 31 December 2021, totalling £153 million (2021 – £159 million). The primary element of the economic uncertainty adjustment was a £127 million ECL uplift to capture the risk on segments of the Retail portfolio that are more susceptible to the effects of a high inflation environment and the impacts on affordability. This focuses on key affordability lenses, including customers with lower incomes in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock impact on their affordability. This adjustment superseded the previously held £26 million for COVID-19 payment holiday high-risk customers and the £69 million judgemental ECL release holdback at 31 December 2021. The current post model adjustment allocates more ECL to Stage 1 given the forward-looking nature of the risks on affordability driven by the high inflation environment, whereas the previous COVID-19 post model adjustments were focused on Stage 2, due to specific customer events (for example, high-risk payment holiday cases migrated into Stage 2).

- Other judgmental overlays included a £20 million uplift to reflect forward-looking provisions relating to credit cards EAD and limit utilisation modelling considerations. There is also an ECL adjustment for higher risk residential interest only mortgages of £7 million. The £14 million post model adjustment previously held for cladding risk was removed due to management's view on the positive developments in this segment.

Commercial & Institutional – The post model adjustment for economic uncertainty reduced by £183 million to £189 million during the year. It included an overlay of £108 million to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. Inflation and supply chain issues present significant headwinds for a number of sectors which are not fully captured in the models. An £81 million mechanistic adjustment, via a sector-level downgrade, was applied to the sectors that were considered most at risk from these headwinds.

The judgemental overlay for deferred model calibrations on the business banking portfolio was removed as COVID-19 no longer impedes the mechanistic modelling approach.

Other adjustments comprised of a £12 million overlay to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Credit risk continued

Significant increase in credit risk (SICR)

(audited)

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

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) – on modelled portfolios, the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition (DOIR)) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount, deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

Personal risk bands	PD bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	PD@DOIR + 1%
Risk band B	<4.306%	PD@DOIR + 3%
Risk band C	>=4.306%	1.7 x PD@DOIR

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support, Wholesale exposures managed within the Risk of Credit Loss framework, and adverse credit bureau results for Personal customers.
- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

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

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

Monitoring the effect on relative PD deterioration when originating new lending at times of weaker economic outlook (therefore, higher PDs at initial recognition) is important to ensure SICR criteria remains effective.

Provisioning for forbearance (audited)

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing and which business is managing them due to local market conditions.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so. The loan would continue to be reported as forborne until it meets the exit criteria set out by the appropriate regulatory guidance.

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment. Where the forbearance treatment includes the cessation of interest on the customer balance (i.e. non-accrual), this will be treated as a Stage 3 default.

For non-performing forborne loans, the Stage 3 loss assessment process is the same as for non-forborne loans.

Wholesale

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

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

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

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

Credit risk continued

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan can be returned to performing status once exit criteria, as set out by regulatory guidance, is met.

Asset lifetimes (audited)

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

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

In the case of credit cards, the most significant judgment is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £80 million (2021 – £70 million). However, credit card balances originated under the 0% balance transfer product, and representing approximately 19% of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

The capped approach reflects NWH Group practice of a credit-based review of customers prior to credit card issuance and complies with IFRS 9. Benchmarking information indicates that peer UK banks use behavioural approaches in the main for credit card portfolios with average durations between three and ten years. Across Europe, durations are shorter and are, in some cases, as low as one year.

Economic loss drivers (audited)

Introduction

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

The most material economic loss drivers are shown in the table below.

Portfolio	Economic loss drivers
UK retail mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK household debt to income
UK retail unsecured	UK unemployment rate, sterling swap rate, UK household debt to income
UK corporates	UK stock price index, UK GDP, Bank of England base rate
UK commercial real estate	UK stock price index, UK commercial property price index, UK GDP, Bank of England base rate

(1) This is not an exhaustive list of economic loss drivers but shows the most material drivers for the most significant portfolios.

Economic scenarios

At 31 December 2022, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly related to high inflation resulting in a fall in real household income, economic slowdown, a rise in unemployment and asset price declines.

For 2022, 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 declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – This scenario assumes a robust growth through 2023 as consumers dip into excess savings built up since the COVID-19 pandemic and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate remaining below pre-COVID-19 levels. Inflation retraces sharply and that does not necessitate significantly more tightening. The housing market slows down compared to the previous year but still remains robust.

Base case – High inflation and significant monetary policy tightening leads to a mild recession in 2023. Fiscal support remains key in containing the impact. Unemployment rate rises modestly but job losses are contained. Inflation moderates over medium-term and falls to the target levels in 2024. Housing market experiences price decline and lower activity but the extent of the decline is lower than that experienced during prior stresses.

Since 31 December 2021, the outlook has deteriorated as energy prices surged and cost of living crisis intensified. As a result, the base case is more pessimistic. The mild recession in 2023 contrasts with last year's assumption of a muted growth. House price correction contrasts with previous year's assumptions of a modest growth. In previous scenario, unemployment rate was expected to increase very modestly while inflation and interest rate rises last year were also relatively muted.

Credit risk continued

Economic loss drivers (audited)

Downside – Inflation rises on the back of further energy price spikes. The high inflation environment leads to the economy falling under recession. As demand dries up, inflation rapidly declines. Policy rates are raised initially but then quickly eased to assist in recovery. Unemployment is more than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Extreme downside – This scenario assumes high and persistent inflation. Households see the highest recorded decline in real income. Policy rate rises to levels last seen in early 2000. Resulting economic recession is deep and leads to widespread job losses. House prices lose approximately a third of their value while unemployment rate rises to level above those seen during the 2008 financial crisis.

The previous year's extreme downside also included a deep recession, labour market deterioration and asset price falls, but the current scenario explores these risks in a high inflation, high rates environment.

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

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

Main macroeconomic variables

	2022					2021				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP - CAGR	1.6	0.8	0.2	(0.2)	0.7	2.4	1.7	1.4	0.6	1.8
Unemployment - average	3.9	4.6	5.1	7.2	5.0	3.5	4.2	4.8	6.7	4.2
House price index - total change	21.5	(1.3)	(6.0)	(22.4)	(1.3)	22.7	12.1	4.3	(5.3)	12.8
Bank of England base rate - average	2.6	3.3	1.5	4.9	3.1	1.5	0.8	0.7	(0.5)	0.9
Commercial real estate price - total change	(0.1)	(14.4)	(17.2)	(38.3)	(16.1)	18.2	7.2	5.5	(6.4)	9.5
Consumer price index - CAGR	2.4	3.0	3.1	7.0	3.6	2.7	2.5	3.1	1.5	2.6
UK stock price index - total change	22.6	13.9	1.8	(8.5)	9.5	36.6	24.9	12.5	0.2	24.7
World GDP - CAGR	3.7	3.3	1.6	1.0	2.7	3.5	3.2	2.6	0.6	3.1
Probability weight	18.6	45.0	20.8	15.6		30.0	45.0	20.0	5.0	

(2) The five year period starts after Q3 2022 for 31 December 2022 and Q3 2021 for 31 December 2021.
(3) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters differ.

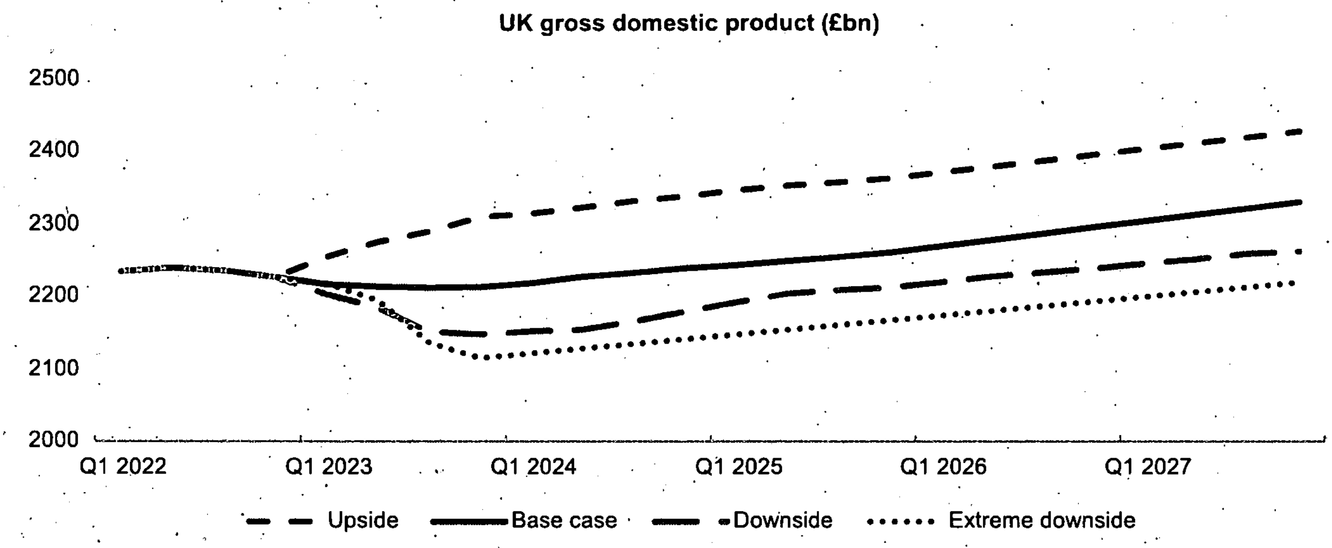
Probability weightings of scenarios

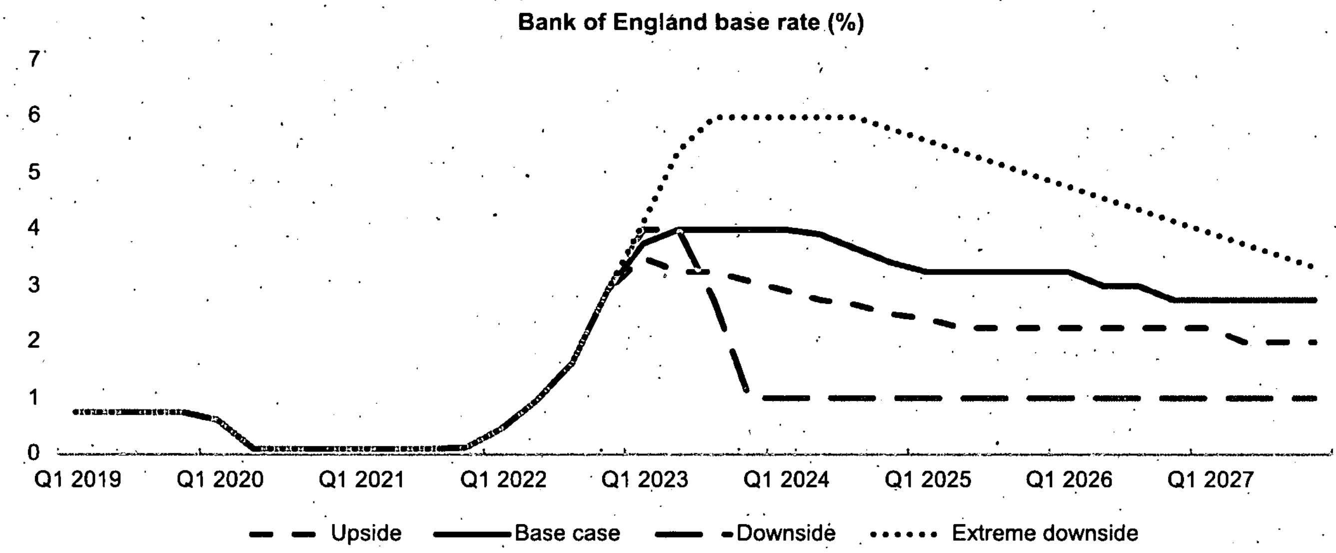
A subjective approach for assigning probability weight was used during COVID-19 due to the scale of the economic effect of COVID-19 and the range of recovery paths. Similarly, a subjective approach was used at 30 September 2022, to reflect the deteriorating outlook and shifting balance of risks in the given set of scenarios. However, NWH Group's quantitative 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. This quantitative approach has been reinstated and is used for 31 December 2022.

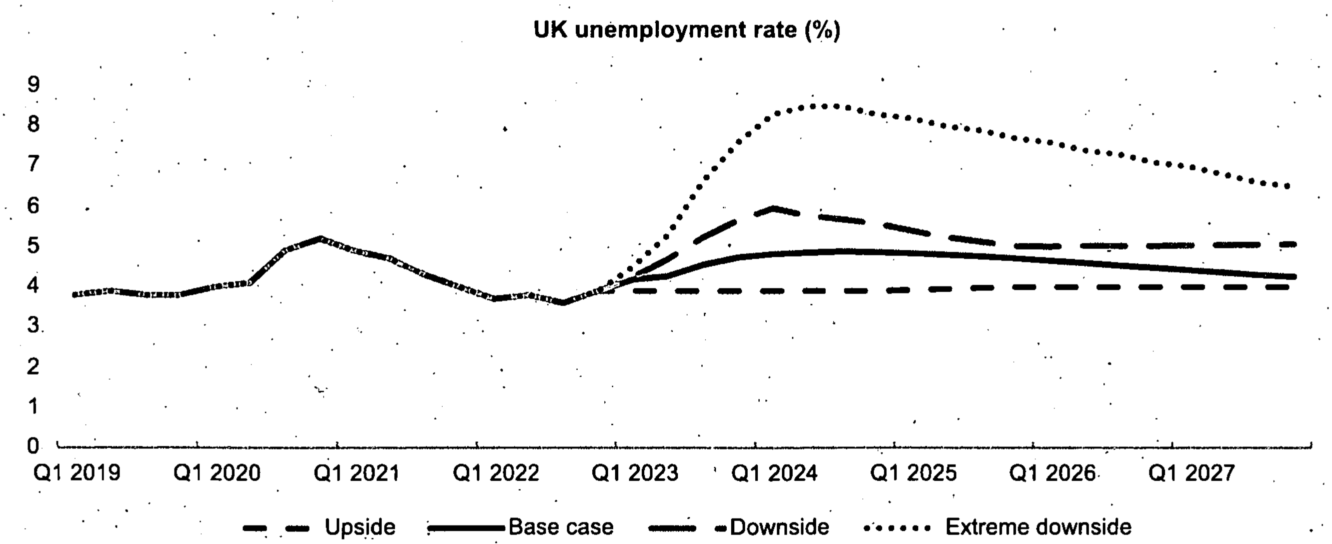
The approach involves comparing UK GDP paths for NWH Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. Since 31 December 2021, high inflation posed significant challenge to the economy and there is considerable uncertainty to the economic outlook, with respect to persistence and range of outcomes on inflation and its subsequent effects on household real income and economic activity. Given that backdrop, NWH Group judges it appropriate to assign higher probability weights on downside-biased scenarios than at 31 December 2021. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 18.6% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.8% weighting applied to the downside scenario and a 15.6% weighting applied to the extreme downside scenario. Compared to 30 June 2022, the probability weights were broadly similar, but with additional modest downside skew.

Credit risk continued
Economic loss drivers







Credit risk continued

Economic loss drivers (audited)

Annual figures

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	4.4	4.4	4.4	4.4	4.4
2023	2.2	(0.9)	(2.8)	(3.1)	(1.1)
2024	1.9	0.7	(0.4)	(1.6)	0.4
2025	1.2	1.0	1.9	1.2	1.3
2026	1.2	1.4	1.2	1.2	1.3
2027	1.4	1.5	1.1	1.2	1.4

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	3.8	3.8	3.8	3.8	3.8
2023	3.9	4.4	5.0	6.0	4.7
2024	3.9	4.9	5.7	8.4	5.4
2025	4.0	4.8	5.2	8.0	5.2
2026	4.0	4.6	5.0	7.4	5.0
2027	4.0	4.3	5.1	6.7	4.8

House price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	6.9	6.9	6.9	6.9	6.9
2023	7.5	(7.8)	(13.7)	(10.4)	(6.6)
2024	4.5	(0.9)	(7.7)	(15.2)	(3.2)
2025	3.0	2.9	4.8	(8.3)	1.8
2026	3.5	3.4	8.3	7.2	4.8
2027	3.4	3.4	6.3	6.6	4.3

Bank of England base rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	1.49	1.49	1.49	1.49	1.49
2023	3.27	3.94	2.94	5.38	3.83
2024	2.71	3.75	1.00	5.95	3.33
2025	2.29	3.25	1.00	5.28	2.92
2026	2.25	3.00	1.00	4.46	2.67
2027	2.06	2.75	1.00	3.64	2.40

Commercial real estate price - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
2023	2.1	(8.4)	(19.7)	(22.4)	(11.0)
2024	1.9	(0.5)	2.8	(29.1)	(3.2)
2025	2.7	1.3	3.7	6.7	2.6
2026	2.2	1.0	3.8	8.5	2.6
2027	0.6	1.0	2.3	8.6	2.0

Consumer price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	11.2	11.2	11.2	11.2	11.2
2023	2.2	3.7	6.0	17.0	6.0
2024	1.0	2.7	1.0	8.8	3.1
2025	2.0	2.0	2.0	2.7	2.1
2026	2.0	1.9	2.0	2.3	2.0
2027	2.0	1.9	2.0	2.0	2.0

UK stock price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2022	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
2023	9.1	4.1	(20.6)	(45.0)	(7.8)
2024	4.0	1.9	9.7	24.9	5.9
2025	4.5	4.0	8.8	16.7	6.4
2026	4.9	4.4	7.0	11.0	5.8
2027	4.0	4.3	6.6	9.9	5.4

Worst points

	31 December 2022					31 December 2021				
	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	(3.9)	Q4 2023	(5.4)	Q4 2023	(1.5)	(1.8)	Q1 2022	(7.9)	Q1 2022	—
Unemployment rate (peak)	6.0	Q1 2024	8.5	Q3 2024	5.4	5.4	Q1 2023	9.4	Q4 2022	4.5
House price index	(21.3)	Q1 2025	(31.7)	Q3 2025	(10.6)	(3.0)	Q3 2023	(26.0)	Q2 2023	—
Bank of England base rate	4.0	Q1 2023	6.0	Q1 2024	4.1	1.5	Q4 2022	(0.5)	Q2 2022	1.2
Commercial real estate price	(26.8)	Q4 2023	(50.3)	Q3 2024	(21.8)	(2.5)	Q1 2022	(29.8)	Q3 2022	—
Consumer price index	15.7	Q1 2023	17.0	Q4 2023	11.7	7.9	Q4 2022	4.3	Q1 2022	5.5
UK stock price index	(24.0)	Q4 2023	(47.3)	Q4 2023	(11.7)	(12.2)	Q1 2022	(37.1)	Q2 2022	(1.2)

(1) For the unemployment rate, the figures show the peak levels. For the Bank of England base rate, the figures show highest or lowest levels. For the consumer price index, the figures show the highest annual percentage change. For other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2022 for 31 December 2022 scenarios.

Credit risk continued

Economic loss drivers (audited)

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The PD and LGD values for each discrete scenario are calculated using product specific economic response models. Each account has a PD and LGD calculated as probability weighted averages across the suite of economic scenarios.

Use of the scenarios in Wholesale lending

The Wholesale lending ECL methodology is based on the concept of CCIs. The CCIs represent, similar to the exogenous components in Retail, 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 individual 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 to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

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

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

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

UK economic uncertainty

The high inflation environment and supply chain disruption are presenting significant headwinds for some businesses and sectors. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2023. NWH Group has considered where these are most likely to affect the customer base. Furthermore, the rising cost of borrowing during 2022 for both businesses and consumers presents an additional affordability challenge for many borrowers.

The effects of these risks are not expected to be fully captured by forward-looking credit modelling, particularly given the unique high inflation environment, low unemployment base-case outlook. Any incremental ECL effects for these risks will be captured via post model adjustments and are detailed further in the Governance and post model adjustments section.

Credit risk continued

Economic loss drivers (audited)

Model monitoring and enhancement

Throughout 2022, default rates in the UK Personal and Wholesale portfolios moderately increased but remained generally at, or somewhat below, pre-COVID-19 levels. This is based on a normalised view removing the effects of the new definition of default, introduced from 1 January 2022, in accordance with new prudential regulation. As in 2021, model recalibrations to adjust for overprediction have been deferred where applicable, based on the judgment that default rate actuals may still be supressed as a result of government support provided throughout COVID-19.

The suite of UK Personal PD models and some Personal LGD models were redeveloped in 2022 removing the need for a number of previously applied post model ECL adjustments to account for model weaknesses.

In Wholesale lending, new economic response models were introduced in 2022 for the UK corporate segments, that follow an improved modelling approach and put higher weight on stock price indices compared to previous models.

The economic response models for Personal and Wholesale do not include direct inflation drivers, due to low inflation seen throughout the data history available for modelling (typically starting in early 2000s with some variation across products).

As detailed in the Governance and post model adjustments section, ECL adjustments were applied where management judged inflation risk was not fully reflected through the models.

The use of direct inflation drivers in the economic response models will be reviewed considering additional credit outcome data in 2023.

Government guarantees

A number of support schemes were introduced in response to COVID-19 with the UK government guaranteeing part of the loan. The Bounce Back Loan Scheme is 100% guaranteed. For the Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme the government guarantee is 80%. NWH Group recognises lower LGDs for these lending products as a result, with 0% applied to the government-guaranteed part of the exposure. NWH Group does not directly adjust the measurement of PD due to the government guarantee and continues to move exposures into Stage 2 and Stage 3 where a significant deterioration in credit risk or a default is identified.

Wholesale support schemes*

The table below shows the sector split for BBLS as well as associated debt split by stage. Associated debt refers to the non-BBLS lending to customers who also have BBLS lending.

	Gross Carrying Amount										
	BBL				Associated debt				ECL on associated debt		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
31 December 2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale											
Property	1,029	197	51	1,277	908	217	61	1,186	10	15	27
Financial institutions	24	4	—	28	9	2	—	11	—	—	1
Sovereigns	5	1	1	7	2	—	—	2	—	—	—
Corporate	3,165	629	338	4,132	2,302	872	116	3,290	26	56	69
Of which:											
Agriculture	*221*	*74*	*4*	*299*	*819*	*297*	*22*	*1,138*	*6*	*14*	*11*
Airlines and aerospace	*3*	*1*	—	*4*	—	*1*	—	*1*	—	—	—
Automotive	*221*	*34*	*10*	*265*	*100*	*37*	*5*	*142*	*1*	*2*	*3*
Chemicals	*6*	*1*	—	*7*	*9*	*1*	—	*10*	—	—	—
Health	*165*	*23*	*4*	*192*	*271*	*92*	*9*	*372*	*2*	*4*	*4*
Industrials	*131*	*21*	*5*	*157*	*77*	*20*	*4*	*101*	*1*	*2*	*2*
Land transport & logistics	*122*	*25*	*8*	*155*	*51*	*16*	*4*	*71*	*1*	*2*	*3*
Leisure	*471*	*108*	*28*	*607*	*336*	*161*	*27*	*524*	*5*	*12*	*16*
Mining & metals	*5*	*1*	—	*6*	*5*	*1*	—	*6*	—	—	—
Oil and gas	*6*	*1*	—	*7*	*2*	*2*	—	*4*	—	—	—
Power utilities	*3*	*1*	—	*4*	*3*	*4*	—	*7*	—	—	—
Retail	*554*	*102*	*26*	*682*	*283*	*94*	*14*	*391*	*4*	*7*	*10*
Shipping	*2*	—	—	*2*	*1*	*3*	—	*4*	—	—	—
Water & waste	*15*	*2*	*1*	*18*	*10*	*3*	—	*13*	—	—	—
Total	4,223	831	390	5,444	3,221	1,091	177	4,489	36	71	97

* Not within audit scope.

Credit risk continued

Economic loss drivers (audited)

	Gross Carrying Amount										
	BBL				Associated debt				ECL on associated debt		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
31 December 2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale											
Property	1,480	218	99	1,797	1,232	165	55	1,452	3	13	18
Financial institutions	33	5	1	39	9	20	3	32	—	1	—
Sovereigns	7	1	—	8	2	—	—	2	—	—	—
Corporate	4,593	703	334	5,630	2,481	1,087	84	3,652	10	66	34
Of which:											
Agriculture	*302*	*86*	*6*	*394*	*827*	*396*	*14*	*1,237*	*3*	*17*	*4*
Airlines and aerospace	*5*	*1*	*1*	*7*	*1*	*1*	—	*2*	—	—	—
Automotive	*309*	*43*	*21*	*373*	*119*	*39*	*2*	*160*	*1*	*2*	*1*
Chemicals	*10*	*1*	—	*11*	*6*	*1*	—	*7*	—	—	—
Health	*233*	*26*	*7*	*266*	*287*	*131*	*13*	*431*	*1*	*7*	*3*
Industrials	*181*	*23*	*8*	*212*	*79*	*25*	*2*	*106*	—	*2*	*1*
Land transport & logistics	*180*	*32*	*19*	*231*	*57*	*26*	*2*	*85*	—	*2*	*1*
Leisure	*706*	*122*	*55*	*883*	*367*	*208*	*25*	*600*	*1*	*15*	*9*
Mining & metals	*6*	*1*	*1*	*8*	*6*	*1*	—	*7*	—	—	—
Oil and gas	*8*	*2*	*1*	*11*	*3*	*1*	—	*4*	—	—	—
Power utilities	*4*	*1*	—	*5*	*4*	*4*	—	*8*	—	—	—
Retail	*800*	*109*	*47*	*956*	*310*	*127*	*8*	*445*	*2*	*7*	*4*
Shipping	*3*	—	—	*3*	*3*	*3*	—	*6*	—	—	—
Water & waste	*23*	*3*	*1*	*27*	*11*	*4*	—	*15*	—	—	—
Total	6,113	927	434	7,474	3,724	1,272	142	5,138	13	80	52

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 2022. 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 were not considered in this analysis.

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated. These scenarios are used in the methodology for Personal multiple economic scenarios as described in the Economic loss drivers section. In the simulations, NWH Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Post model adjustments included in the ECL estimates that were modelled were sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2022	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	163,705	164,479	170,648	162,649	152,339
Retail Banking - unsecured	7,845	8,032	8,589	7,772	6,374
Wholesale - property	24,779	25,596	26,132	23,870	16,625
Wholesale - non-property	82,322	87,272	90,014	76,522	58,047
	278,651	285,379	295,383	270,813	233,385
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	71	72	76	70	65
Retail Banking - unsecured	173	175	176	176	141
Wholesale - property	99	76	59	125	117
Wholesale - non-property	225	212	188	257	255
	568	535	499	628	578
Stage 1 coverage (%)					
Retail Banking - mortgages	0.04%	0.04%	0.04%	0.04%	0.04%
Retail Banking - unsecured	2.21%	2.18%	2.05%	2.26%	2.21%
Wholesale - property	0.40%	0.30%	0.23%	0.52%	0.70%
Wholesale - non-property	0.27%	0.24%	0.21%	0.34%	0.44%
	0.20%	0.19%	0.17%	0.23%	0.25%
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	18,819	18,045	11,876	19,875	30,185
Retail Banking - unsecured	3,126	2,939	2,382	3,199	4,597
Wholesale - property	4,043	3,226	2,690	4,952	12,197
Wholesale - non-property	19,710	14,760	12,018	25,510	43,985
	45,698	38,970	28,966	53,536	90,964
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	61	58	40	65	97
Retail Banking - unsecured	388	373	304	398	553
Wholesale - property	101	73	49	125	530
Wholesale - non-property	430	304	231	507	1,264
	980	808	624	1,095	2,444
Stage 2 coverage (%)					
Retail Banking - mortgages	0.32%	0.32%	0.34%	0.33%	0.32%
Retail Banking - unsecured	12.41%	12.69%	12.76%	12.44%	12.03%
Wholesale - property	2.50%	2.26%	1.82%	2.52%	4.35%
Wholesale - non-property	2.18%	2.06%	1.92%	1.99%	2.87%
	2.14%	2.07%	2.15%	2.05%	2.69%
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	182,524	182,524	182,524	182,524	182,524
Retail Banking - unsecured	10,971	10,971	10,971	10,971	10,971
Wholesale - property	28,822	28,822	28,822	28,822	28,822
Wholesale - non-property	102,032	102,032	102,032	102,032	102,032
	324,349	324,349	324,349	324,349	324,349
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	132	130	116	135	162
Retail Banking - unsecured	561	548	480	574	694
Wholesale - property	200	149	108	250	647
Wholesale - non-property	655	516	419	764	1,519
	1,548	1,343	1,123	1,723	3,022
Stage 1 and Stage 2 coverage (%)					
Retail Banking - mortgages	0.07%	0.07%	0.06%	0.07%	0.09%
Retail Banking - unsecured	5.11%	4.99%	4.38%	5.23%	6.33%
Wholesale - property	0.69%	0.52%	0.37%	0.87%	2.24%
Wholesale - non-property	0.64%	0.51%	0.41%	0.75%	1.49%
	0.48%	0.41%	0.35%	0.53%	0.93%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,548	1,343	1,123	1,723	3,022
ECL on Ulster Bank RoI modelled exposures	39	39	39	39	39
ECL on non-modelled exposures	38	37	37	37	37
Total Stage 1 and Stage 2 ECL (£m)	1,625	1,419	1,199	1,799	3,098
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(206)	(426)	174	1,473

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited) continued

	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Reconciliation to Stage 1 and Stage 2 Flow Exposure (£m)					
Modelled loans	324,349	324,349	324,349	324,349	324,349
UBI DAC loans	4,171	4,171	4,171	4,171	4,171
Non-modelled loans	19,043	19,043	19,043	19,043	19,043
Other asset classes	126,994	126,994	126,994	126,994	126,994

(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 2022 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposure relating to bonds and cash.
(3) Exposures related to Ulster Bank RoI continuing operations were not included in the simulations, the current Ulster Bank RoI ECL has been included across all scenarios to enable reconciliation to other disclosures.
(4) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2022. The simulations change the composition of Stage1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(5) Refer to the Economic loss drivers section for details of economic scenarios.
(6) Refer to the NatWest Holdings Limited 2021 Annual Report and Accounts for 2021 comparatives.

- During 2022, overall modelled ECL increased reflecting portfolio growth alongside a deteriorating view on economic outlook. Judgmental ECL post model adjustments, although reduced in value terms since 31 December 2021, continued to reflect economic uncertainty with the expectation of increased defaults in 2023 and beyond, and represented 12% of total ECL (2021 – 27%).
- If the economics were as negative as observed in the extreme downside, total Stage 1 and Stage 2 ECL was simulated to increase by £1.5 billion (approximately 91%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was driven by commercial real estate prices which show negative growth until 2024 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.

Measurement uncertainty and ECL adequacy (audited)

The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 31 December 2022 resulted in an increase in modelled ECL. Given that continued uncertainty remains due to the high inflation environment and supply chain disruption, NWH Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As the effects of the high inflation environment and supply chain disruption evolve during 2022 and into 2023 and government support schemes have to be serviced, there is a risk of credit deterioration. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2022.

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. Such factors would include an adverse deterioration in GDP and unemployment in the economies in which NWH Group operates.

Credit risk – Banking activities
Introduction
This section details the credit risk profile of NWH Group's banking activities.

Refer to Accounting policies note 3.2 and Note 13 to the consolidated financial statements for policies and critical judgments relating to impairment loss determination.

Presentation of discontinued operations and assets and liabilities of disposal groups
Two legally binding agreements for the sale of the UBIDAC business were announced in 2021 as part of the phased withdrawal from the Republic of Ireland: The sale of commercial lending to Allied Irish Banks p.l.c. and the performing non-tracker mortgages, performing micro-SME loans, UBIDAC's asset finance business and 25 of its branch locations to Permanent TSB p.l.c.. The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group. The Ulster Bank RoI operating segment continues to be reported separately and reflects the results of its continuing operations.

Refer to Note 8 to the consolidated financial statements for further details.

Financial instruments within the scope of the IFRS 9 ECL framework (audited)
Refer to Note 9 to the consolidated financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment. The table below excludes loans in disposal group of £1.5 billion.

Financial assets

	31 December 2022			31 December 2021		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	473.0			519.9		
In scope of IFRS 9 ECL framework	471.8			517.2		
% in scope	100%			99%		
Loans to customers - in scope - amortised cost	343.5	3.2	340.3	338.9	3.6	335.3
Loans to customers - in scope - FVOCI	—	—	—	0.2	—	0.2
Loans to banks - in scope - amortised cost	4.3	—	4.3	5.4	—	5.4
Total loans - in scope	347.8	3.2	344.6	344.5	3.6	340.9
Stage 1	297.3	0.5	296.8	306.3	0.3	306.0
Stage 2	45.5	1.0	44.5	33.4	1.4	32.0
Stage 3	5.0	1.7	3.3	4.8	1.9	2.9
Other financial assets - in scope - amortised cost	113.7	—	113.7	144.7	—	144.7
Other financial assets - in scope - FVOCI	10.3	—	10.3	28.0	—	28.0
Total other financial assets - in scope	124.0	—	124.0	172.7	—	172.7
Stage 1	123.2	—	123.2	172.5	—	172.5
Stage 2	0.8	—	0.8	0.2	—	0.2
Stage 3	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework	1.2	na	1.2	2.7	na	2.7
Loans to customers - out of scope - amortised cost	(0.3)	na	(0.3)	0.8	na	0.8
Loans to banks - out of scope - amortised cost	0.1	na	0.1	—	na	—
Other financial assets - out of scope - amortised cost	1.4	na	1.4	1.9	na	1.9
Other financial assets - out of scope - FVOCI	—	na	—	—	na	—

na = not applicable

The assets outside the scope of IFRS 9 ECL framework were as follows:
- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £1.7 billion (2021 – £1.6 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope – £(0.3) billion (2021 – £0.7 billion).
- NWH Group originated securitisations, where ECL was captured on the underlying loans of nil (2021 – £0.4 billion).

In scope assets also include an additional £0.1 billion (2021 – £0.1 billion) of inter-Group assets not shown in table above.

Contingent liabilities and commitments
In addition to contingent liabilities and commitments disclosed in Note 25 to the consolidated financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £112.2 billion (2021 – £106.5 billion) comprised Stage 1 £96.2billion (2021 – £98.6 billion); Stage 2 £15.3 billion (2021 – £7.3 billion); and Stage 3 £0.7 billion (2021 – £0.6 billion).

The ECL relating to off balance sheet exposures was £0.1 billion (2021 –nil). The total ECL in the remainder of the credit risk section of £3.3 billion included ECL for both balance sheet exposure and contingent liabilities.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	174,727	18,367	80,913	23,337	297,344
Stage 2	21,561	801	22,864	244	45,470
Stage 3	2,565	242	1,986	123	4,916
Inter-Group				112	112
Subtotal excluding disposal group loans	*198,853*	*19,410*	*105,763*	*23,816*	*347,842*
Disposal group loans				*1,502*	*1,502*
Total	198,853	19,410	105,763	25,318	349,344
ECL provisions					
Stage 1	251	21	306	19	597
Stage 2	450	14	517	45	1,026
Stage 3	917	26	691	69	1,703
Inter-Group	—	—	—	1	1
Subtotal excluding ECL provisions on disposal group loans	*1,618*	*61*	*1,514*	*134*	*3,327*
ECL on disposal group loans				*53*	*53*
Total	1,618	61	1,514	187	3,380
ECL provisions coverage (1)					
Stage 1 (%)	0.14	0.11	0.38	0.08	0.20
Stage 2 (%)	2.09	1.75	2.26	18.44	2.26
Stage 3 (%)	35.75	10.74	34.79	56.10	34.64
Inter-Group (%)	—	—	—	0.89	0.89
ECL provisions coverage excluding disposal group loans	*0.81*	*0.31*	*1.43*	*0.57*	*0.96*
ECL provisions coverage on disposal group loans				*3.53*	*3.53*
Total	0.81	0.31	1.43	0.74	0.97
Impairment (releases)/losses	229	(2)	112	(12)	327
ECL (release)/charge - third party	229	(2)	112	(12)	327
ECL (release)/charge - Inter-Group	—	—	—	1	1
Continuing operations	*229*	*(2)*	*112*	*(11)*	*328*
Discontinued operations				*(71)*	*(71)*
Total	229	(2)	112	(82)	257
Amounts written-off	216	15	167	25	423

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

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

2021	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI					
Stage 1	168,013	17,600	82,887	37,844	306,344
Stage 2	13,594	967	17,852	944	33,357
Stage 3	1,884	270	1,820	787	4,761
Inter-Group	—	—	—	111	111
Subtotal excluding disposal group loans	183,491	18,837	102,559	39,686	344,573
Disposal group loans	—	—	—	9,084	9,084
Total	183,491	18,837	102,559	16,284	353,657
ECL provisions					
Stage 1	134	12	116	27	289
Stage 2	590	29	758	75	1,452
Stage 3	850	37	651	388	1,926
Inter-Group	—	—	—	—	—
Subtotal excluding disposal group loans	1,574	78	1,525	490	3,667
Disposal group loans	—	—	—	109	109
Total	1,574	78	1,525	571	3,776
ECL provisions coverage (1)					
Stage 1 (%)	0.08	0.07	0.14	0.07	0.09
Stage 2 (%)	4.34	3.00	4.25	7.94	4.35
Stage 3 (%)	45.12	13.70	35.77	49.30	40.45
Inter-Group (%)	—	—	—	—	—
Subtotal excluding disposal group loans	0.86	0.41	1.49	1.24	1.06
Disposal group loans	—	—	—	1.20	1.20
Total	0.86	0.41	1.49	3.51	1.07
Impairment (releases)/losses					
ECL (release)/charge - third party (2)	(36)	(54)	(1,073)	78	(1,085)
ECL (release)/charge - Inter-Group	—	—	—	(1)	(1)
Continuing operations	(36)	(54)	(1,073)	77	(1,086)
Discontinued operations	—	—	—	(162)	(162)
Total	(36)	(54)	(1,073)	(85)	(1,248)
Amounts written-off	220	6	467	88	781

(1) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
(2) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £109.3 billion (2021 – £142.5 billion) and debt securities of £14.7 billion (2021 – £30.3 billion).
(4) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

- Stage 1 and Stage 2 modelled ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments.
- Stage 2 loans increased during 2022 in line with portfolio growth alongside deterioration in forward-looking economics as a result of the high inflation environment and supply chain disruption growing throughout the second half of the year.
- Stage 3 loans increased, as write-offs and repayments were more than offset by the effect of the new regulatory definition of default, which in isolation led to an increase of approximately £0.7 billion in Stage 3 balances, mostly in mortgages.
- Underlying flows into default remained subdued during 2022. However, it is expected that defaults will increase in 2023 as growing inflationary pressures on businesses, consumers and the broader economy continue to evolve.
- There was a significant reduction in loans, ECL, and coverage in Central items & other due to the phased withdrawal of Ulster Bank RoI.

Credit risk – Banking activities continued

The table below shows Ulster Bank RoI disposal groups for Personal and Wholesale, by stage, for gross loans, off-balance sheet exposures and ECL. The tables in the rest of the Credit risk section are shown on a continuing basis and therefore exclude these exposures.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	—	—	—	—	—	—	—	—	—	—
Wholesale	1,269	193	40	1,502	413	19	17	19	17	53
Total	1,269	193	40	1,502	413	19	17	19	17	53

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	5,547	210	34	5,791	—	—	4	6	7	17
Wholesale	2,647	639	7	3,293	1,665	115	10	78	4	92
Total	8,194	849	41	9,084	1,665	115	14	84	11	109

(1) Ulster Bank mortgages moves to fair value in 2023 and are no longer subject to ECL assessment. Due to fair value treatment this portfolio is no longer included in the 2022 figures of credit risk tables for either disposal or non-disposal groups.

Segmental loans and impairment metrics (audited)

The table below shows gross loans and ECL provisions, by days past due, by segment and stage, within the scope of the ECL framework.

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking	174,727	20,653	605	303	21,561	2,565	198,853	251	406	14	30	450	917	1,618
Private Banking	18,367	730	39	32	801	242	19,410	21	14	—	—	14	26	61
Personal	*15,181*	*122*	*35*	*16*	*173*	*207*	*15,561*	*6*	*1*	—	—	*1*	*17*	*24*
Wholesale	*3,186*	*608*	*4*	*16*	*628*	*35*	*3,849*	*15*	*13*	—	—	*13*	*9*	*37*
Commercial & Institutional	80,913	21,196	935	733	22,864	1,986	105,763	306	475	25	17	517	691	1,514
Central items & other	23,337	232	5	7	244	123	23,704	19	42	1	2	45	69	133
Personal	*54*	*70*	*4*	*6*	*80*	*13*	*147*	*1*	*11*	*1*	*2*	*14*	*11*	*26*
Wholesale	*23,283*	*162*	*1*	*1*	*164*	*110*	*23,557*	*18*	*31*	—	—	*31*	*58*	*107*
Total loans	297,344	42,811	1,584	1,075	45,470	4,916	347,730	597	937	40	49	1,026	1,703	3,326
Of which:														
Personal	*189,962*	*20,845*	*644*	*325*	*21,814*	*2,785*	*214,561*	*258*	*418*	*15*	*32*	*465*	*945*	*1,668*
Wholesale	*107,382*	*21,966*	*940*	*750*	*23,656*	*2,131*	*133,169*	*339*	*519*	*25*	*17*	*561*	*758*	*1,658*
2021														
Retail Banking	168,013	12,275	863	456	13,594	1,884	183,491	134	516	38	36	590	850	1,574
Private Banking	17,600	902	27	38	967	270	18,837	12	29	—	—	29	37	78
Personal	*14,350*	*137*	*24*	*11*	*172*	*232*	*14,754*	*6*	*2*	—	—	*2*	*18*	*26*
Wholesale	*3,250*	*765*	*3*	*27*	*795*	*38*	*4,083*	*6*	*27*	—	—	*27*	*19*	*52*
Commercial & Institutional	82,887	16,791	437	624	17,852	1,820	102,559	116	724	23	11	758	651	1,525
Central items & other	37,844	838	58	48	944	787	39,575	27	69	3	3	75	388	490
Personal	*5,165*	*510*	*52*	*46*	*608*	*609*	*6,382*	*7*	*15*	*3*	*3*	*21*	*301*	*329*
Wholesale	*32,679*	*328*	*6*	*2*	*336*	*178*	*33,193*	*20*	*54*	—	—	*54*	*87*	*161*
Total loans	306,344	30,806	1,385	1,166	33,357	4,761	344,462	289	1,338	64	50	1,452	1,926	3,667
Of which:														
Personal	*187,528*	*12,922*	*939*	*513*	*14,374*	*2,725*	*204,627*	*147*	*533*	*41*	*39*	*613*	*1,169*	*1,929*
Wholesale	*118,816*	*17,884*	*446*	*653*	*18,983*	*2,036*	*139,835*	*142*	*805*	*23*	*11*	*839*	*757*	*1,738*

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

The table below shows ECL and ECL provisions coverage, by days past due, by segment and stage, within the scope of the ECL framework.

	ECL provisions coverage							ECL	
		Stage 2 (1,2)							
2022	Stage 1 %	Not past due %	1-30 DPD %	>30 DPD %	Total %	Stage 3 %	Total %	Total (release) / charge (3) £m	Amounts written-off £m
Retail Banking	**0.14**	**1.97**	**2.31**	**9.90**	**2.09**	**35.75**	**0.81**	**229**	**216**
Private Banking	**0.11**	**1.92**	**—**	**—**	**1.75**	**10.74**	**0.31**	**(2)**	**15**
Personal	***0.04***	***0.82***	**—**	**—**	***0.58***	***8.21***	***0.15***	***(3)***	***1***
Wholesale	***0.47***	***2.14***	**—**	**—**	***2.07***	***25.71***	***0.96***	***1***	***14***
Commercial & Institutional	**0.38**	**2.24**	**2.67**	**2.32**	**2.26**	**34.79**	**1.43**	**112**	**167**
Central items & other	**0.08**	**18.10**	**20.00**	**28.57**	**18.44**	**56.10**	**0.56**	**(12)**	**25**
Personal	***1.85***	***15.71***	***25.00***	***33.33***	***17.50***	***84.62***	***17.69***	***11***	***2***
Wholesale	***0.08***	***19.14***	**—**	**—**	***18.90***	***52.73***	***0.45***	***(23)***	***23***
Total loans	**0.20**	**2.19**	**2.53**	**4.56**	**2.26**	**34.64**	**0.96**	**327**	**423**
Of which:									
Personal	***0.14***	***2.01***	***2.33***	***9.85***	***2.13***	***33.93***	***0.78***	***237***	***219***
Wholesale	***0.32***	***2.36***	***2.66***	***2.27***	***2.37***	***35.57***	***1.25***	***90***	***204***
2021									
Retail Banking	0.08	4.20	4.40	7.89	4.34	45.12	0.86	(36)	220
Private Banking	0.07	3.22	—	—	3.00	13.70	0.41	(54)	6
Personal	*0.04*	*1.46*	—	—	*1.16*	*7.76*	*0.18*	*1*	*3*
Wholesale	*0.18*	*3.53*	—	—	*3.40*	*50.00*	*1.27*	*(55)*	*3*
Commercial & Institutional	0.14	4.31	5.26	1.76	4.25	35.77	1.49	(1,073)	467
Central items & other	0.07	8.23	5.17	6.25	7.94	49.30	1.24	78	88
Personal	*0.14*	*2.94*	*5.77*	*6.52*	*3.45*	*49.43*	*5.16*	*98*	*76*
Wholesale	*0.06*	*16.46*	—	—	*16.07*	*48.88*	*0.49*	*(20)*	*12*
Total loans	0.09	4.34	4.62	4.29	4.35	40.45	1.06	(1,085)	781
Of which:									
Personal	*0.08*	*4.12*	*4.37*	*7.60*	*4.26*	*42.90*	*0.94*	*63*	*299*
Wholesale	*0.12*	*4.50*	*5.16*	*1.68*	*4.42*	*37.18*	*1.24*	*(1,148)*	*482*

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(2) ECL provisions on contingent liabilities and commitments are included within the Financial assets section so as not to distort ECL coverage ratios.

- Retail Banking – Balance sheet growth during 2022 was primarily within mortgages with new lending a result of strong housing demand and re-mortgage activity and increased buy-to-let lending. Unsecured lending balances also increased as consumer demand and spending recovered following the easing of COVID-19 restrictions and with selective relaxation of lending criteria. Total ECL coverage reduced slightly during 2022, reflective of low unemployment and stable portfolio performance, while maintaining sufficient ECL coverage for key portfolios above 2019 levels, given increased inflationary and economic pressures. Increasing Stage 2 size and portfolio coverage in the second half of the year reflected the deterioration in economic outlook, with portfolio performance remaining broadly stable. Stage 3 ECL increased overall, mainly because of the IFRS 9 alignment to the new regulatory default definition, implemented on 1 January 2022. The implementation of new mortgage IFRS 9 models resulted in lower Stage 3 ECL coverage due to reduced loss estimates for cases where the customer was not subject to repossession activity and was the primary reason for the change in overall retail Stage 3 coverage during 2022.
- Commercial & Institutional – There was growth in Commercial & Institutional, particularly as a result of increased exposure to larger corporate customers, primarily within information technology, telecommunications and power utilities. There were also continued repayments of COVID-19 government lending schemes, and strategic reductions in certain sectors. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are vulnerable to inflationary pressures or deemed to represent a heightened risk. Stage 1 and Stage 2 modelled ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments. Coverage reduced with the reduction in COVID-19 post model adjustments, but coverage on Stage 1 and Stage 2 was significantly above 2019 levels, reflecting current inflationary and economic pressures.
- Other – Balance sheet reduction in 2022 compared to 2021 was mainly due to a reduction in central items held in the course of treasury related management activities, and a decrease due to the phased withdrawal of Ulster Bank RoI.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Personal				Wholesale					
2022	Mortgages (1) £m	Credit cards £m	Other personal £m	Total £m	Property £m	Corporate £m	FI £m	Sovereign £m	Total £m	Total £m
Loans by geography	200,637	4,450	9,474	214,561	30,194	72,392	25,876	4,707	133,169	347,730
- UK	*200,637*	*4,411*	*9,370*	*214,418*	*29,350*	*61,690*	*22,219*	*3,756*	*117,015*	*331,433*
- RoI	—	*39*	*104*	*143*	*33*	*1,097*	*43*	—	*1,173*	*1,316*
- Other Europe	—	—	—	—	*347*	*4,204*	*544*	*165*	*5,260*	*5,260*
- RoW	—	—	—	—	*464*	*5,401*	*3,070*	*786*	*9,721*	*9,721*
Loans by stage and asset quality (2)	200,637	4,450	9,474	214,561	30,194	72,392	25,876	4,707	133,169	347,730
Stage 1	180,007	3,265	6,690	189,962	25,626	52,132	25,098	4,526	107,382	297,344
- AQ1	*1,556*	—	*199*	*1,755*	*1,333*	*989*	*3,677*	*1,950*	*7,949*	*9,704*
- AQ2	*1,689*	—	*179*	*1,868*	*3,649*	*1,160*	*15,943*	*563*	*21,315*	*23,183*
- AQ3	*3,539*	*4*	*190*	*3,733*	*3,517*	*4,744*	*280*	*1,811*	*10,352*	*14,085*
- AQ4	*109,775*	*84*	*454*	*110,313*	*5,048*	*10,268*	*3,306*	*63*	*18,685*	*128,998*
- AQ5	*54,052*	*957*	*834*	*55,843*	*6,998*	*20,314*	*1,053*	*5*	*28,370*	*84,213*
- AQ6	*4,260*	*1,167*	*3,160*	*8,587*	*3,149*	*8,514*	*592*	*10*	*12,265*	*20,852*
- AQ7	*4,642*	*952*	*1,290*	*6,884*	*1,724*	*5,482*	*233*	*123*	*7,562*	*14,446*
- AQ8	*318*	*95*	*356*	*769*	*196*	*628*	*13*	*1*	*838*	*1,607*
- AQ9	*176*	*6*	*28*	*210*	*12*	*33*	*1*	—	*46*	*256*
Stage 2	18,750	1,075	1,989	21,814	3,933	18,833	733	157	23,656	45,470
- AQ1	*21*	—	—	*21*	*55*	*72*	—	*13*	*140*	*161*
- AQ2	*2*	—	*3*	*5*	*10*	*133*	—	—	*143*	*148*
- AQ3	*106*	—	*2*	*108*	*62*	*949*	—	*7*	*1,018*	*1,126*
- AQ4	*9,080*	—	*124*	*9,204*	*314*	*3,905*	*422*	*55*	*4,696*	*13,900*
- AQ5	*6,702*	*38*	*142*	*6,882*	*772*	*3,254*	*114*	—	*4,140*	*11,022*
- AQ6	*1,013*	*178*	*617*	*1,808*	*1,245*	*4,295*	*97*	*78*	*5,715*	*7,523*
- AQ7	*650*	*551*	*429*	*1,630*	*1,064*	*4,295*	*68*	*4*	*5,431*	*7,061*
- AQ8	*559*	*269*	*542*	*1,370*	*313*	*1,613*	*21*	—	*1,947*	*3,317*
- AQ9	*617*	*39*	*130*	*786*	*98*	*317*	*11*	—	*426*	*1,212*
Stage 3	1,880	110	795	2,785	635	1,427	45	24	2,131	4,916
- AQ10	*1,880*	*110*	*795*	*2,785*	*635*	*1,427*	*45*	*24*	*2,131*	*4,916*
Loans - past due analysis (3,4)	200,637	4,450	9,474	214,561	30,194	72,392	25,876	4,707	133,169	347,730
- Not past due	*198,379*	*4,326*	*8,597*	*211,302*	*29,006*	*68,787*	*25,732*	*4,700*	*128,225*	*339,527*
- Past due 1-30 days	*898*	*33*	*84*	*1,015*	*601*	*2,475*	*108*	—	*3,184*	*4,199*
- Past due 31-89 days	*500*	*29*	*104*	*633*	*293*	*536*	*5*	*7*	*841*	*1,474*
- Past due 90-180 days	*361*	*24*	*78*	*463*	*49*	*33*	*24*	—	*106*	*569*
- Past due >180 days	*499*	*38*	*611*	*1,148*	*245*	*561*	*7*	—	*813*	*1,961*
Loans - Stage 2	18,750	1,075	1,989	21,814	3,933	18,833	733	157	23,656	45,470
- Not past due	*17,934*	*1,039*	*1,872*	*20,845*	*3,487*	*17,605*	*725*	*149*	*21,966*	*42,811*
- Past due 1-30 days	*574*	*18*	*52*	*644*	*182*	*754*	*4*	—	*940*	*1,584*
- Past due 31-89 days	*242*	*18*	*65*	*325*	*264*	*474*	*4*	*8*	*750*	*1,075*
Weighted average life*										
- ECL measurement (years)	8	2	6	5	5	6	3	2	5	5
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.50	2.62	4.83	0.72	1.86	2.10	0.27	0.22	1.61	1.06
- Basel (%)	0.63	2.97	3.11	0.77	1.05	1.44	0.19	0.22	1.06	0.88
ECL provisions by geography	363	258	1,047	1,668	409	1,191	44	14	1,658	3,326
- UK	*363*	*255*	*1,024*	*1,642*	*379*	*966*	*29*	*12*	*1,386*	*3,028*
- RoI	—	*3*	*23*	*26*	*13*	*67*	*1*	—	*81*	*107*
- Other Europe	—	—	—	—	*9*	*63*	*4*	*1*	*77*	*77*
- RoW	—	—	—	—	*8*	*95*	*10*	*1*	*114*	*114*
ECL provisions by stage	363	258	1,047	1,668	409	1,191	44	14	1,658	3,326
- Stage 1	*79*	*63*	*116*	*258*	*99*	*211*	*16*	*13*	*339*	*597*
- Stage 2	*61*	*122*	*282*	*465*	*101*	*448*	*11*	*1*	*561*	*1,026*
- Stage 3	*223*	*73*	*649*	*945*	*209*	*532*	*17*	—	*758*	*1,703*
ECL provisions coverage (%)	0.18	5.80	11.05	0.78	1.35	1.65	0.17	0.30	1.25	0.96
- Stage 1 (%)	*0.04*	*1.93*	*1.73*	*0.14*	*0.39*	*0.40*	*0.06*	*0.29*	*0.32*	*0.20*
- Stage 2 (%)	*0.33*	*11.35*	*14.18*	*2.13*	*2.57*	*2.38*	*1.50*	*0.64*	*2.37*	*2.26*
- Stage 3 (%)	*11.86*	*66.36*	*81.64*	*33.93*	*32.91*	*37.28*	*37.78*	—	*35.57*	*34.64*
ECL (release)/charge - Third party	(76)	56	257	237	138	(52)	7	(3)	90	327
Amounts written-off	29	67	123	219	33	131	40	—	204	423

*Not within audit scope.

For the notes to this table refer to page 44.

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

	Personal				Wholesale					
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Other financial assets by asset quality (2)	—	—	—	—	—	9	8,337	115,641	123,987	123,987
- AQ1-AQ4	—	—	—	—	—	*9*	*8,108*	*115,641*	*123,758*	*123,758*
- AQ5-AQ8	—	—	—	—	—	—	*229*	—	*229*	*229*
Off-balance sheet	18,672	15,848	8,235	42,755	14,346	50,312	4,273	507	69,438	112,193
- Loan commitments	*18,672*	*15,848*	*8,184*	*42,704*	*13,871*	*47,250*	*3,907*	*507*	*65,535*	*108,239*
- Financial guarantees	—	—	*51*	*51*	*475*	*3,062*	*366*	—	*3,903*	*3,954*
Off-balance sheet by asset quality (2)	18,672	15,848	8,235	42,755	14,346	50,312	4,273	507	69,438	112,193
- AQ1-AQ4	*17,677*	*436*	*7,238*	*25,351*	*11,165*	*29,204*	*3,082*	*404*	*43,855*	*69,206*
- AQ5-AQ8	*978*	*15,048*	*973*	*16,999*	*3,150*	*20,778*	*1,190*	*84*	*25,202*	*42,201*
- AQ9	*2*	*74*	*4*	*80*	*5*	*23*	—	—	*28*	*108*
- AQ10	*15*	*290*	*20*	*325*	*26*	*307*	*1*	*19*	*353*	*678*

For the notes to this table refer to page 44.

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

	Personal				Wholesale					
		Credit	Other							
	Mortgages (1)	cards	personal	Total	Property	Corporate	FI	Sovereign	Total	Total
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,935	344,462
- UK	*185,443*	*3,877*	*8,926*	*198,246*	*29,395*	*62,338*	*29,617*	*4,131*	*125,481*	*323,727*
- RoI	*6,164*	*70*	*147*	*6,381*	*108*	*1,220*	*116*	*4*	*1,448*	*7,829*
- Other Europe	—	—	—	—	*316*	*3,385*	*1,041*	*543*	*5,285*	*5,285*
- RoW	—	—	—	—	*374*	*2,662*	*4,009*	*576*	*7,621*	*7,621*
Loans by stage and asset quality (2)	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,835	344,462
Stage 1	178,114	2,924	6,490	187,528	26,716	52,848	34,125	5,127	118,816	306,344
- AQ1	*3,305*	—	*377*	*3,682*	*1,097*	*862*	*2,508*	*2,597*	*7,065*	*10,747*
- AQ2	*45*	—	—	*45*	*3,249*	*772*	*25,150*	*401*	*29,572*	*29,617*
- AQ3	*2,046*	—	—	*2,046*	*3,753*	*5,190*	*681*	*1,944*	*11,568*	*13,614*
- AQ4	*92,230*	*44*	*404*	*92,678*	*4,284*	*10,933*	*4,436*	*69*	*19,722*	*112,400*
- AQ5	*73,089*	*873*	*1,273*	*75,235*	*6448/*	*15,909*	*698*	—	*23,055*	*98,290*
- AQ6	*3,498*	*976*	*2,787*	*7,261*	*5,491*	*12,229*	*446*	*17*	*18,183*	*25,444*
- AQ7	*3,380*	*929*	*1,170*	*5,479*	*2,048*	*6,148*	*145*	*91*	*8,432*	*13,911*
- AQ8	*223*	*96*	*427*	*746*	*322*	*731*	*57*	*7*	*1,117*	*1,863*
- AQ9	*298*	*6*	*52*	*356*	*24*	*74*	*4*	—	*102*	*458*
Stage 2	11,498	933	1,943	14,374	2,846	15,401	615	121	18,983	33,357
- AQ1	*16*	—	—	*16*	*56*	*46*	—	—	*102*	*118*
- AQ2	—	—	—	—	*113*	*15*	—	—	*128*	*128*
- AQ3	*16*	—	—	*16*	—	*130*	—	—	*130*	*146*
- AQ4	*3,351*	*1*	*88*	*3,440*	*48*	*835*	*15*	*34*	*932*	*4,372*
- AQ5	*4,277*	*67*	*170*	*4,514*	*477*	*3,069*	*290*	—	*3,836*	*8,350*
- AQ6	*1,159*	*220*	*805*	*2,184*	*748*	*4,242*	*179*	*84*	*5,253*	*7,437*
- AQ7	*710*	*484*	*367*	*1,561*	*967*	*4,521*	*60*	*2*	*5,550*	*7,111*
- AQ8	*1,309*	*124*	*378*	*1,811*	*301*	*1,935*	*69*	*1*	*2,306*	*4,117*
- AQ9	*660*	*37*	*135*	*832*	*136*	*608*	*2*	—	*746*	*1,578*
Stage 3	1,995	90	640	2,725	631	1,356	43	6	2,036	4,761
- AQ10	*1,995*	*90*	*640*	*2,725*	*631*	*1,356*	*43*	*6*	*2,036*	*4,761*
Loans - past due analysis (3,4)	191,607	3,947	9,073	204,627	30,193	69,605	34,783	5,254	139,835	344,462
- Not past due	*188,511*	*3,834*	*8,273*	*204,618*	*29,084*	*67,392*	*34,737*	*5,251*	*136,464*	*337,082*
- Past due 1-30 days	*1,200*	*29*	*122*	*1,351*	*518*	*1,080*	*39*	*2*	*1,639*	*2,990*
- Past due 31-89 days	*579*	*25*	*73*	*677*	*241*	*446*	*2*	*1*	*690*	*1,367*
- Past due 90-180 days	*342*	*21*	*62*	*425*	*91*	*214*	*1*	—	*306*	*731*
- Past due >180 days	*975*	*38*	*543*	*1,556*	*259*	*473*	*4*	—	*736*	*2,292*
Loans - Stage 2	11,498	933	1,943	14,374	2,846	15,401	615	212	18,983	33,357
- Not past due	*10,241*	*898*	*1,783*	*12,922*	*2,486*	*14,668*	*610*	*120*	*17,884*	*30,806*
- Past due 1-30 days	*827*	*17*	*95*	*939*	*125*	*317*	*4*	—	*446*	*1,385*
- Past due 31-89 days	*430*	*18*	*65*	*513*	*235*	*416*	*1*	*1*	*653*	*1,166*
Weighted average life*										
- ECL measurement (years)	8	2	5	5	5	6	3	1	6	6
Weighted average 12 months PDs*										
- IFRS 9 (%)	0.17	4.84	2.75	0.37	0.77	1.85	0.17	0.16	1.12	0.69
- Basel (%)	0.73	3.31	3.26	0.89	1.20	1.73	0.15	0.18	1.16	1.00
ECL provisions by geography	755	263	911	1,929	335	1,338	47	18	1,738	3,667
- UK	*438*	*261*	*901*	*1,600*	*295*	*1,108*	*42*	*15*	*1,460*	*3,060*
- RoI	*317*	*2*	*10*	*329*	*19*	*107*	*3*	*1*	*130*	*459*
- Other Europe	—	—	—	—	*17*	*71*	*1*	*1*	*90*	*90*
- RoW	—	—	—	—	*4*	*52*	*1*	*1*	*58*	*58*
ECL provisions by stage	755	263	911	1,929	335	1,338	47	48	1,738	3,667
- Stage 1	*31*	*59*	*57*	*147*	*23*	*95*	*7*	*17*	*142*	*289*
- Stage 2	*174*	*144*	*295*	*613*	*94*	*707*	*37*	*1*	*839*	*1,452*
- Stage 3	*550*	*60*	*559*	*1,169*	*218*	*536*	*3*	—	*757*	*1,926*
ECL provisions coverage (%)	0.39	6.66	10.04	0.94	1.11	1.92	0.14	0.34	1.24	1.06
- Stage 1 (%)	*0.02*	*2.02*	*0.88*	*0.08*	*0.09*	*0.18*	*0.02*	*0.33*	*0.12*	*0.09*
- Stage 2 (%)	*1.15*	*15.43*	*15.18*	*4.26*	*3.30*	*4.59*	*6.02*	*0.83*	*4.42*	*4.35*
- Stage 3 (%)	*27.57*	*66.67*	*87.34*	*42.90*	*34.55*	*39.53*	*6.98*	—	*37.18*	*40.45*
ECL (release)/charge - Third party	47	(14)	30	63	(436)	(708)	(7)	3	(1,148)	(1,085)
Amounts written-off	84	74	141	299	246	230	6	—	482	781

*Not within audit scope.

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

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

2021	Personal: Mortgages (1) £m	Personal: Credit cards £m	Personal: Other personal £m	Personal: Total £m	Wholesale: Property £m	Wholesale: Corporate £m	Wholesale: FI £m	Wholesale: Sovereign £m	Wholesale: Total £m	Total £m
Other financial assets by asset quality (2)	—	—	—	—	—	9	7,581	165,174	172,764	172,764
- AQ1-AQ4	—	—	—	—	—	9	*7,421*	*165,172*	*172,602*	*172,602*
- AQ5-AQ8	—	—	—	—	—	—	*160*	*2*	*162*	*162*
Off-balance sheet	16,663	15,354	8,178	40,195	14,822	46,668	4,020	833	66,343	106,538
- Loan commitments	*16,663*	*15,354*	*8,118*	*40,135*	*14,385*	*43,983*	*3,871*	*833*	*63,072*	*103,207*
- Financial guarantees	—	—	*60*	*60*	*437*	*2,685*	*149*	—	*3,271*	*3,331*
Off-balance sheet by asset quality (2)	16,663	15,354	8,178	40,195	14,822	46,668	4,020	833	66,343	106,538
- AQ1-AQ4	*14,793*	*248*	*6,598*	*21,630*	*1,197*	*26,116*	*2,990*	*685*	*41,088*	*62,718*
- AQ5-AQ8	*1,863*	*14,804*	*1,575*	*18,242*	*3,493*	*20,213*	*1,030*	*148*	*24,884*	*43,216*
- AQ9	—	*9*	*3*	*12*	*6*	*48*	—	—	*54*	*66*
- AQ10	*7*	*293*	*11*	*311*	*26*	*291*	—	—	*317*	*628*

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

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

£0.3 billion (2021 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.
(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	189,962	21,814	2,785	214,561	42,704	51	258	465	945	1,668
Mortgages	180,007	18,750	1,880	200,637	18,672	—	79	61	223	363
Credit cards	3,265	1,075	110	4,450	15,848	—	63	122	73	258
Other personal	6,690	1,989	795	9,474	8,184	51	116	282	649	1,047
Wholesale	107,382	23,656	2,131	133,169	65,535	3,903	339	561	758	1,658
Property*	25,626	3,933	635	30,194	13,871	475	99	101	209	409
Financial institutions	25,098	733	45	25,876	3,907	366	16	11	17	44
Sovereign	4,526	157	24	4,707	507	—	13	1	—	14
Corporate	52,132	18,833	1,427	72,392	47,250	3,062	211	448	532	1,191
Of which:										
*Agriculture**	3,642	1,032	89	4,763	966	24	21	30	41	92
*Airlines and aerospace**	444	1,211	18	1,673	1,301	173	2	39	8	49
*Automotive**	5,774	1,453	29	7,256	3,386	62	18	17	11	46
*Chemicals**	371	117	1	489	586	12	1	2	1	4
Health	3,914	1,003	140	5,057	474	4	19	30	47	96
*Industrials**	2,088	968	82	3,138	2,844	188	10	15	24	49
*Land transport and logistics**	3,763	1,234	66	5,063	3,022	188	13	33	17	63
*Leisure**	3,381	3,767	260	7,408	1,731	100	27	146	114	287
*Mining & metals**	173	230	2	405	545	5	—	1	2	3
*Oil and gas**	948	159	40	1,147	1,607	245	4	3	29	36
*Power Utilities**	4,082	406	6	4,494	4,344	1,176	9	11	1	21
*Retail**	6,333	1,710	150	8,193	4,152	409	21	29	68	118
*Shipping**	159	151	14	324	96	22	—	7	6	13
*Water & waste**	2,994	335	7	3,336	1,887	101	4	4	4	12
Total	297,344	45,470	4,916	347,730	108,239	3,954	597	1,026	1,703	3,326
2021										
Personal	187,528	14,374	2,725	204,627	40,135	60	147	613	1,169	1,929
Mortgages	178,114	11,498	1,995	191,607	16,663	—	31	174	550	755
Credit cards	2,924	933	90	3,947	15,354	—	59	144	60	263
Other personal	6,490	1,943	640	9,073	8,118	60	57	295	559	911
Wholesale	118,816	18,983	2,036	139,835	63,072	3,271	142	839	757	1,738
Property*	26,716	2,846	631	30,193	14,385	437	23	94	218	335
Financial institutions	34,125	615	43	34,783	3,871	149	7	37	3	47
Sovereign	5,127	121	6	5,254	833	—	17	1	—	18
Corporate	52,848	15,401	1,356	69,605	43,983	2,685	95	707	536	1,338
Of which:										
*Agriculture**	3,718	1,227	88	5,033	992	24	11	39	37	87
*Airlines and aerospace**	738	668	37	1,443	1,363	176	1	39	8	48
*Automotive**	5,122	1,263	38	6,423	2,821	65	9	31	10	50
*Chemicals**	355	43	1	399	601	14	1	—	—	1
Health	3,777	1,230	131	5,138	647	6	9	58	46	113
*Industrials**	2,275	619	28	2,922	2,535	208	4	15	13	32
*Land transport and logistics**	3,640	831	39	4,510	2,823	185	4	53	12	69
*Leisure**	3,683	4,009	340	8,032	1,548	106	10	246	132	388
*Mining & metals**	336	42	1	379	627	131	—	2	1	3
*Oil and gas**	1,230	141	35	1,406	1,086	449	1	14	24	39
*Power Utilities**	3,727	220	6	3,953	4,206	398	2	3	1	6
*Retail**	6,241	1,297	181	7,719	4,573	404	9	29	66	104
*Shipping**	503	334	27	864	89	12	1	11	10	22
*Water & waste**	2,659	230	4	2,893	1,640	91	2	5	2	9
Total	306,344	33,357	4,761	344,462	103,207	3,331	289	1,452	1,926	3,667

* Wholesale sectors marked with an asterisk contain an element of exposure classified as Heightened climate-related risk. Elements of the personal mortgage portfolio are also exposed to heightened climate-related risk. These are not in within audit scope.

Wholesale forbearance (audited)

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

2022	Property £m	FI £m	Other corporate £m	Total £m
Forbearance (flow)	**618**	**105**	**2,519**	**3,242**
Forbearance (stock)	**805**	**107**	**4,624**	**5,536**
Heightened Monitoring and Risk of Credit Loss	**924**	**112**	**3,426**	**4,462**
2021				
Forbearance (flow)	655	26	3,813	4,493
Forbearance (stock)	893	34	5,581	6,508
Heightened Monitoring and Risk of Credit Loss	1,069	68	4,469	5,606

Credit risk – Banking activities continued

- Loans by geography and sector – In line with NWH Group's strategic focus, exposures continued to be mainly in the UK. Exposure to the Republic of Ireland reduced during the year as part of the phased withdrawal noted previously. In Personal exposure increased primarily as a result of increased mortgage lending. In Wholesale, there was a reduction in the balance sheet in Q4, following a period of growth up to Q3. This was mainly due to a reduction in central items held in the course of treasury related management activities. There was growth in Commercial & Institutional, particularly as a result of increased exposure to larger corporate customers, primarily within information technology, telecommunications and power utilities. Repayment performance under COVID-19 government lending schemes is closely tracked and exposure continued to decrease due to scheduled repayment activity and account closures. Exposures under the Bounce Bank Loan Scheme (BBLS) that benefit from the 100% government guarantee account for approximately 70% of remaining government scheme exposures. BBLS missed repayment rate and recoveries stock have increased but volumes continue to be in line with other lenders.
- Loans by stage – In both Wholesale and Personal, deterioration in forward-looking economics resulted in a larger proportion of accounts exhibiting a SICR compared to 2021. There was, therefore, a migration of exposures from Stage 1 into Stage 2 during 2022. Personal customers who had accessed payment holiday support, and where their risk profile was identified as relatively high, are no longer collectively migrated into Stage 2. The relevance of this collective SICR identification was no longer considered as pertinent in the context of the current high inflation environment and related uncertainty.
- Loans – past due analysis – The implementation of the new regulatory default definition included refinements to the days past due calculations. This contributed to an increase in arrears in H1 2022 in Personal, however this moderated through the year. Particularly in mortgages, the exit from the Republic of Ireland also contributed to the reduction in past due exposures. In Wholesale, there was an increase in past due 1-30 days in corporates.
- Weighted average 12 months PDs – In Personal, the Basel II point-in-time PDs improved slightly during 2022 due to a stable credit performance in the portfolios. For IFRS 9 PDs, there were increases across mortgages and other personal lending as a result of new PD model implementations during the year, coupled with the deteriorating economic outlook in the second half of the year. For credit cards, the new IFRS 9 PD model implementation drove a net reduction in PD levels, primarily resulting from more accurate modelling of defaults driven by shifts in general unemployment. In Wholesale, the Basel II PDs were based on a through-the-cycle approach and improved reflecting positive portfolio performance. The IFRS 9 PDs increased due the deterioration in forward-looking economics. For further details refer to the Asset quality section.
- ECL provision by geography – In line with loans by geography, the vast majority of ECL related to exposures in the UK, noting the reduction in RoI was mostly due to the phased withdrawal of Ulster Bank RoI and moving of assets to discontinued operations and reclassifications.
- ECL provisions by stage – As mentioned above, Stage 1 and Stage 2 modelled ECL increased due to deterioration in forward-looking economics, although the Stage 2 growth was more than offset by reductions in post model adjustments. Stage 3 provisions have yet to be materially affected by the high inflation environment and supply chain disruption, with increases relating to the introduction of the new regulatory definition of default, largely offset by write offs.
- ECL provisions coverage – Overall provisions coverage reduced, due to the phased withdrawal of Ulster Bank RoI, a change in product mix and a decrease in judgemental post model adjustments which more than offset increases from the deteriorating economic outlook.
- The ECL charge and loss rate – ECL charge and loss rate was low, with charges from a deterioration in forward-looking economics countered by reductions in post model adjustments and the continued stable portfolio performance and low default trends.
- Other financial assets by asset quality – Consisting almost entirely of cash and balances at central banks and debt securities, held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- Off-balance sheet exposures by asset quality – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value increased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality was aligned to the wider portfolio. In Wholesale, growth was primarily loan commitments to financial institutions and corporate sectors in the AQ1-AQ4 bands.
- Wholesale forbearance – Forbearance flow and stock decreased in 2022 compared to 2021, noting that 2021 was adversely affected by COVID-19. Increased levels of forbearance were observed in Q4 2022. The retail & leisure, property and services sectors represented the largest share of forbearance flow. Labour shortages, the high inflation environment, rising fuel and energy costs, interest rate impacts and supply chain issues continue to weigh on these sectors. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- Heightened Monitoring and Risk of Credit Loss – Economic headwinds continue to present an uncertain outlook. Risk of Credit Loss framework exposures and inflows decreased in 2022 compared to 2021, noting again that 2021 was adversely affected by COVID-19. Inflows into the framework began to increase in Q4 2022. The sector breakdown of exposures within the framework remained consistent with prior periods. Retail SME customers do not form part of the Wholesale Risk of Credit Loss framework. Customers in financial difficulty within this group are managed by specialist problem debt management teams. The number of customers in arrears and recoveries increased significantly during 2022, driven by BBLS exposures. Excluding BBLS customers, the number of customers in this population in problem debt remains stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

The table below shows exposures of modelled portfolios within the scope of the ECL framework and related credit risk enhancement and mitigation (CREM).

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2022	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**109.3**	**—**	**109.3**	**—**	**—**	**—**	**—**	**—**	**—**	**109.3**	**—**
Loans - amortised cost (3)	**347.7**	**3.3**	**344.4**	**3.2**	**30.0**	**238.7**	**21.7**	**290.4**	**2.9**	**54.0**	**0.3**
Personal (4)	***214.6***	***1.7***	***212.9***	***1.8***	***0.9***	***199.8***	***—***	***200.7***	***1.7***	***12.2***	***0.1***
Wholesale (5)	***133.2***	***1.6***	***131.6***	***1.4***	***29.1***	***38.9***	***21.7***	***89.7***	***1.2***	***41.9***	***0.2***
Debt securities	**14.7**	**—**	**14.7**	**—**	**—**	**—**	**—**	**—**	**—**	**14.7**	**—**
Total financial assets	**471.8**	**3.3**	**468.5**	**3.2**	**30.0**	**238.7**	**21.7**	**290.4**	**2.9**	**178.1**	**0.3**
Contingent liabilities and commitments											
Personal (6,7)	**42.8**	**—**	**42.8**	**0.3**	**0.7**	**4.3**	**—**	**5.0**	**—**	**37.8**	**0.3**
Wholesale	**69.4**	**0.1**	**69.3**	**0.3**	**1.0**	**7.2**	**3.9**	**12.1**	**—**	**57.2**	**0.3**
Total off-balance sheet	**112.2**	**0.1**	**112.1**	**0.6**	**1.7**	**11.5**	**3.9**	**17.1**	**0.1**	**95.0**	**0.5**
Total exposure	**584.0**	**3.4**	**580.6**	**3.8**	**31.7**	**250.2**	**25.6**	**307.5**	**3.0**	**273.1**	**0.8**
2021											
Financial assets											
Cash and balances at central banks	142.5	—	142.5	—	—	—	—	—	—	142.5	—
Loans - amortised cost (3)	344.4	3.6	340.8	2.9	39.7	228.4	23.4	291.5	2.6	49.3	0.3
Personal (4)	*204.6*	*1.9*	*202.7*	*1.6*	*1.0*	*190.2*	*—*	*191.2*	*1.4*	*11.5*	*0.2*
Wholesale (5)	*139.8*	*1.7*	*138.1*	*1.3*	*38.7*	*38.2*	*23.4*	*100.3*	*1.2*	*37.8*	*0.1*
Debt securities	30.3	—	30.3	—	—	—	—	—	—	30.3	—
Total financial assets	517.2	3.6	513.6	2.9	39.7	228.4	23.4	291.5	2.6	222.1	0.3
Contingent liabilities and commitments											
Personal (6,7)	40.2	—	40.2	0.3	0.5	5.0	—	5.5	—	34.7	0.3
Wholesale	66.3	—	66.3	0.3	1.5	7.5	3.8	12.8	0.1	53.5	0.2
Total off-balance sheet	106.5	—	106.5	0.6	2.0	12.5	3.8	18.3	0.1	88.2	0.5
Total exposure	623.7	3.6	620.1	3.5	41.7	240.9	27.2	309.8	2.7	310.3	0.8

(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NWH Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NWH Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment; inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWH Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.3 billion (2021 – £0.3 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £14.0 billion (2021 – £11.8 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued
Personal portfolio (audited)
Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2022				2021			
Personal lending	Retail Banking £m	Private Banking £m	Central items & other £m	Total £m	Retail Banking £m	Private Banking £m	Central items & other £m	Total £m
Mortgages	186,928	13,709	—	200,637	172,707	12,781	6,164	191,652
Of which:								
Owner occupied	168,827	12,096	—	180,923	158,059	11,219	5,563	174,841
Buy-to-let	18,101	1,613	—	19,714	14,648	1,562	601	16,811
Interest only - variable	3,515	3,286	—	6,801	4,348	4,889	120	9,357
Interest only - fixed	17,954	8,591	—	26,545	14,255	5,957	3	20,215
Mixed (1)	9,768	1	—	9,769	8,616	1	34	8,651
Impairment provisions (2)	355	9	—	364	429	7	318	754
Other personal lending (3)	11,935	1,853	143	13,931	10,829	1,974	218	13,021
Impairment provisions (2)	1,257	15	26	1,298	1,140	19	11	1,170
Total personal lending	198,863	15,562	143	214,568	183,536	14,755	6,382	204,673
Mortgage LTV ratios								
- Total portfolio	52%	59%	—	53%	54%	59%	50%	54%
- Stage 1	*52%*	*59%*	—	*53%*	*54%*	*59%*	*48%*	*54%*
- Stage 2	*52%*	*61%*	—	*52%*	*52%*	*59%*	*57%*	*52%*
- Stage 3	*45%*	*59%*	—	*47%*	*49%*	*64%*	*56%*	*53%*
- Buy-to-let	50%	59%	—	51%	50%	57%	52%	51%
- Stage 1	*51%*	*59%*	—	*52%*	*50%*	*58%*	*51%*	*51%*
- Stage 2	*49%*	*53%*	—	*49%*	*52%*	*55%*	*56%*	*52%*
- Stage 3	*47%*	*55%*	—	*50%*	*51%*	*53%*	*66%*	*55%*
Gross new mortgage lending	41,227	2,968	—	44,195	35,290	2,874	41	38,205
Of which:								
Owner occupied	36,305	2,701	—	39,006	33,630	2,583	41	36,254
Weighted average LTV	69%	65%	—	*69%*	69%	65%	62%	68%
Buy-to-let	4,922	267	—	5,189	1,660	292	—	1,952
Weighted average LTV	64%	66%	—	*64%*	53%	65%	60%	64%
Interest only - variable rate	24	329	—	353	25	832	—	857
Interest only - fixed rate	5,299	2,335	—	7,634	2,388	1,563	—	3,951
Mixed (1)	2,309	—	—	2,309	2,256	—	—	2,256
Mortgage forbearance								
Forbearance flow	182	7	—	189	316	19	50	385
Forbearance stock	1,015	16	—	1,031	1,156	3	944	2,103
Current	*649*	*8*	—	*657*	*727*	—	*616*	*1,343*
1-3 months in arrears	*133*	—	—	*133*	*146*	*2*	*58*	*206*
>3 months in arrears	*233*	*8*	—	*241*	*283*	*1*	*270*	*554*

(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.

- The mortgage portfolio grew steadily during 2022, benefiting from buoyant housing market activity and customers re-mortgaging as interest rates rose across the market.
- LTV ratios improved as house prices increased as a result of housing market demand.
- The existing mortgage stock and new business were closely monitored against agreed risk appetite parameters. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality.
- Affordability assessments and assumptions were continuously reviewed considering inflationary pressure, interest rate rises and taxation changes during the year.
- The buy-to-let portfolio grew in 2022. This growth was expected and within risk appetite following strategy and customer journey simplification implemented in H2 2021.
- Aligned to strong overall portfolio quality and low levels of early arrears, forbearance flows have decreased compared to the prior year.
- Unsecured lending increased during 2022, with resilient customer demand after the easing of COVID-19 restrictions.
- As noted previously, ECL increased, for further detail of movements in ECL provisions at product level refer to the Flow statements section.

Credit risk – Banking activities continued
Personal portfolio (audited)
Mortgage LTV distribution by stage
The table below shows gross mortgage lending and related ECL by LTV band. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages						ECL provisions				ECL provisions coverage (2)			
Retail Banking	Stage 1	Stage 2	Stage 3	Not within IFRS 9 ECL scope	Total	Of which: gross new lending	Stage 1	Stage 2	Stage 3	Total (1)	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	71,336	8,257	1,036	61	80,690	7,467	26	20	121	167	—	0.2	11.7	0.2
>50% and ≤70%	68,193	7,792	616	7	76,608	14,088	32	30	71	133	—	0.4	11.5	0.2
>70% and ≤80%	17,606	1,602	62	1	19,271	11,154	7	6	11	24	—	0.4	17.7	0.1
>80% and ≤90%	7,920	944	17	1	8,882	7,127	6	5	5	16	0.1	0.5	29.4	0.2
>90% and ≤100%	1,410	18	6	—	1,434	1,389	3	—	2	5	0.2	—	33.3	0.3
>100%	35	7	10	—	52	2	2	—	4	6	5.7	—	40.0	11.5
Total with LTVs	166,500	18,620	1,747	70	186,937	41,227	76	61	214	351	—	0.3	12.3	0.2
Other	59	1	1	—	61	—	3	—	1	4	5.1	—	100.0	6.6
Total	166,559	18,621	1,748	70	186,998	41,227	79	61	215	355	—	0.3	12.3	0.2
2021														
≤50%	61,233	4,548	644	63	66,488	5,845	7	60	140	207	—	1.3	21.7	0.3
>50% and ≤70%	68,271	4,674	483	9	73,437	12,397	10	64	84	158	—	1.4	17.4	0.2
>70% and ≤80%	24,004	1,255	93	1	25,353	10,964	3	18	15	36	—	1.4	16.1	0.1
>80% and ≤90%	5,983	250	22	1	6,256	4,985	1	8	5	14	—	3.2	22.7	0.2
>90% and ≤100%	1,125	58	10	—	1,193	1,098	—	5	3	8	—	8.6	30.0	0.7
>100%	14	18	6	—	38	—	—	1	2	3	—	5.6	33.3	7.9
Total with LTVs	160,630	10,803	1,258	74	172,765	35,289	21	156	249	426	—	1.4	19.8	0.2
Other	14	1	1	—	16	1	—	—	—	—	—	—	—	—
Total	160,644	10,804	1,259	74	172,781	35,290	21	156	249	426	—	1.4	19.8	0.2

(1) Excludes a non-material amount of provisions held on relatively small legacy portfolios.
(2) ECL provisions coverage is ECL provisions divided by mortgages.

- The reduced coverage level in the lower LTV bands for Retail Banking, relative to 31 December 2021, reflected the implementation of a new IFRS 9 LGD model with a modelling approach that now captures a reduced loss expectation from non-repossession recovery action.
- Continued stable portfolio performance alongside the new IFRS 9 PD and LGD model implementations resulted in reduced coverage across most LTV bands in Stage 2 and Stage 3. The increased ECL across Stage 1 LTV bands was mainly due to higher Stage 1 PDs as a result of the new PD model implementation and also the proportionate allocation of the economic uncertainty post model adjustment to Stage 1.

Credit risk – Banking activities continued

Personal portfolio (audited)

Retail Banking mortgage LTV distribution by region

The table below shows gross mortgage lending by LTV band for Retail Banking, by geographical region.

	≤50%	50%≤80%	80%≤100%	>100%	Total	Weighted average LTV	Other	Total	Total
2022	£m	£m	£m	£m	£m	%	£m	£m	%
South East	**15,856**	**17,670**	**1,396**	**1**	**34,923**	**51**	**3**	**34,926**	**19**
Greater London	**15,200**	**17,550**	**1,336**	**1**	**34,087**	**51**	**3**	**34,090**	**18**
Scotland	**5,024**	**6,174**	**1,163**	**1**	**12,362**	**54**	**1**	**12,363**	**7**
North West	**7,670**	**8,672**	**1,236**	**2**	**17,580**	**52**	**2**	**17,582**	**9**
South West	**7,874**	**7,922**	**627**	**—**	**16,423**	**50**	**1**	**16,424**	**9**
West Midlands	**5,477**	**7,014**	**862**	**1**	**13,354**	**53**	**1**	**13,355**	**7**
East of England	**9,241**	**11,492**	**987**	**2**	**21,722**	**52**	**2**	**21,724**	**12**
Rest of the UK	**14,312**	**19,408**	**2,712**	**44**	**36,476**	**54**	**48**	**36,524**	**20**
Total	**80,654**	**95,902**	**10,319**	**52**	**186,927**	**52**	**61**	**186,988**	**100**
2021									
South East	13,160	18,298	886	1	32,345	53	3	32,348	19
Greater London	13,308	16,716	1,477	1	31,502	53	3	31,505	18
Scotland	4,493	6,529	559	2	11,583	54	1	11,584	7
North West	6,598	9,212	654	3	16,467	53	2	16,469	10
South West	6,140	8,619	499	1	15,259	53	2	15,261	9
West Midlands	4,323	7,449	553	1	12,326	55	1	12,327	7
East of England	7,467	11,679	820	1	19,967	54	2	19,969	12
Rest of the UK	10,937	20,278	2,001	26	33,242	56	2	33,244	19
Total	66,426	98,780	7,449	36	172,691	53	16	172,707	100

Commercial real estate (CRE)*

The CRE portfolio comprises exposures to entities involved in the development of, or investment in, commercial and residential properties (including house builders but excluding housing associations, construction and the building materials sub-sector). The sector is reviewed regularly by senior executive committees. Reviews include portfolio credit quality, capital consumption and control frameworks.

By sub-sector	2022 £m	2021 £m
Investment		
Residential (1)	**4,413**	4,253
Office (2)	**2,382**	2,646
Retail (3)	**2,947**	3,284
Industrial (4)	**2,512**	2,209
Mixed/other (5)	**837**	1,097
	13,091	13,489
Development		
Residential (1)	**1,644**	1,751
Office (2)	**81**	78
Retail (3)	**54**	43
Industrial (4)	**68**	56
Mixed/other (5)	**15**	21
	1,862	1,949
Total (6)	**14,953**	15,438

*Not within audit scope

(1) Properties including houses, flats and student accommodation.
(2) Properties including offices in central business districts, regional headquarters and business parks.
(3) Properties including high street retail, shopping centres, restaurants, bars and gyms.
(4) Properties including distribution centres, manufacturing and warehouses.
(5) Properties that do not fall within the other categories. Mixed generally relates to a mixture of retail/office with residential.
(6) 99% (2021 – 99%) of the total exposure relates to the UK.

Credit risk – Banking activities continued

Commercial real estate (audited)

CRE LTV distribution by stage

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

	Current exposure (gross of provisions) (1,2)					ECL provisions				ECL provisions coverage (4)			
2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Not within IFRS 9 ECL scope (3) £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	5,753	526	57	67	6,403	32	11	16	59	0.6	2.1	28.1	0.9
>50% and ≤70%	3,186	758	38	19	4,001	20	18	12	50	0.6	2.4	31.6	1.3
>70% and ≤100%	215	38	103	7	363	1	1	32	34	0.5	2.6	31.1	9.4
>100%	102	9	24	1	136	1	1	14	16	1.0	11.1	58.3	11.8
Total with LTVs	9,256	1,331	222	94	10,903	54	32	74	159	0.6	2.3	33.3	1.5
Total portfolio average LTV %	47%	53%	75%	—	48%								
Other (5)	1,654	577	51	8	2,290	8	14	23	45	0.5	2.4	45.1	2.0
Development (6)	1,491	324	47	7	1,869	13	8	27	48	0.9	2.5	57.5	2.6
Total	12,401	2,232	320	109	15,062	75	54	124	252	0.6	2.4	38.8	1.7
2021													
≤50%	5,721	367	34	268	6,390	3	7	9	19	0.1	1.9	26.5	0.3
>50% and ≤70%	3,923	360	46	469	4,798	3	5	20	28	0.1	1.4	43.5	0.6
>70% and ≤100%	291	99	76	9	475	—	1	21	22	—	1.0	27.6	4.6
>100%	214	7	37	4	262	—	2	26	28	—	28.6	70.3	10.7
Total with LTVs	10,149	833	193	750	11,925	6	15	76	97	0.1	1.8	39.4	0.8
Total portfolio average LTV %	49%	54%	81%	1	50%								
Other (5)	1,977	283	53	2	2,315	3	12	23	38	0.2	4.2	43.4	1.6
Development (6)	1,672	218	60	76	2,026	3	6	32	41	0.2	2.8	53.3	2.0
Total	13,798	1,334	306	828	16,266	12	33	131	176	0.1	2.5	42.8	1.1

(1) Comprises gross lending, interest rate hedging derivatives and other assets carried at fair value that are managed as part of the overall CRE portfolio.
(2) The exposure in Stage 3 mainly relates to legacy assets.
(3) Includes exposures relating to non-modelled portfolios and other exposures carried at fair value, including derivatives.
(4) ECL provisions coverage is ECL provisions divided by current exposure.
(5) Relates mainly to business banking, rate risk management products and unsecured corporate lending.
(6) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

- Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NWH Group.
- 2022 trends – The commercial property cycle turned around mid-year as rising interest rates started to put upward pressure on property yields. Commercial property values declined by an average of approximately 20% from their mid-year peak, ending the year approximately 14% lower. The industrial sector saw values fall fastest to date, yet it continues to attract strong occupier demand and may, therefore, be the first sector to see values stabilise. Secondary offices which don't match modern sustainability standards appear most at risk from further value loss. The residential sector has yet to show significant value declines, but transaction activity has slowed materially and is expected to remain weak until values have adjusted. The spike in mortgage costs last year would be expected to push prices down across the market in 2023. In contrast, residential rents appreciated rapidly in 2022 and professionally managed rental assets are expected to be relatively robust in 2023.
- Credit quality – Credit quality was stable for the first nine months of the year but the impacts from the increase in base rate, projected capital value falls, inflationary pressures and concerns over recession for some customers began to materialise. Inflows into the Risk of Credit Loss framework picked up in Q4, but remained relatively low in volume terms, compared to previous downturns.
- Risk appetite – Lending appetite is subject to regular review with some level of tightening undertaken in 2022. Demand for facilities reduced significantly in Q4 as the market reacted to the various negative news points.

Credit risk – Banking activities continued

Flow statements (audited)

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL effect. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.
- There were flows from Stage 1 into Stage 3 including transfers due to unexpected default events.
- The effect of any change in post model adjustments during the year is typically reported under changes in risk parameters, as are any effects arising from changes to the underlying models. Refer to the section on Governance and post model adjustments for further details.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NWH Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	473,294	288	34,803	1,451	5,022	1,928	513,119	3,667
Currency translation and other adjustments	3,557	—	131	2	52	29	3,740	31
Inter-Group transfers	(65)	—	—	—	—	—	(65)	—
Transfers from Stage 1 to Stage 2	(52,627)	(222)	52,627	222	—	—	—	—
Transfers from Stage 2 to Stage 1	29,641	812	(29,641)	(812)	—	—	—	—
Transfers to Stage 3	(612)	(4)	(3,636)	(264)	4,248	268	—	—
Transfers from Stage 3	468	35	836	76	(1,304)	(111)	—	—
Net re-measurement of ECL on stage transfer		(689)		1,071	—	348		730
Changes in risk parameters		271		(395)	—	134		10
Other changes in net exposure	(17,943)	116	(7,340)	(284)	(1,963)	(94)	(27,246)	(262)
Other (P&L only items)		1		(5)	—	(147)		(151)
Income statement (releases)/charges		(301)		387		241		327
Transfers to disposal groups and fair value	(8,277)	(10)	(658)	(40)	(590)	(286)	(9,525)	(336)
Amounts written-off	—	—	(1)	(1)	(425)	(425)	(426)	(426)
Unwinding of discount		—		—		(88)		(88)
At 31 December 2022	427,436	597	47,121	1,026	5,040	1,703	479,597	3,326
Net carrying amount	426,839		46,095		3,337		476,271	
At 1 January 2021	383,902	493	77,922	2,958	6,144	2,406	467,968	5,857
2021 movements	89,392	(205)	(43,119)	(1,507)	(1,122)	(478)	45,151	(2,190)
At 31 December 2021	473,294	288	34,803	1,451	5,022	1,928	513,119	3,667
Net carrying amount	473,006		33,352		3,094		509,452	

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	159,966	24	10,748	155	1,267	250	171,981	429
Currency translation and other adjustments	(1)	—	1	1	9	10	9	11
Transfers from Stage 1 to Stage 2	(18,858)	(9)	18,858	9	—	—	—	—
Transfers from Stage 2 to Stage 1	8,261	69	(8,261)	(69)	—	—	—	—
Transfers to Stage 3	(53)	—	(1,286)	(36)	1,339	36	—	—
Transfers from Stage 3	42	1	395	18	(437)	(19)	—	—
Net re-measurement of ECL on stage transfer		(66)		95		(14)		15
Changes in risk parameters		59		(94)		32		(3)
Other changes in net exposure	15,907	1	(1,623)	(17)	(388)	(12)	13,896	(28)
Other (P&L only items)		1		(1)		(61)		(61)
Income statement (releases)/charges		(5)		(17)		(55)		(77)
Amounts written-off	—	—	(1)	(1)	(28)	(28)	(29)	(29)
Unwinding of discount		—		—		(40)		(40)
At 31 December 2022	165,264	79	18,831	61	1,762	215	185,857	355
Net carrying amount	165,185		18,770		1,547		185,502	
At 1 January 2021	132,390	23	28,079	227	1,291	236	161,760	486
2021 movements	27,576	1	(17,331)	(72)	(24)	14	10,221	(57)
At 31 December 2021	159,966	24	10,748	155	1,267	250	171,981	429
Net carrying amount	159,942		10,593		1,017		171,552	

- Despite the strong portfolio growth during 2022, ECL levels for mortgages reduced during the year, primarily as a result of stable portfolio performance alongside the implementation of new IFRS 9 models in Q1 2022.
- More specifically, in H1 2022, strong credit performance resulted in the migration of assets from Stage 2 into Stage 1, with an associated decrease from lifetime ECL to a 12 month ECL. ECL levels increased in the second half of the year as the portfolio continued to grow and the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- The economic uncertainty post model adjustment allocated more ECL to Stage 1 given the forward-looking nature of the inflation threat on customer affordability, whereas the previous COVID-19 post model adjustment was focused on Stage 2 (for example, high risk payment holiday cases migrated into Stage 2). Refer to the Governance and post model adjustments section for more information.
- The Stage 3 inflow was amplified by the adoption of the new regulatory definition of default in January 2022. However, Stage 3 ECL levels decreased since 31 December 2021, primarily due to reduced LGD estimates as a result of the new model implementation in Q1 2022 alongside stable underlying default levels. The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in Stage 2. Refer to the Governance and post model adjustments section for further details.
- Write-off typically occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	2,740	58	947	141	91	60	3,778	259
Currency translation and other adjustments	—	—	—	—	1	—	1	—
Transfers from Stage 1 to Stage 2	(1,278)	(41)	1,278	41	—	—	—	—
Transfers from Stage 2 to Stage 1	942	101	(942)	(101)	—	—	—	—
Transfers to Stage 3	(23)	(1)	(102)	(42)	125	43	—	—
Transfers from Stage 3	1	1	9	3	(10)	(4)	—	—
Net re-measurement of ECL on stage transfer		(64)		161		29		126
Changes in risk parameters		7		(29)		15		(7)
Other changes in net exposure	680	—	(92)	(54)	(28)	—	560	(54)
Other (P&L only items)		—		—		(7)		(7)
Income statement (releases)/charges		(57)		78		37		58
Amounts written-off	—	—	—	—	(66)	(66)	(66)	(66)
Unwinding of discount		—		—		(6)		(6)
At 31 December 2022	3,062	61	1,098	120	113	71	4,273	252
Net carrying amount	3,001		978		42		4,021	
At 1 January 2021	2,250	52	1,384	220	114	75	3,748	347
2021 movements	490	6	(437)	(79)	(23)	(15)	30	(88)
At 31 December 2021	2,740	58	947	141	91	60	3,778	259
Net carrying amount	2,682		806		31		3,519	

- ECL remained broadly stable during 2022 reflecting stable portfolio performance and the unwind of ECL held for COVID-19 related risks in the first half of the year that resulted in reduced levels of SICR identification and ECL requirement. In addition, a new credit card PD model implementation resulted in a net ECL decrease of £26 million. This is included in changes in risk parameters for Stage 1 and Stage 2.
- Similar to mortgages, ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Credit card balances grew since 31 December 2021, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Reflecting the strong credit performance observed during 2022, Stage 3 inflows remained subdued and the effect of the adoption of the new regulatory definition of default was minimal for credit cards.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	4,548	52	1,967	294	629	540	7,144	886
Currency translation and other adjustments	—	—	—	(1)	9	10	9	9
Transfers from Stage 1 to Stage 2	(2,797)	(85)	2,797	85	—	—	—	—
Transfers from Stage 2 to Stage 1	1,948	225	(1,948)	(225)	—	—	—	—
Transfers to Stage 3	(40)	(1)	(356)	(111)	396	112	—	—
Transfers from Stage 3	5	3	39	20	(44)	(23)	—	—
Net re-measurement of ECL on stage transfer		(177)		296		115		234
Changes in risk parameters		38		(34)		35		39
Other changes in net exposure	1,120	56	(471)	(55)	(90)	(26)	559	(25)
Other (P&L only items)		—		—		—		—
Income statement (releases)/charges		(83)		207		124		248
Amounts written-off	—	—	—	—	(121)	(121)	(121)	(121)
Unwinding of discount		—		—		(11)		(11)
At 31 December 2022	4,784	111	2,028	269	779	631	7,591	1,011
Net carrying amount	4,673		1,759		148		6,580	
At 1 January 2021	3,385	59	3,487	450	596	495	7,468	1,004
2021 movements	1,163	(7)	(1,520)	(156)	33	45	(324)	(118)
At 31 December 2021	4,548	52	1,967	294	629	540	7,144	886
Net carrying amount	4,496		1,673		89		6,258	

- Overall, there was a modest ECL increase, mainly due to portfolio growth in the personal loan portfolio during 2022 and Stage 3 ECL, linked to the adoption of the new regulatory definition of default in January 2022, with underlying Stage 3 inflows remaining stable.
- Similar to the other personal portfolios, after reductions in the first half of the year, Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Unsecured retail lending balances grew since 31 December 2021, in line with industry trends in the UK, as unsecured borrowing demand increased.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	80,364	116	18,977	759	1,938	651	101,279	1,526
Currency translation and other adjustments	765	(2)	131	(1)	18	1	914	(2)
Inter-group transfers	(65)	—	—	—	—	—	(65)	—
Transfers from Stage 1 to Stage 2	(26,884)	(76)	26,884	76	—	—	—	—
Transfers from Stage 2 to Stage 1	16,712	385	(16,712)	(385)	—	—	—	—
Transfers to Stage 3	(223)	(1)	(1,624)	(65)	1,847	66	—	—
Transfers from Stage 3	201	29	187	27	(388)	(56)	—	—
Net re-measurement of ECL on stage transfer		(359)		486		208		335
Changes in risk parameters		158		(252)		61		(33)
Other changes in net exposure	9,502	56	(4,492)	(128)	(1,242)	(46)	3,768	(118)
Other (P&L only items)		(1)		(3)		(68)		(72)
Income statement (releases)/charges		(146)		103		155		112
Amounts written-off	—	—	—	—	(167)	(167)	(167)	(167)
Unwinding of discount		—		—		(27)		(27)
At 31 December 2022	80,372	306	23,351	517	2,006	691	105,729	1,514
Net carrying amount	80,066		22,834		1,315		104,215	

- Exposure growth was mainly due to increased exposure to larger corporate customers, notably information technology, telecommunications and power utilities.
- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - corporate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	48,662	89	15,101	638	1,295	460	65,058	1,187
Currency translation and other adjustments	611	(1)	118	1	14	5	743	5
Inter-group transfers	(56)	1	—	(4)	—	—	(56)	(3)
Transfers from Stage 1 to Stage 2	(20,705)	(58)	20,705	58	—	—	—	—
Transfers from Stage 2 to Stage 1	13,435	299	(13,435)	(299)	—	—	—	—
Transfers to Stage 3	(166)	(1)	(1,135)	(49)	1,301	50	—	—
Transfers from Stage 3	117	23	126	21	(243)	(44)	—	—
Net re-measurement of ECL on stage transfer		(277)		377		156		256
Changes in risk parameters		91		(222)		(2)		(133)
Other changes in net exposure	6,436	37	(3,032)	(105)	(920)	(31)	2,484	(99)
Other (P&L only items)		—		(3)		(69)		(72)
Income statement (releases)/charges		(149)		47		54		(48)
Amounts written-off	—	—	—	—	(104)	(104)	(104)	(104)
Unwinding of discount		—		—		(14)		(14)
At 31 December 2022	48,334	203	18,448	416	1,343	476	68,125	1,095
Net carrying amount	48,131		18,032		867		67,030	

- Exposure growth was driven by increased exposure to larger corporate customers, notably information technology, telecommunications and power utilities.
- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - property	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	25,049	22	2,787	81	607	186	28,443	289
Currency translation and other adjustments	18	(1)	—	—	1	(7)	19	(8)
Inter-group transfers	(9)	(1)	—	—	—	—	(9)	(1)
Transfers from Stage 1 to Stage 2	(4,924)	(16)	4,924	16	—	—	—	—
Transfers from Stage 2 to Stage 1	2,410	44	(2,410)	(44)	—	—	—	—
Transfers to Stage 3	(45)	—	(411)	(15)	456	15	—	—
Transfers from Stage 3	52	6	61	6	(113)	(12)	—	—
Net re-measurement of ECL on stage transfer		(44)		91		42		89
Changes in risk parameters		65		(25)		29		69
Other changes in net exposure	1,565	16	(1,018)	(19)	(370)	(17)	177	(20)
Other (P&L only items)		—		1		(1)		—
Income statement (releases)/charges		37		48		53		138
Amounts written-off	—	—	—	—	(24)	(24)	(24)	(24)
Unwinding of discount		—		—		(12)		(12)
At 31 December 2022	24,116	91	3,933	91	557	200	28,606	382
Net carrying amount	24,025		3,842		357		28,224	

- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were partially offset by reductions in post model adjustments.
- There were significant flows into Stage 3 due to defaults on government scheme lending, with exposure reductions where payments on guarantees have been received.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	6,653	5	1,089	40	36	5	7,778	50
Currency translation and other adjustments	136	1	14	(1)	3	1	153	1
Inter-group transfers	—	—	—	4	—	—	—	4
Transfers from Stage 1 to Stage 2	(1,255)	(2)	1,255	2	—	—	—	—
Transfers from Stage 2 to Stage 1	868	42	(868)	(42)	—	—	—	—
Transfers to Stage 3	(13)	—	(78)	(1)	91	—	—	(1)
Transfers from Stage 3	32	—	1	—	(33)	—	—	—
Net re-measurement of ECL on stage transfer		(38)		17		11		(10)
Changes in risk parameters		2		(6)		35		31
Other changes in net exposure	1,501	3	(443)	(4)	48	2	1,106	1
Other (P&L only items)		(1)		1		—		—
Income statement (releases)/charges		(34)		8		48		22
Amounts written-off	—	—	—	—	(39)	(39)	(39)	(39)
Unwinding of discount		—		—		—		—
At 31 December 2022	7,922	12	970	10	106	15	8,998	37
Net carrying amount	7,910		960		91		8,961	

- Stage 1 and Stage 2 ECL levels increased in the second half of the year as the economic outlook deteriorated, increasing IFRS 9 PDs and the level of migrations from Stage 1 into Stage 2.
- Stage 2 ECL increases were more than offset by reductions in post model adjustments.

Credit risk – Banking activities continued

Stage 2 decomposition – arrears status and contributing factors

The tables below show Stage 2 decomposition for the Personal and Wholesale portfolios.

	UK mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2022	£m	£m	£m	£m	£m	£m	£m	£m
Personal								
Currently >30 DPD	184	1	10	5	50	18	244	24
Currently <=30 DPD	18,566	60	1,065	117	1,939	264	21,570	441
- PD deterioration	*16,342*	*56*	*805*	*97*	*1,093*	*150*	*18,240*	*303*
- PD persistence	*867*	*2*	*199*	*13*	*186*	*16*	*1,252*	*31*
- Other driver (adverse credit, forbearance etc)	*1,357*	*2*	*61*	*7*	*660*	*98*	*2,078*	*107*
Total Stage 2	18,750	61	1,075	122	1,989	282	21,814	465
2021								
Personal								
Currently >30 DPD	371	9	11	6	86	16	468	31
Currently <=30 DPD	10,574	148	922	138	2,410	296	13,906	582
- PD deterioration	*2,399*	*56*	*549*	*99*	*1,028*	*174*	*3,976*	*329*
- PD persistence	*3,088*	*38*	*270*	*23*	*791*	*92*	*4,149*	*153*
- Other driver (adverse credit, forbearance etc)	*5,087*	*54*	*103*	*16*	*591*	*30*	*5,781*	*100*
Total Stage 2	10,945	157	933	144	2,496	312	14,374	613

- The deterioration in economic outlook during the second half of the year resulted in increased account level IFRS 9 PDs at the year end. Consequently, compared to 2021, a larger proportion of accounts exhibited significant PD deterioration causing Stage 2 exposures to increase significantly since 30 June 2022.
- Higher risk Personal customers who had accessed COVID-19 payment holiday support are no longer collectively migrated into Stage 2 with the focus of high risk segment monitoring now shifting to the effects of a high inflation environment on customers. In UK mortgages at 31 December 2021, approximately £0.8 billion of exposures were previously collectively migrated from Stage 1 into Stage 2.
- Accounts that are less than 30 days past due continue to represent the vast majority of the Stage 2 population. As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

	Property		Corporate		Financial institutions		Sovereign		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently >30 DPD	259	4	467	11	3	—	7	—	736	15
Currently <=30 DPD	3,674	97	18,366	437	730	11	150	1	22,920	546
- PD deterioration	*2,374*	*64*	*15,142*	*345*	*654*	*7*	*80*	*—*	*18,250*	*416*
- PD persistence	*87*	*3*	*263*	*9*	*5*	*—*	*—*	*—*	*355*	*12*
- Other driver (forbearance, RoCL etc)	*1,213*	*30*	*2,961*	*83*	*71*	*4*	*70*	*1*	*4,315*	*118*
Total Stage 2	3,933	101	18,833	448	733	11	157	1	23,656	561
2021										
Wholesale										
Currently >30 DPD	223	3	388	8	1	—	—	—	612	11
Currently <=30 DPD	2,623	91	15,013	699	614	37	121	1	18,371	828
- PD deterioration	*796*	*49*	*10,262*	*545*	*529*	*35*	*84*	*1*	*11,671*	*630*
- PD persistence	*138*	*8*	*552*	*32*	*6*	*—*	*1*	*—*	*697*	*40*
- Other driver (forbearance, RoCL etc)	*1,689*	*34*	*4,199*	*122*	*79*	*2*	*36*	*—*	*6,003*	*158*
Total Stage 2	2,846	94	15,401	707	615	37	121	1	18,983	839

- The deteriorating economic outlook, including lower growth in GDP and the stock index as well as a reduction in commercial real estate prices, resulted in a significant increase in IFRS 9 PDs. Consequently, compared to 2021, a larger proportion of exposure exhibited a SICR and migrated into Stage 2, resulting in an increase in Stage 2 exposure.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment, proportionally increasing due to the deteriorating economic outlook.
- There was a decrease in Risk of Credit Loss partially due to PD deterioration being the primary trigger. Overall, there was a decrease in flows on to the Risk of Credit Loss framework, although inflows into the framework began to increase in Q4 2022.

Credit risk – Banking activities continued
Stage 2 decomposition by a significant increase in credit risk trigger

2022	UK mortgages £m	%	Credit cards £m	%	Other £m	%	Total £m	%
Personal trigger (1)								
PD movement	16,477	87.9	814	75.7	1,130	56.8	18,421	84.5
PD persistence	867	4.6	200	18.6	186	9.4	1,253	5.7
Adverse credit bureau recorded with credit reference agency	930	5.0	51	4.7	96	4.8	1,077	4.9
Forbearance support provided	96	0.5	1	0.1	17	0.9	114	0.5
Customers in collections	153	0.8	2	0.2	4	0.2	159	0.7
Collective SICR and other reasons (2)	183	1.0	7	0.7	545	27.4	735	3.4
Days past due >30	44	0.2	—	—	11	0.6	55	0.3
	18,750	100	1,075	100	1,989	100	21,814	100

2021	UK mortgages £m	%	Credit cards £m	%	Other £m	%	Total £m	%
Personal trigger (1)								
PD movement	2,707	24.7	560	60.0	1,091	43.7	4,358	30.3
PD persistence	3,103	28.4	270	28.9	792	31.7	4,165	29.0
Adverse credit bureau recorded with credit reference agency	3,657	33.4	60	6.4	73	2.9	3,790	26.4
Forbearance support provided	173	1.6	2	0.2	33	1.3	208	1.5
Customers in collections	82	0.7	3	0.3	48	1.9	133	0.9
Collective SICR and other reasons (2)	1,181	10.8	38	4.1	454	18.2	1,673	11.6
Days past due >30	42	0.4	—	—	5	0.2	47	0.3
	10,945	100	933	100	2,496	100	14,374	100

- During the first half of the year, the stable credit performance of the portfolio resulted in either decreased or stable account level IFRS 9 PDs for most products. UK mortgages was the exception, where the implementation of a new IFRS 9 PD model in Q1 2022 increased the proportion of accounts exhibiting significant PD deterioration.
- However, in the second half of the year, the economic uncertainty and high-inflation environment, which is reflected in the recent updates to the IFRS 9 MES scenarios, resulted in PDs increasing again. This is reflected both in an increase in Stage 2 across all products compared to 31 December 2021 and an increased proportion of Stage 2 driven by PD deterioration.
- Personal customers who had accessed COVID-19 payment holiday support, and where their risk profile was identified as relatively high risk are no longer collectively migrated into Stage 2, given the lack of default emergence from these segments and with the focus of high risk segment monitoring now shifting to the effects of a high inflation environment on customers. In UK mortgages at 31 December 2021, approximately £0.8 billion of exposures were previously collectively migrated from Stage 1 into Stage 2.

Credit risk – Banking activities continued
Stage 2 decomposition by a significant increase in credit risk trigger continued

	Property		Corporate		Financial institutions		Sovereign		Total	
2022	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)										
PD movement	**2,443**	**62.1**	**15,380**	**81.7**	**655**	**89.4**	**79**	**50.3**	**18,557**	**78.5**
PD persistence	**87**	**2.2**	**263**	**1.4**	**5**	**0.7**	**—**	**—**	**355**	**1.5**
Risk of Credit Loss	**615**	**15.6**	**1,581**	**8.4**	**32**	**4.4**	**55**	**35.0**	**2,283**	**9.7**
Forbearance support provided	**44**	**1.1**	**470**	**2.5**	**19**	**2.6**	**—**	**—**	**533**	**2.3**
Customers in collections	**14**	**0.4**	**43**	**0.2**	**—**	**—**	**—**	**—**	**57**	**0.2**
Collective SICR and other reasons (2)	**560**	**14.2**	**902**	**4.8**	**21**	**2.9**	**16**	**10.2**	**1,499**	**6.3**
Days past due >30	**170**	**4.3**	**194**	**1.0**	**1**	**0.1**	**7**	**4.5**	**372**	**1.6**
	3,933	**100**	**18,833**	**100**	**733**	**100**	**157**	**100**	**23,656**	**100**
2021										
Wholesale trigger (1)										
PD movement	842	29.6	10,423	67.7	529	86.0	84	69.4	11,878	62.6
PD persistence	139	4.9	553	3.6	6	1.0	1	0.8	699	3.7
Risk of Credit Loss	915	32.2	2,615	17.0	56	9.1	34	28.1	3,620	19.1
Forbearance support provided	98	3.4	477	3.1	5	0.8	—	—	580	3.1
Customers in collections	27	1.0	88	0.6	1	0.2	—	—	116	0.6
Collective SICR and other reasons (2)	673	23.7	1,140	7.4	18	2.9	2	1.7	1,833	9.7
Days past due >30	152	5.3	105	0.7	—	—	—	—	257	1.4
	2,846	100	15,401	100	615	100	121	100	18,983	100

(1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes cases where a PD assessment cannot be made and accounts where the PD has deteriorated beyond a prescribed backstop threshold aligned to risk management practices.

- PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. There was an increase in cases triggering PD deterioration reflecting the deteriorating economic outlook.
- Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework decreased over the period due to the increase in PD deterioration.
- PD persistence related to the Business Banking portfolio only. A reduction in PDs in 2021 meant that some Business Banking customers returned to Stage 1 in early 2022, although a number of these customers returned through PD movement in the second half of the year due to the deteriorating economic outlook.

Capital, liquidity and funding risk

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

Definitions (audited)

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

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

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

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base. Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform. The risks are dependent on factors such as:

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

Sources of risk (audited)

Capital

The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses on either a going or gone concern basis, degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:

- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years at the point of issuance.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes issued by NWH Ltd to NatWest Group plc may be used to cover certain gone concern capital requirements which is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWH Group has failed, or is likely to fail.

Liquidity

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

Liquidity resources are divided into primary and secondary liquidity as follows:

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

Funding

NWH Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NWH Group also retains access to central bank funding facilities.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, refer to the NWH Group Pillar 3 Report 2022.

Managing capital requirements: regulated entities

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

Capital, liquidity and funding risk continued
Capital management

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

Capital management is critical in supporting NWH Group, and is enacted through an end to end framework across the consolidated NWH Group. The individual banking subsidiaries of NWH Group are subject to the same principles, processes and management as NWH Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NWH Group's wider annual budgeting process and is assessed and updated at least monthly. These regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 14 and 15.

Produce capital plans	– Capital plans are produced for NWH Group, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. – Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital adequacy	– Capital plans are developed to maintain capital of sufficient quantity and quality to support NWH Group's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. – Capital resources and capital requirements are assessed across a defined planning horizon. – Impact assessment captures input from across NWH Group including from businesses.
Inform capital actions	– Capital planning informs potential capital actions including buybacks, redemptions, dividends and new issuance to external investors or via internal transactions. – Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. – As part of capital planning, NatWest Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

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

- NatWest Holdings Group
- UK DoLSub
- UBIDAC
- NatWest Bank Europe GmbH

The UK DoLSub is PRA regulated and comprises NWH Group's three licensed deposit taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc and Coutts & Company. Ulster Bank Limited was removed from the UK DoLSub effective 1 January 2022 and its banking license was officially revoked following regulatory approval on 29 December 2022.

NWH Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets.

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

UBIDAC holds locally managed portfolios that comply with local regulations that may differ from PRA rules.

The liquidity value of the portfolio is determined by taking current market prices and applying a discount or haircut, to give a liquidity value that represents the amount of cash that can be generated by the asset.

Funding risk management

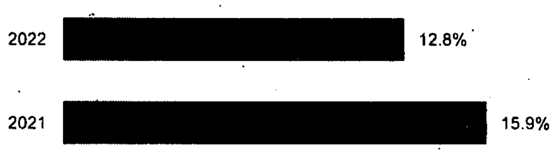
NWH Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet.

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

Capital, liquidity and funding risk continued

Key points

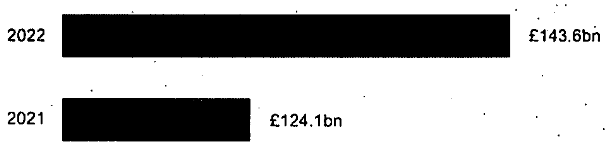
CET1 ratio



The CET1 ratio decreased 310 basis points over the period, due to a £1.3 billion decrease in CET1 and a £19.5 billion increase in RWAs. The CET1 decrease reflects the attributable profit in the period of £3.5 billion, offset by the items:

- dividends paid of £1.7 billion;
- foreseeable dividend of £1.2 billion and adjustment for pension trust £0.4 billion;
- the removal of an adjustment for prudential amortisation on software development costs of £0.4 billion and an increase in intangible assets capital deduction £0.4 billion;
- a £0.3 billion decrease in IFRS 9 transitional adjustment.

RWA's



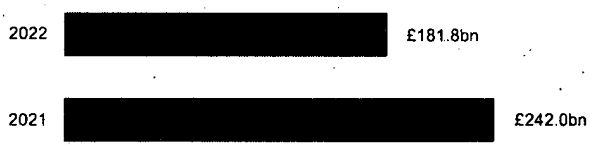
Total RWAs increased by £19.5 billion to £143.6 billion mainly reflecting:

- An increase in credit risk RWAs of £20.4 billion, primarily due to model adjustments applied as a result of new regulation applicable to IRB models from 1 January 2022, in addition to increased exposures within Commercial & Institutional and Retail Banking. This was partially offset by a reduction in Ulster RoI portfolio and improved risk metrics within Commercial & Institutional and Retail Banking.
- A decrease in operational risk RWAs of £0.7 billion following the annual recalculation.

Leverage

The leverage ratio at 31 December 2022 is 5.4% and has been calculated in accordance with changes to the UK's leverage ratio framework. As at 31 December 2021, the UK leverage ratio was 5.6%, which was calculated under the prior year's UK leverage methodology. The key driver of the decrease is a £1.3 billion decrease in Tier 1 capital.

Liquidity portfolio

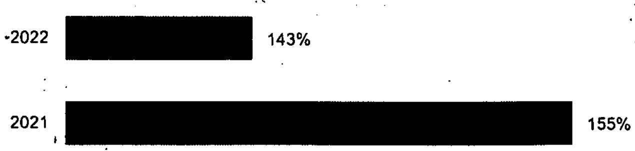


The liquidity portfolio decreased by £60.2 billion to £181.8 billion, with primary liquidity decreasing by £46.4 billion to £117.9 billion. The decrease in primary liquidity is driven by an increase in lending, a decrease in deposits, shareholder distributions (share buyback and dividends), redemptions of senior debt and maturing commercial paper and certificates of deposit. The reduction in secondary liquidity is due to a reduction in the pre-positioned collateral at the Bank of England.

Liquidity coverage ratio

The Liquidity Coverage Ratio (LCR) decreased to 135% during the year driven by a decrease in the liquidity portfolio and a lower than proportionate reduction in net outflows. The decrease in liquidity portfolio was primarily driven by growth in customer lending and reduced customer deposits.

NSFR



The net stable funding ratio (NSFR) was 143% compared to 155% in prior year. The decrease is due to lower deposits combined with higher lending.

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

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

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirement	4.5%	6.0%	8.0%
Pillar 2A requirement (1)	1.4%	1.9%	2.6%
Minimum Capital Requirement	5.9%	7.9%	10.6%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical buffer (2)	0.9%	0.9%	0.9%
O-SII buffer	1.5%	1.5%	1.5%
Total (excluding PRA buffer) (3)	10.8%	12.8%	15.4%

(1) Additional capital requirements under Pillar 2A are set as a variable amount with the exception of some fixed add-ons.
(2) The Financial Policy Committee increased UK CCyB rate from 0% to 1% effective from 13 December 2022. A further increase from 1% to 2% is anticipated from 5 July 2023
(3) In June 2022, the Central Bank of Ireland announced that the CCyB on Irish exposures will increase from 0% to 0.5%, applicable from 15 June 2023. This is the first step towards a gradual increase which, conditional on macro-financial developments would see a CCyB of 1.5% announced by mid-2023, which is expected to be applicable from June 2024.
(4) NWH Group may be subject to a non-disclosable PRA buffer requirement as set by the PRA. The PRA buffer consists of three components:
(a) A risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements. The scalar could extend up to 40%.
(b) A buffer to cover stress risks informed by the results of the BoE concurrent stress testing results.
(c) Any buffer applicable on an entity established outside the UK that exceeds that entity's share of the buffer applicable at the consolidated group level to cover the same risk.

Leverage ratios

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

Type	CET1	Total Tier 1
Minimum capital requirements	2.44%	3.25%
Countercyclical leverage ratio buffer (1)	0.3%	0.3%
O-SII Additional leverage ratio buffer (2)	0.53%	0.53%
Total	3.27%	4.08%

(1) The countercyclical leverage ratio buffer is set at 35% of NWH Group's CCyB. Footnotes 2 and 3 of the capital adequacy ratio table above provides more information on the CCyB.
(2) The PRA minimum leverage ratio requirement is supplemented with a O-SII additional leverage ratio buffer of 0.525%.
(3) Certain NatWest Group legal entities that are not currently in scope of the minimum leverage ratio capital requirements are expected to manage their leverage ratio at the same level as firms and will be subject to the minimum requirement from 1 January 2023.

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics under the PRA framework.

Type	
Liquidity coverage ratio (LCR)	100%
Net stable funding ratio (NSFR)	100%

Capital, liquidity and funding risk continued

Measurement

Capital, RWAs and leverage

The table below sets out the key capital and leverage ratios on a PRA transitional basis.

Capital (1)	2022 £m	2021 £m
CET1	18,426	19,715
Tier 1	22,108	23,397
Total	27,100	28,541
RWAs		
Credit risk	125,661	105,233
Counterparty credit risk	483	705
Market risk	208	203
Operational risk	17,222	17,935
Total RWAs	143,574	124,076
Capital adequacy ratios	%	%
CET1	12.8	15.9
Tier 1	15.4	18.9
Total	18.9	23.0
Leverage		
Tier 1 capital (£m)	22,108	23,397
Leverage exposure (£m) (2)	412,906	566,064
Leverage ratio (%) (1) (3)	5.4	4.1

(1) Includes an IFRS 9 transitional adjustment of £0.4 billion (2021 - £0.6 billion). Excluding this adjustment, the CET1 ratio would be 12.6% (2021 – 15.4%) and the leverage ratio would be 5.3% (2021 – 4.0%).

(2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

(3) The leverage ratio for December 2022 has been calculated in accordance with current PRA rules. The comparatives reflect the previous CRR framework which was applicable to NWH Group prior to 1 January 2022. As at 31 December 2021, the UK leverage ratio would have been 5.6%, reflecting PRA's UK leverage methodology in 2021.

Liquidity key metrics

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

	NWH Group 2022	NWH Group 2021
Liquidity coverage ratio	135%	171%
Stressed outflow coverage (1)	135%	198%
Net stable funding ratio	143%	155%

(1) NatWest Group's stressed outflow coverage (SOC) is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both as per ILAAP. This assessment is performed in accordance with PRA guidance.

Capital, liquidity and funding risk continued

Leverage exposure

From 1 January 2022, the leverage metrics for UK entities are calculated in accordance with the Leverage ratio (CRR) part of the PRA Rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

Leverage	2022 £m	2021 £m
Cash and balances at central banks	110,813	143,892
Derivatives	1,530	1,980
Financial assets	360,500	373,277
Other assets	14,021	12,959
Assets of disposal groups	6,861	9,015
Total assets	493,725	541,123
Derivatives		
- netting and variation margin	(4,230)	(3,017)
- potential future exposures	1,035	1,169
Securities financing transactions gross up	2,391	146
Undrawn commitments	33,116	32,914
Regulatory deductions and other adjustments	(5,714)	(6,271)
Exclusion of core UK-group exposure	—	—
Claims on central banks	(101,973)	—
Exclusion of bounce back loans	(5,444)	—
Leverage exposure	412,906	566,064

Liquidity portfolio (audited)

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

	2022		2021	
	NWH Group (1) £m	UK DoL Sub £m	NWH Group £m	UK DoLSub £m
Cash and balances at central banks	106,869	103,708	140,562	136,154
AAA to AA- rated governments	9,843	9,843	21,710	21,123
A+ and lower rated governments	—	—	—	—
Government guaranteed issuers, public sector entities and government sponsored entities	120	100	295	174
International organisations and multilateral development banks	1,112	1,021	1,807	1,466
Level 1 bonds	11,075	10,964	23,812	22,763
LCR level 1 eligible assets	117,944	114,672	164,374	158,917
LCR level 2 eligible assets	—	—	—	—
Non-LCR eligible assets	—	—	—	—
Primary liquidity	117,944	114,672	164,374	158,917
Secondary liquidity (2)	63,849	63,849	77,660	76,573
Total liquidity value	181,793	178,521	242,034	235,490

(1) NWH Group comprises UK DoLSub, Ulster Bank Ireland DAC and NatWest Bank Europe GmbH who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

Capital, liquidity and funding risk continued

Funding sources (audited)

	2022 Short-term less than 1 year £m	2022 Long-term more than 1 year £m	2022 Total £m	2021 Short-term less than 1 year £m	2021 Long-term more than 1 year £m	2021 Total £m
Bank deposits						
Repos	**595**	**—**	**595**	7,390	—	7,390
Other bank deposits	**4,450**	**12,000**	**16,450**	4,815	12,000	16,815
	5,045	**12,000**	**17,045**	12,205	12,000	24,205
Customer deposits						
Repos	**9,575**	**—**	**9,575**	14,541	—	14,541
Personal	**216,676**	**1,209**	**217,885**	223,343	828	224,171
Corporate	**153,251**	**18**	**153,269**	164,622	20	164,642
Non-bank financial institutions	**31,342**	**9**	**31,351**	36,610	51	36,661
	410,844	**1,236**	**412,080**	439,116	899	440,015
Other financial liabilities (1)						
Debt securities in issue						
Commercial papers and certificates of deposit	**1,664**	**—**	**1,664**	3,399	—	3,399
Covered bonds	**804**	**2,038**	**2,842**	53	2,833	2,886
Securitisations	**—**	**859**	**859**	—	867	867
	2,468	**2,897**	**5,365**	3,452	3,700	7,152
Subordinated liabilities	**75**	**198**	**273**	89	195	284
Amounts due to holding company and fellow subsidiaries (2)						
Bank and customer deposits	**5,223**	**—**	**5,223**	9,503	—	9,503
MREL	**1,244**	**9,156**	**10,400**	427	10,903	11,330
Subordinated liabilities	**2,109**	**2,483**	**4,592**	19	4,609	4,628
	8,576	**11,639**	**20,215**	9,949	15,512	25,461
Total funding	**427,008**	**27,970**	**454,978**	464,811	32,306	497,117
Of which: available in resolution (3)			***14,976***			*16,030*

(1) Excludes settlement balances of £2 million (2021 – £1 million) and derivative cash collateral of £17 million (2021 – £99 million).
(2) Amounts due to holding companies and fellow subsidiaries relate to non-financial instruments of £96 million (2021 – £87 million) and intercompany settlement balances of £2 million (2021 – Nil) have been excluded from the table.
(3) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published by the Bank of England in December 2021 (updating June 2018).

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										
	Less than 1 month	1-3 months	3-6 months	6 months - 1 year	Subtotal	1-3 years	3-5 years	More than 5 years	Total	MFVTPL and HFT	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	110,813	—	—	—	110,813	—	—	—	110,813	—	110,813
Derivatives	—	2	1	1	4	12	2	1	19	1,511	1,530
Loans to banks - amortised cost	2,468	3	1,617	—	4,088	—	250	—	4,338	—	4,338
Loans to customers - amortised cost (1)	32,675	15,517	11,491	15,546	75,229	53,153	39,476	175,282	343,140	—	343,140
Personal	4,279	2,331	3,213	6,336	16,159	23,362	21,554	153,159	214,234	—	214,234
Corporate	20,127	4,874	4,208	8,373	37,582	28,431	17,320	22,050	105,383	—	105,383
Non-bank financial institutions	8,269	8,312	4,070	837	21,488	1,360	602	73	23,523	—	23,523
Other financial assets	202	153	85	636	1,076	4,177	5,182	4,256	14,691	992	15,683
Total financial assets	146,158	15,675	13,194	16,183	191,210	57,342	44,910	179,539	473,001	2,503	475,504
2021											
Total financial assets	191,760	22,618	17,345	19,313	251,036	52,181	41,447	175,499	520,163	1,944	522,107
2022											
Bank deposits excluding repos	4,450	—	—	—	4,450	3,800	8,200	—	16,450	—	16,450
Bank repos	436	159	—	—	595	—	—	—	595	—	595
Customer repos	9,559	6	10	—	9,575	—	—	—	9,575	—	9,575
Customer deposits excluding repos	385,253	7,957	4,983	3,076	401,269	1,223	—	13	402,505	—	402,505
Personal	210,220	2,456	2,420	1,580	216,676	1,209	—	—	217,885	—	217,885
Corporate	144,756	4,703	2,381	1,411	153,251	5	—	13	153,269	—	153,269
Non-bank financial institutions	30,277	798	182	85	31,342	9	—	—	31,351	—	31,351
Derivatives	3	78	23	62	166	235	100	60	561	1,247	1,808
Other financial liabilities	738	1,560	150	22	2,470	2,334	375	188	5,367	17	5,384
CPs and CDs	686	810	146	22	1,664	—	—	—	1,664	—	1,664
Covered bonds	50	750	4	—	804	2,038	—	—	2,842	—	2,842
Securitisations	—	—	—	—	—	296	375	188	859	—	859
Bank deposits	—	—	—	—	—	—	—	—	—	7	7
Customer deposits	—	—	—	—	—	—	—	—	—	10	10
Settlement balances	2	—	—	—	2	—	—	—	2	—	2
Subordinated liabilities	72	—	3	—	75	—	—	198	273	—	273
Notes in circulation	3,218	—	—	—	3,218	—	—		3,218	—	3,218
Lease liabilities	13	21	31	61	126	208	165	537	1,036	—	1,036
Total financial liabilities	403,742	9,781	5,200	3,221	421,944	7,800	8,840	996	439,580	1,264	440,844
2021											
Total financial liabilities	432,536	19,967	3,376	2,252	458,131	3,945	12,458	1,404	475,938	4,089	480,027

(1) Loans to customers excludes £3,231 million (2021 – £3,561 million) of impairment provision.

Capital, liquidity and funding risk continued

Encumbrance (audited)

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

NWH Group categorises its assets into four broad groups, those that are:

- Already encumbered and used to support funding currently in place through own-asset securitisations, covered bonds and securities repurchase agreements.
- Pre-positioned with central banks as part of funding schemes and those encumbered under such schemes.
- Ring-fenced to meet regulatory requirement, where NWH Group has in place an operational continuity in resolution (OCIR) investment mandate wherein the PRA requires critical service providers to hold segregated liquidity buffers covering at least 50% of their annual fixed overheads.
- Not currently encumbered. In this category, NWH Group has in place an enablement programme which seeks to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned & encumbered assets held at central banks (4)	Collateral ring - fenced to meet reg requirement (5)	Unencumbered assets not pre-positioned with central banks				
	Covered bonds and securitisations (1)	SFT, derivatives & similar (2)	Total (3)			Readily available (6)	Other available (7)	Cannot be used (8)	Total	Total third party (9)
2022	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Cash and balances at central banks	—	5.3	5.3	—	—	105.5	—	—	105.5	110.8
Derivatives	—	—	—	—	—	—	—	1.5	1.5	1.5
Loans to banks - amortised cost	—	0.1	0.1	—	—	3.7	0.2	0.3	4.2	4.3
Loans to customers - amortised cost	7.0	0.4	7.4	99.9	—	91.9	100.6	40.1	232.6	339.9
- residential mortgages										
- UK	7.0	—	7.0	99.9	—	80.0	12.6	—	92.6	199.5
- RoI	—	—	—	—	—	—	—	—	—	—
- credit cards	—	—	—	—	—	4.1	0.2	—	4.3	4.3
- personal loans	—	—	—	—	—	5.2	2.2	1.4	8.8	8.8
- other	—	0.4	0.4	—	—	2.6	85.6	38.7	126.9	127.3
Other financial assets	—	2.9	2.9	—	1.8	9.9	0.1	1.0	11.0	15.7
Intangible assets	—	—	—	—	—	—	—	6.8	6.8	6.8
Other assets	—	—	—	—	—	—	2.5	4.7	7.2	7.2
Assets of disposal groups (10)	1.1	—	1.1	—	—	—	—	5.8	5.8	6.9
Total assets	**8.1**	**8.7**	**16.8**	**99.9**	**1.8**	**211.0**	**103.4**	**60.2**	**374.6**	**493.1**
Amounts due from holding company and fellow subsidiaries										0.6
										493.7
2021										
Total assets	9.6	20.5	30.1	126.2	2.0	217.8	102.8	61.6	382.2	540.5
Amounts due from holding company and fellow subsidiaries										0.6
										541.1

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

Non-traded market risk

Definition (audited)

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

Sources of risk (audited)

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

Governance, appetite and controls

For general information on risk governance, appetite and controls in NWH Group, refer to pages 12 to 15. Further information specific to non-traded market risk management, including key developments in 2022, can be found in the Non-traded market risk section of the NatWest Group Annual Report and Accounts.

Measurement (audited)

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

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

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. For further information on non-traded VaR metrics, refer to the non-traded market risk section of the NatWest Group Annual Report and Accounts.

	2022				2021			
	Average £m	Maximum £m	Minimum £m	Period-end £m	Average £m	Maximum £m	Minimum £m	Period-end £m
Interest rate	**28.0**	**55.1**	**6.2**	**31.4**	7.7	10.0	5.0	6.9
Credit spread	**31.5**	**73.4**	**17.4**	**17.8**	81.0	90.1	74.6	79.8
Structural foreign exchange rate	**14.9**	**2.8**	**10.2**	**20.8**	14.3	16.2	12.3	15.0
Equity	**0.2**	**0.3**	**0.2**	**0.2**	0.9	1.1	0.5	1.1
Pipeline risk (1)	**1.5**	**4.5**	**0.3**	**2.4**	0.5	1.2	0.3	1.2
Diversification (2)	**(29.4)**			**(31.8)**	(3.9)			(30.6)
Total	**46.7**	**68.8**	**39.1**	**40.8**	100.5	118.6	73.4	73.4

(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.

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

- Overall, non-traded VaR decreased over the year, driven by a decrease in credit spread VaR. This reflected reduced holdings of bonds in the liquidity portfolio.
- Interest rate VaR increased, reflecting higher interest rate volatility, particularly in sterling. By year-end, interest rate risk had displaced credit spread risk as the main driver of non-traded VaR.

Non-traded market risk continued

Interest rate risk

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

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

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

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

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

Structural hedging

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

At 31 December 2022, NWH Group's structural hedge had a notional of £218 billion (2021 - £198 billion) with an average life of approximately three years.

Over 90% of the £2.1 billion income allocated to structural hedges at NatWest Group level was allocated to NWH Group.

Sensitivity of net interest earnings

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

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2022 balance sheet. An earnings projection is derived from the market implied rate curve, which is then subject to interest rate shocks. The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

The sensitivity of net interest earnings table below shows the expected impact of an immediate upward or downward change of 25 basis points and an upward change of 100 basis points to all interest rates. The sensitivity to a downward 100-basis-point shift in the yield curve has been introduced for 2022. This shift was not presented for 2021, when yield curves were already close to zero (or were negative in euros).

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

	2022				2021		
	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m
Shifts in yield curve	172	(193)	689	(792)	256	(244)	950

(1) Earnings sensitivity for 2022 considers only the main drivers; namely structural hedging and margin management.
(2) Following a change in the basis of preparation of this table, it now excludes UBIDAC.

- The overall sensitivity to shifts in the yield curve decreased year on year, mainly driven by increased structural hedge volumes and lower managed margin deposit volumes.
- The sensitivity of the structural hedge increased because of the rise in hedged volumes, which increased the sensitivity to hedges maturing through the projection.
- The increased volume of hedges reduces managed margin sensitivity because a significant part of the managed margin component is the residual sensitivity of unhedged deposit volumes.
- Managed margin sensitivity further reduced due to lower deposit volumes at 31 December 2022 compared to 31 December 2021.

Non-traded market risk continued

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

NWH Group holds most of the bonds in its liquidity portfolio at fair value. Valuation changes that are not hedged (or not in effective hedge accounting relationships) are recognised in FVOCI reserves.

Interest rate swaps are used to implement the structural hedging programme and also hedging of some personal and commercial lending portfolios, primarily fixed rate mortgages. Generally, these swaps are booked in hedge accounting relationships. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves. The main driver of NWH Group's cash flow hedge reserve sensitivity is the interest rate swaps that form part of the structural hedge.

The table below shows the sensitivity of FVOCI reserves and cash flow hedge reserves to a parallel shift in all rates. In this analysis, interest rates have not been floored at zero. Cash flow hedges are assumed to be fully effective and interest rate hedges of bonds in the liquidity portfolio are also assumed to be subject to fully effective hedge accounting. For further information on the assumptions and methodology relating to this table, refer to the corresponding table in the NatWest Group Annual Report and Accounts.

	2022				2021			
	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
FVOCI reserves	**2**	**(2)**	**5**	**(12)**	(37)	36	(152)	139
Cash flow hedge reserves	**(175)**	**176**	**(690)**	**714**	(148)	151	(577)	619
Total	**(173)**	**174**	**(685)**	**702**	(185)	187	(729)	758

Non-traded market risk continued

Credit spread risk

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond yields and swap rates, where the bond portfolios are accounted at fair value through other comprehensive income.

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

Foreign exchange risk

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

- Structural foreign exchange rate risk – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from sterling.
- Non-trading book foreign exchange rate risk – arises from customer transactions and profits and losses that are in a currency other than the functional currency.
- Forecast earnings or costs in foreign currencies – NWH Group hedges forward some forecast foreign currency expenses.

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

Foreign exchange risk (audited)

The table below shows structural foreign currency exposures.

	2022			2021		
	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures £m
Euro	**3,408**	**(2,641)**	**767**	3,749	(1,721)	2,028
Other non-sterling	**456**	**(148)**	**308**	449	(160)	289
Total	**3,864**	**(2,789)**	**1,075**	4,198	(1,881)	2,317

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available.

- The decrease in net investments in foreign operations was mainly driven by the reduced net investment in UBIDAC.
- The increase in net investment hedges was mainly driven by increased hedging of euro investments including UBIDAC.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 10% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.1 billion in equity respectively.

Accounting volatility risk

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

Pension risk

Definition

Pension risk is defined in a consistent manner to the regulatory definition as the inability to meet contractual obligations and other liabilities to the established employee or related company pension scheme.

Sources of risk

NWH Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc (a subsidiary of NWH Group) is the principal employer to the Main section with £34.0 billion of assets and £24.7 billion of liabilities at 31 December 2022 (2021 – £52.0 billion of assets and £42.0 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NWH Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NWH Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, NWH Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2022

- There were no material changes to NWH Group's exposure to pension risk during the year. Despite market volatility, the Main section remained resilient, primarily due to its interest rate and inflation hedging strategy, as well as its limited exposure to equities. Furthermore, the Main section held sufficient collateral in relation to its liability hedging portfolio, without the need to sell assets to meet collateral requirements. One of NWH Group's smaller schemes faced more challenging dynamics, with a reduction in funding level, but continued to be able to raise collateral as required. The impact was not material at NWH Group level.
- In line with the Memorandum of Understanding signed with the Trustee of the Main section in April 2018, a £500 million lump sum contribution was paid into the Main section, following the share buyback in Q1 2022.
- Since 31 December 2022, it has been agreed with the Trustee of the Main section, that remaining contributions of £471 million previously due to the Main section under the Memorandum of Understanding signed in April 2018, will instead be paid into a new legal structure. For further details, refer to Note 5 to the consolidated financial statements.
- As part of the ongoing phased withdrawal from the Republic of Ireland, in December 2022, an agreement was reached with the Trustees of NWH Group's defined benefit pension schemes in the Republic of Ireland to secure the long-term strategy for the schemes.

Governance

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

For further information on governance, refer to page 12.

Risk appetite

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

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

Monitoring and measurement

Pension risk is monitored by the NWH Group Executive Risk Committee and the NatWest Group Board Risk Committee, whilst the NatWest Group Asset & Liability Management Committee receives updates on the performance of NatWest Group's material pension funds.

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

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

NatWest Bank Plc (a subsidiary of NWH Group) is the principal employer of the Main section and could be required to fund any deficit that arises.

Mitigation

Following risk mitigation measures taken by the Trustee in recent years, the Main section is now well protected against interest rate and inflation risks and is being run on a low investment risk basis with relatively small equity risk exposure. The Main section also uses derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy and its net zero commitment. During the year, the Trustee also produced its first climate disclosures as required by The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Compliance and conduct risk

Definition

Compliance risk is the risk that NWH Group fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which NWH Group operates, which leads to unfair or inappropriate customer outcomes.

The consequences of failing to meet compliance and/or conduct responsibilities can be significant and could result, for example, in legal action, regulatory enforcement, material financial loss and/or reputational damage.

Sources of risk

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

As set out in Note 25 to the consolidated financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2022

- Further progress was made on the compliance agenda during 2022. The first line of defence ring-fencing hub – established to provide an aggregated view of ring-fencing compliance and risk management – continues to work across business segments, functions and legal entities.
- From a conduct risk perspective, the focus on consumer protection increased significantly during 2022, given cost-of-living challenges and their impact on customers in vulnerable situations. The FCA's increased expectations under its consumer duty initiative was also a key development, and the establishment of the Consumer Duty 'One Bank' programme will ensure continued focus upon the required 'paradigm shift' in the levels of consumer protection.
- More generally, work is also ongoing to further enhance the conduct and compliance risk framework so that it is aligned to a wider programme of work on the overall risk management framework.

Governance

NatWest Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. Relevant compliance and conduct matters are escalated through the Executive Risk Committee and Board Risk Committee.

Risk appetite

Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls are operated to ensure the business delivers good customer outcomes and are conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NWH Group. Examples include policies relating to customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

Monitoring and measurement

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

Mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across NWH Group with specific areas of focus in the customer-facing businesses and legal entities. Examples of mitigation include consideration of customer needs in business and product planning, targeted training, conflicts of interest management, market conduct surveillance, complaints management, mapping of priority regulatory requirements and independent monitoring activity. Internal policies help support a strong customer focus across NWH Group.

Financial crime risk

Definition

Financial crime risk is the risk that NatWest Group's products and services are intentionally or unintentionally used to facilitate financial crime in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, as well as external or internal fraud.

Sources of risk

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

Key developments in 2022

- Significant investment continued to be made to support delivery of the multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- A financial crime and fraud goal was rolled out to approximately 55,000 colleagues across NatWest Group.
- Financial crime roadshows were held throughout the year to further embed financial crime risk management culture and behaviours.
- Systematic Anti-Money Laundering Programme assessment. In January 2022, NatWest Group, of which NWH Group is a part of, received the Skilled person's final report in connection with governance arrangements for two financial crime change programmes in respect of which the Skilled Person had been appointed under section 166 of the Financial Services and Markets Act 2000 to provide assurance. The FCA confirmed in March 2022 that the section 166 review has now been concluded.

Financial crime risk continued

Governance

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

The Fraud Executive Steering Group, which is chaired by the Chief Information Officer, is the core governance committee for fraud. It oversees fraud risk management, operational performance, and investment matters including decision-making and escalations to relevant senior committees.

Risk appetite

There is no appetite to operate in an environment where systems and controls do not enable the effective identification, assessment, monitoring, management and mitigation of financial crime risk. NWH Group's systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses.

NWH Group operates a framework with 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 senior risk committees and the NatWest Group Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to NWH Group and its customers.

Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

Climate risk

Definition

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

Sources of risk

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

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

Key developments in 2022

- The enhancement of scenario generation capability, building on our internal scenario analysis capability developed over 2021 that supported risk management and participation in the PRA Climate Biennial Exploratory Scenario (CBES).
- To support the management of credit risk, the application of first generation qualitative climate risk scorecards within customer conversations, and initiation of testing of enhanced scorecards including quantitative elements.
- Improved oversight of management of climate-related risk through regular reporting and review of climate risk appetite measures and key risk indicator trends informing monthly risk committee updates.
- The assessment of potential greenwashing risks driven by a hypothetical risk scenario where increased competition in the green finance market leads to less efficient product designs and diminished robustness of governance.
- The preparation of an initial iteration of the NatWest Group Climate Transition plan including identification and analysis of potential impacts associated with proposed actions.

Governance

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

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

The Climate Change Executive Steering Group is responsible for overseeing the direction of and progress against NatWest Group's climate-related commitments. During 2022, the Executive Steering Group focused on overseeing the preparation of the initial iteration of NatWest Group's Climate Transition Plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target, and ensuring the effective management of climate-related risks. The Executive Steering Group will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence.

Climate risk continued

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK in helping to address climate change. This ambition is underpinned by activity to reduce the climate impact of financing activity by at least 50% by 2030 and to achieve net zero by 2050.

Work continued in 2022 to mature NatWest Group's climate-related risk capabilities in accordance with the risk management framework. In December 2022, the NatWest Group Board approved the adoption of enhanced climate risk appetite measures into the enterprise-wide risk management framework, which are designed to provide a heightened focus on balance sheet exposure to financed emissions.

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

Monitoring and measurement

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

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

Key priorities in 2022 have included enhancing our climate scenario analysis capabilities to both address ongoing regulatory expectations and building on the infrastructure required by NatWest Group to meet current and future climate scenario analysis objectives. NatWest Group made significant investment in developing a variety of internal scenario analysis tools which support the development of commercial strategy, products and services and help manage risks, including managing exposures efficiently and removing unmitigated risks from future climate impacts.

NatWest Group recognises a number of key use cases for climate scenario analysis, including, but not restricted to, the following:

- Regulatory stress testing requirements.
- Heightened climate risk sector classifications.
- Sector/sub-sector risk appetite.
- Lending pricing.
- Portfolio management.
- Strategic decision-making.

NatWest Group made material progress in developing internal climate modelling capabilities, building on the learnings from our internal scenario analysis carried out in 2021 and participation in the CBES. NatWest Group has enhanced its scenario generation capabilities to support future integration of climate risk into strategic planning, Internal Capital Adequacy Assessment Processes (ICAAP) and IFRS 9. Modelling infrastructure to execute scenarios matured in 2022, giving increased flexibility for scenario analysis capability for short, medium and long-term scenarios. Incorporation into the NatWest Group strategic plan and ICAAP ensures that NatWest Group factors climate into strategic planning and appropriately capitalises for the most material source of climate riskover the capital planning horizon. Developing internal methodologies also enhances the capacity to integrate scenario analysis with customer journeys. This builds on NatWest Group's ability not only to effectively develop tools for risk management but also to develop products and processes that support NatWest Group's customers' transition.

NatWest Group also focused on developing an internal methodology for forecasting its counterparties' corporate transition risk via counterparty level modelling infrastructure and climate risk customer scorecards. NatWest Group is actively targeting the minimisation of reliance on third party models, whilst recognising there is likely to be some reliance on them over the medium-to-long term given the specialist and evolving nature of climate financial risk management. Enhancement of this infrastructure links very closely with the scenario analysis noted above. Further information on this can be found in NatWest Group's 2022 Climate-related Disclosures Report.

Internal scenario analysis, carried out to support participation in the CBES, focused on the application of three climate scenarios (early policy action, late policy action and no additional action and a counterfactual scenario) to quantify climate risk across NatWest Group's lending portfolio. This showed that NatWest Group was most exposed to a late transition scenario with a concentrated period of losses between 2030 and 2035, the point at which disruptive transition policy is implemented, resulting in an economic recession. The early action scenario resulted in more gradual losses through the stress horizon, with the earlier onset of transition curtailing impairments in comparison to the sharp onset in the late action scenario. A key conclusion for transition risk is that supporting customers' transition to net zero is critical to manage NatWest Group's exposures to transition risk.

The effects of physical risk were explored through the no additional action scenario which produced lower total cumulative impairments compared to the early action and late action scenarios. This comparatively lower level of impairments is reflective of NatWest Group's diversified book and geographic exposure. NatWest Group's results broadly aligned with the key findings and aggregate outcome for banks (across both physical and transition risk).

However, NatWest Group recognises the industry data and methodology limitations for physical risk and therefore recognises that the no additional action scenario does not capture the severe long-term effects of irreversible climate change. Further information on results, limitations and conclusions can be found in NatWest Group's 2022 Climate-related Disclosures Report.

There are a number of challenges with climate scenario analysis, for example in relation to climate data. NatWest Group continues to participate in a number of industry forums including the United Nations Principles for Responsible Banking, which provides a unique framework for banks to align strategy and practice with the Sustainable Development Goals and Paris Climate Agreement. In addition, NatWest Group is also represented on the Climate Financial Risk Forum established by the PRA and FCA to shape the financial services industry's response to the challenges posed by climate risk and continues to work with a number of UK and international bodies to develop climate scenario analysis best practices.

Climate risk continued

NatWest Group is continuing to make progress in embedding climate risk analytics as appropriate across customer journeys and in supporting decision-making at customer and strategic portfolio levels. Leveraging qualitative and quantitative outputs from scenario analysis, will enable NatWest Group to integrate outcomes into risk appetite measures and customer origination processes. Developing the ability to incorporate these outcomes enables NatWest Group to manage and mitigate both the risks but also the opportunities that are presented by climate risk.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2022

– A review of the NatWest Group Risk Directory was completed, allowing greater risk visibility and improved risk reporting.
– The NatWest Group Impact Classification Matrix was updated to align to industry materiality, ensuring focus on the most material risks.
– An Early Event Escalation Process was implemented to ensure material events are escalated in a timely manner.
– A Risk & Control Self Assessment approach was developed to identify risks across end-to-end processes, refocusing existing risk assessment, towards materiality.
– A payments review has been initiated by NatWest Group in late 2022 to assess control enhancements in response to manual payment risk.

Governance

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

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

Risk appetite

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

Mitigation

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's customer-facing business areas, as well as the heads of the bank's support functions. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

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

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

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

NWH Group uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line.

As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of NWH Group's Pillar 2A capital requirement.

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

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

Operational risk continued

Operational resilience

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

NatWest Group operates layered security controls and its network architecture is designed to provide inherent protection against threats. This approach avoids reliance on any one type or method of security control. Minimum security control requirements are set out in Key Risk policies, standards, processes and procedures. Through 2023 NatWest Group will monitor and manage the threat landscape focusing on:

- Attack Surface Vulnerabilities – such as the rising number of zero-days and code vulnerabilities impacting organisations
- Initial Access Brokers and Nation States – increasingly sophisticated attacks from ransomware gangs and ongoing challenges following Russia's invasion of Ukraine which has raised international tensions increasing the likelihood of disruptive cyber-attacks.

As cyberattacks evolve and become more sophisticated, NatWest Group continues to invest in additional capability designed to defend against emerging threats.

Event and loss data management

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

All financial impacts associated with an operational risk event are reported against the date they were recorded in NWH Group's financial accounts.

A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2021 may relate to events that occurred, or were identified in, prior years.

Model risk

Definition

Model risk is the risk of inaccurate financial assessments or decisions made as a result of incorrect or misused model outputs and reports. A model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into quantitative estimates.

Sources of risk

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

Model applications may give rise to different risks depending on the business segment in which they are used. Model risk is therefore assessed separately for each business segment in addition to the overall assessment made for NatWest Group.

Key developments in 2022

- Model risk management practices have continued to evolve, driven through a dedicated Model Management Programme. This has delivered an enhanced model management committee structure, a new model risk governance team operating model and an improved model inventory.
- Aligned to the implementation of the enterprise-wide risk management framework, new model risk procedures were approved to support the identification, assessment and monitoring of model risk.
- NatWest Group provided a comprehensive response to the PRA's Consultation Paper on Model Risk Management (CP6/22): A self-assessment of NatWest Group's current Model Risk Policy compared to the PRA's draft Supervisory Statement was completed and gaps identified. A programme of work will be established in 2023 to continue to evolve the bank's model risk management framework in line with regulatory expectations and industry best practice.

Governance

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

A new NatWest Group Model Risk Oversight Committee will further enhance model risk governance by providing a direct escalation route to the NatWest Group Executive Risk Committee and, where applicable, onwards to the NatWest Group Board Risk Committee.

Risk appetite

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

Monitoring and measurement

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 comprising 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.

Model risk continued

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWH Group.

Ongoing performance monitoring is conducted by model owners and overseen by the model validators 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.

If a model risk issue arises due to an operational control weakness (and the residual risk meets the operational risk thresholds, then an Operational risk issue would be raised.

Mitigation

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

Reputational risk

Definition

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

Sources of risk

Reputational risks can 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 NatWest Group's values and the public agenda; and contagion (when NatWest Group's reputation is damaged by failures in the wider financial sector).

Key developments in 2022

- A new reputational risk policy was implemented to manage reputational risk at an organisational level.
- The NatWest Group Reputational Risk Register was further embedded into the organisation, the results of which are reported to the NatWest Group Reputational Risk Committee.
- All Environmental, Social & Ethical (ESE) risk acceptance criteria have undergone review to align with our Purpose.

Governance

A reputational risk policy supports reputational risk management across NatWest Group. The NWH Group reputational risk committee reviews relevant issues at an individual business or entity level, while the NatWest Group Reputational Risk Committee – opines on material, issues, cases, sectors and themes that represent material reputational risks. The NatWest Group Board Risk Committee oversees the identification and reporting of reputational risk

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. NatWest Group seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in NatWest Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the NWH Group reputational risk committee and escalated, where appropriate, to the NatWest Group Reputational Risk Committee or NatWest Group 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.

External events that could cause reputational damage are identified and mitigated through NatWest Group's Top and Emerging Threats process (where sufficiently material) as well as through the NatWest Group and business segment-level risk registers.

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. Refer to the Litigation and regulatory matters section of Note 25 to the consolidated financial statements for details of material matters currently affecting NatWest Group.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2022.

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

NWH Group structure

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

Details of NWH Ltd's principal subsidiary undertakings and their activities are shown in Note 7 of the parent company financial statements and notes. A full list of related undertakings of NWH Ltd is shown in Note 10 of the parent company financial statements and notes.

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

Activities

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

Results and dividends

The profit attributable to the ordinary shareholders of NWH Group for the year ended 31 December 2022 was £3,511 million compared with a profit of £3,244 million for the year ended 31 December 2021, as set out in the consolidated income statement on page 105.

No ordinary shares were issued during 2022 or 2021.

NWH Ltd paid an ordinary dividend of £3.6 billion NatWest Group plc (2021 – £3.5 billion).

Employees

At 31 December 2022, NWH Group employed 57,800 people (excluding temporary staff). Details of related costs are included in Note 3 to the consolidated accounts.

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

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

Corporate governance statement

For the financial year ended 31 December 2022 NWH Ltd has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website. The disclosures below explain how NWH Ltd has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

Purpose

NatWest Group's purpose is established by the NatWest Group plc Board, promoted across NatWest Group and cascaded to subsidiaries including NWH Ltd. NatWest Group's strategy is also set and approved by the NatWest Group plc Board.

In February 2020 following an extensive period of stakeholder engagement, the NatWest Group plc Board approved NatWest Group's purpose and strategy.

NatWest Group's purpose is 'we champion potential, helping people, families and businesses to thrive'. The focus on purpose has strengthened the Board's consideration of the interests of all stakeholders and papers presented to the Board set out how it supports NatWest Group's purpose. Examples of how purpose has guided Board decisions and discussions can be found in the section 172 statement on pages 4 to 5.

In April 2022 the Board received an assessment of progress on embedding purpose and updates on each of the focus areas of enterprise, climate and financial capability/learning. Directors considered the outputs of a colleague opinion survey which had demonstrated good progress on embedding NatWest Group's purpose and values.

The Board received a further purpose update in December 2022. This included an overview of NatWest Group's evolution to becoming a purpose-led bank, an assessment of progress on embedding purpose, achievements to date, external perceptions of progress and future priorities. The directors received a further update on the three focus areas and considered a broader stakeholder overview aligned to the Blueprint for Better Business framework.

Strategy

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

Further information on NatWest Group's progress against its purpose and strategy can be found in the NatWest Group plc 2022 Annual Report and Accounts.

Values and culture

In December 2021 the Board approved NatWest Group's refreshed values (Inclusive, Curious, Robust, Sustainable and Ambitious), ahead of their launch in February 2022. The Board received regular updates on how the values were embedding within the organisation through One Bank Transformation spotlights, Our View colleague survey results and culture measurement reports.

Further information on NatWest Group's values can be found in the NatWest Group plc 2022 Annual Report and Accounts on page 47.

The Board assesses and monitors culture in several ways. During 2022 it received:

- Colleague Advisory Panel reports which provided feedback following the Panel's meetings. Topics included remuneration (executive pay and the wider workforce), NatWest Group's values, customers in vulnerable situations and future skills;
- One Bank Transformation spotlights on organisation, skills and culture which included updates on the transition towards a simpler organisational design and creating and embedding a One Bank culture;
- 2022 Our View colleague survey results. Key measures included culture, purpose, building capability, inclusion, engagement and leadership;
- Culture measurement reports which used an integrated suite of qualitative, quantitative, internal and external data sources to support NatWest Group in assessing the effectiveness and impact of its culture journey; and
- Board business insights packs which included metrics to demonstrate how NatWest Group is delivering for colleagues (including building capability, diversity and inclusion and learning).

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

2. Board composition

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

The names of the current directors and secretary are shown on page 6. Their biographies are available at natwestgroup.com (NatWest Holdings Limited section)

Chairman

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

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

Balance and diversity

The Board operates a boardroom inclusion policy which aims to promote diversity and inclusion in the composition of the Boards of directors of NatWest Group plc, NWH Ltd, NWB Plc and RBS plc and in the nominations and appointments process. This policy reflects NatWest Group's values, its inclusion guidelines and relevant legal or voluntary code requirements.

The policy includes measurable objectives which exist to ensure that the Boards, and any Committees they delegate nominations responsibilities to, follow an inclusive process when making decisions on nominations and appointments. The policy includes targets which aspire to meet those set out in the UK Listing Rules along with the recommendations of the FTSE Women Leaders Review and the Parker Review. The policy also acknowledges NatWest Group's ambition to have gender balance in our global top three levels (CEO-3 and above) by 2030.

Throughout 2022 the Board met the recommendation of the Parker Review with at least one member of the Board being from an ethnic minority background and it intends to continue to meet that recommendation.

As at 31 December 2022:-

- the Board of NWH Ltd exceeded the recommendation of the FTSE Women Leaders Review of 40% female representation on boards by 2025, with 46% of the Board being female; and
- with a female CEO and CFO, NWH Ltd met the FTSE Women Leaders Review recommendation that companies should have at least one woman in the Chair or Senior Independent Director roles on the Board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025.

A copy of the boardroom inclusion policy is available at natwestgroup.com.

Size and structure

NWH Ltd is the holding company for NatWest Group's ring-fenced operations, which include the Retail and Wealth businesses and certain aspects of the Commercial & Institutional businesses. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc and NWB Plc. Known collectively as the NWH Sub Group, the boards of these three entities meet concurrently.

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

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

The DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently. When the Commercial & Institutional business was stood up during 2022, the DINEDs considered and provided input on the changes proposed specifically from a ring-fenced bank perspective, ahead of NatWest Group plc and NWH Ltd Board discussions.

The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of NWH Ltd and other members of NatWest Group.

All NWH Sub Group directors who are not DINEDs are directors of NatWest Group plc. All DINEDs attend NatWest Group plc Board and relevant Board Committee meetings as observers.

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

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

In December 2022 the Nominations Committee, in conjunction with the NWG Nominations & Governance Committee, reviewed, and the Boards approved, an updated version of the NatWest Group plc and NWH Sub Group Board skills matrix. A summary view of the NatWest Group plc Board skills matrix is available on page 93 of the NatWest Group plc 2022 Annual Report and Accounts.

The Board skills matrix reflects directors' self-assessment of the skills and experience they bring to Board discussions, in line with pre-determined criteria aligned to current and future strategic priorities.

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

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

Along with the Chairman and executive directors, the non-executive directors are responsible for ensuring the Board fulfils its responsibilities under its terms of reference.

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

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

Each new director receives a formal induction programme on joining the Board, which is co-ordinated by the Chief Governance Officer and Company Secretary and tailored to suit the requirements of the individual concerned. This includes visits to NatWest Group's major businesses and functions and meetings with directors and senior management. Meetings with external auditors, counsel and stakeholders are also arranged as appropriate.

Roisin Donnelly joined the Board on 1 October 2022 and the Chief Governance Officer and Company Secretary worked closely with Ms Donnelly to devise a comprehensive induction programme which was tailored to her needs and flexible to respond to areas of focus which emerged as the programme progressed. Priorities included early engagement with key stakeholders, upskilling on the financial services industry and regulation, and developing an understanding of NatWest Group's structure and business operations, and its strategic priorities.

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

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

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

Evaluation

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

Progress following the 2021 evaluation

A number of actions were progressed during 2022 in response to the findings of the 2021 external evaluation.

In December 2022 the directors noted the progress made against the 2021 evaluation actions, which were consistent across the NatWest Group plc and NWH Sub Group Boards and are described in more detail on page 104 of the NatWest Group plc 2022 Annual Report and Accounts.

2022 Performance evaluation

In 2022, the Board and Committee evaluation was internally facilitated by the Chief Governance Officer and Company Secretary.

Key findings, recommendations and actions were aligned across NatWest Group plc and the NWH Sub Group and a summary of the outcomes and actions arising from the 2022 evaluation can be found on pages 104 to 105 of the NatWest Group plc 2022 Annual Report and Accounts.

In December 2022, the Board agreed an action plan in response to the evaluation recommendations and implementation of the actions will be overseen by the Nominations Committee during 2023.

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

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

Directors' training and development is co-ordinated by the Chief Governance Officer and Company Secretary.

Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Internal training relevant to the business of NatWest Group is also provided. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities. The non-executive directors discuss professional development with the Chairman at least annually.

During 2022 the Board training programme covered supply chain diversity, digital currencies, regulatory updates, the Takeover Code, capital, financial crime, inside information, climate, ring-fencing rules and a cyber risk 'war game'.

In addition, directors broadened their knowledge and understanding of the risks facing NatWest Group by participating in a Board dinner discussion with executive management on top and emerging risks. A number of directors also accepted an invitation to the full Board to join meetings of the Technology and Innovation Committee which covered areas of broader interest, including a session on data strategy

3. Director responsibilities

Accountability

All directors receive guidance on their statutory duties under the Companies Act 2006 and are supported in the discharge of their duties by the Chief Governance Officer and Company Secretary.

Each director has a role profile which clearly articulates their responsibilities and accountabilities and any additional regulatory responsibilities and accountabilities are set out in their statement of responsibilities. In 2022 the Chairman's and non-executive directors' role profiles were refreshed and updated to ensure they continue to accurately reflect their role and responsibilities and are in line with best practice.

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

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

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

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

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

The Board

The Board is the main decision-making forum for NWH Ltd. The Board is collectively responsible for the long-term success of NWH Ltd and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWH Ltd and NWH Group, with particular focus on customers and employees. It reviews and sets the strategic direction of the NWH Group and, as appropriate, the strategies for each of its businesses, within the parameters set by the NatWest Group plc Board. It reviews and approves the NWH Ltd risk management framework (including NatWest Group's risk appetite framework as a component thereof ('Risk Appetite Framework')) and risk appetite for key risks in accordance with the Risk Appetite Framework; and it monitors performance against risk appetite for NWH Ltd. It approves NWH Ltd's key financial objectives and keeps the capital and liquidity positions of NWH Ltd under review.

The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2022.

The Board held eight scheduled meetings and three strategy sessions during 2022.

At each scheduled Board meeting the directors receive reports from the Chairman, Board Committee Chairs, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Business reviews from the CEOs of the Retail Banking, Wealth and Commercial & Institutional businesses included updates on progress against strategy and spotlights on current topics including the cost of living, Ukraine, climate, unsecured lending growth in retail, and mortgages. In addition to the business CEOs, a number of other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supported succession planning. The Board also welcomed external presenters and advisers to Board meetings, who provided useful insights and perspectives.

Board Committees

The Board has established a number of Board Committees with particular responsibilities. The Audit, Risk, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc and RBS plc, with meetings running concurrently.

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

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

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

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

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

Executive Committee

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

Integrity of information

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

The Board and Committee paper template includes a section for authors to explain how the proposal or update aligns with NatWest Group's purpose and a separate section for them to include an assessment of the relevant stakeholder impacts for the directors to consider. This aligns with the directors' duties under section 172(1) of the Companies Act 2006 and further details on how the directors have complied with their section 172(1) duties can be found on pages 4 to 5 of the Strategic report.

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

4. Opportunity and risk

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

The Board held three strategy sessions with the executive management team in 2022. Within the context of a wider discussion at NatWest Group level, this provided an opportunity for the Board to assess opportunities and risks to the future success of the business, the sustainability of the business model and how its governance contributes to the delivery of its strategy.

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

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

NWH Ltd operates within NatWest Group's integrated enterprise-wide risk management framework. This is centred around the embedding of a strong risk culture and is designed to ensure the tools and capability are in place to facilitate sound risk management and decision-making. As part of the enterprise-wide framework NWH Ltd complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board. NatWest Group's risk appetite is set in line with overall strategy. NWH Ltd also complies with the NatWest Group policy framework. The purpose of the policy framework is to ensure that NatWest Group establishes and maintains policies that adequately address the risks inherent in its business activities.

Further information on NatWest Group's integrated enterprise-wide risk management framework including risk culture, risk appetite, risk identification, risk measurement and risk mitigation, as well as NWH Ltd risk governance, can be found in the risk and capital management section of this report (pages 10 to 83).

5. Remuneration

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

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

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

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

This clarity and certainty on how pay is delivered helps to improve colleagues' financial wellbeing, which is a core priority in NatWest Group's wellbeing plans. In 2022 NatWest Group made a number of interventions to support colleagues in response to the cost of living crisis. In the UK, NatWest Group's rates of pay continue to exceed the Living Wage Foundation benchmarks and NatWest Group ensures employees performing the same role are paid fairly.

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

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' remuneration report of the NatWest Group plc 2022 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2022 Annual Report and Accounts and at natwestgroup.com, along with the steps being taken to build an inclusive and engaged workforce.

6. Stakeholder relationships and engagement

In February 2022 the Board approved its annual objectives and confirmed the Board's key stakeholder groups – customers, investors, regulators, colleagues, communities and suppliers. The Board's agenda and engagement plans were structured to enhance the Board's understanding of these stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

For further information on stakeholder engagement activities undertaken within NatWest Group which impacted NWH Group, see pages 4 to 5 and pages 36 to 39 of the NatWest Group plc 2022 Annual Report and Accounts, and below under Additional colleague-related disclosures (workforce engagement including the Colleague Advisory Panel).

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, see pages 4 to 5 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group plc 2022 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues

NatWest Group listens to colleagues and uses this insight to attract, engage and retain the talent it needs for the future. The colleague listening strategy contributes to a deeper understanding of colleague sentiment and includes colleague opinion surveys; a Colleague Advisory Panel (CAP) that connects colleagues directly with the Board; the 'Colleague Experience Squad', a group of colleagues who volunteer to provide feedback on colleague products and services; and 'Workplace', NatWest Group's social media platform. NatWest Group also tracks metrics and key performance indicators which can be benchmarked with sector and high-performing comparisons.

Over 48,000 colleagues (82%) participated in the September 2022 Our View survey. The 82% response rate was one of the highest seen by NatWest Group in the last 10 years. In the face of an unprecedented external environment, the results remained strong and showed overall resilience. However lead measures in culture, wellbeing and purpose fell marginally, with inclusion measures remaining stable and, despite the challenging backdrop, the measures on building capability improved. Across all comparable categories, NatWest Group sits an average of six percentage points above the Global Financial Services Norm (GFSN) and two percentage points above the Global High Performance Norm (GHPN).

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

In addition, through the CAP established in 2018, colleagues can engage directly with senior management and the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who are self-nominated or part of an employee representative body. In September 2022 Mike Rogers succeeded Lena Wilson as CAP Chair, and the panel's membership was refreshed. New members received training on the role of the CAP and their responsibilities as members. Although members were randomly selected, the membership was cross-checked to ensure the panel was in the main reflective of the bank's population covering a variety of business areas, organisational levels and locations, working patterns employee-led networks.

The CAP met with representatives from the Board twice in 2022 to discuss issues such as wellbeing, remuneration (including executives and the wider workforce), NatWest Group's values, customers in vulnerable situations and future skills. The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members. The Board discusses colleague feedback received from the CAP and the CAP Chair provides feedback on this discussion to the Panel to ensure a continuous feedback loop.

Disability Smart

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

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

Internal control over financial reporting

The internal controls over financial reporting for NWH Group are consistent with those at NatWest Group level. NWH Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2022 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to NWH Ltd Group Audit Committee along with management's remediation plans.

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

Directors' interests

Where directors of NWH Group are also directors of NatWest Group plc, their interests in the shares of the ultimate holding company at 31 December 2022 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group 2022 Annual Report and Accounts. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWH Ltd or any of its subsidiaries, during the period from 1 January 2022 to DD MMMM 2023.

Directors' indemnities

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

Going concern

NWH Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. NWH Group's regulatory capital resources and significant developments in 2022, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 64 to 72. This section also describes NWH Group's funding and liquidity profile, including changes in key metrics and the build up of liquidity reserves.

The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved.

Political donations

During 2022, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:
(a) so far as the director is aware, there is no relevant audit information of which NWH Ltd's auditors are unaware; and
(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that NWH Ltd's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors

Ernst & Young LLP (EY LLP) are NWH Ltd's auditors and have indicated their willingness to continue in office.

By order of the Board

Jan Cargill

Jan Cargill
Chief Governance Officer and Company Secretary
16 February 2023

NatWest Holdings Limited
is registered in England No.10142224

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 93 to 104.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by the Companies Act 2006 to prepare company financial statements, for each financial year in accordance with UK adopted International Accounting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NWH Group and NWH Ltd. In preparing those financial statements, the directors are required to:

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

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

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

The directors confirm that to the best of their knowledge:

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

By order of the Board

Howard Davies
Chairman

Alison Rose-Slade DBE
Chief Executive Officer

Katie Murray
Chief Financial Officer

16 February 2023

Board of directors

Chairman
Howard Davies

Executive directors
Alison Rose-Slade DBE
Katie Murray

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

Financial statements

Independent auditors' report to the members of NatWest Holdings Limited

Opinion

In our opinion:

- the financial statements of NatWest Holdings Limited (the 'Parent Company') and its subsidiaries (together, the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (see table below) of the Parent Company and the Group for the year ended 31 December 2022 which comprise:

Group	Parent Company
– Consolidated balance sheet as at 31 December 2022 – Consolidated income statement for the year then ended; – Consolidated statement of comprehensive income for the year then ended; – Consolidated statement of changes in equity for the year then ended; – Consolidated cash flow statement for the year then ended; – Accounting Policies; – Related Notes 1 to 33 to the financial statements; and – Risk and capital management section of the Strategic report identified as 'audited'.	– Balance sheet as at 31 December 2022; – Statement of changes in equity for the year then ended; – Cash flow statement for the year then ended; and – Related Notes 1 to 10 to the financial statements including a summary of critical accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's Going Concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included reviewing their evaluation of long-term business and strategic plans, capital adequacy, liquidity and funding positions. It also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, climate risk and operational risk;
- We evaluated management's assessment by considering the Group's ability to continue in operation and meets its liabilities under different scenarios including the impact of the Group's strategic plans, and the current uncertain geopolitical and economic outlook. We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional forecasts, HMT consensus and peer comparative economic forecasts. We also considered other commitments of the Group including those in respect of its subsidiaries;
- Considered the results of the Bank's stress testing and Bank of England 2022 solvency stress test, and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

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

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the size and risk profile of the component and its activities, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the four reporting components of the Group, we selected three components based on size and risk, which represent the principal reporting legal entities within the Group.

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

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

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	94%	5%	1%	100%
Total equity	94%	5%	1%	100%
Total income	97%	2%	1%	100%

(1) Full scope: audit procedures on all significant accounts.
(2) Specific scope: audit procedures on selected accounts.
(3) Other procedures: considered in analytical procedures.

The audit scope of the specific scope component may not have included testing of all significant accounts within the component. However, the testing will have contributed to the total coverage of significant accounts tested for the overall Group.

Involvement with component teams

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

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight visits that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, has ongoing interaction with all full scope and specific scope locations outside the United Kingdom. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

An overview of the scope of the Parent Company and Group audits continued

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on its operations will be from credit risk, operational risk, reputational risk, conduct risk and regulatory compliance risk. These are explained in the required Task Force for Climate related Financial Disclosures in the Strategic Report, and in the Climate Risk section within the Risk and capital management section. The Group has also explained their climate commitments in the Strategic Report. All of these disclosures form part of the "Other information", rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

The Group has explained in the Accounting Policy note how they have reflected the impact of climate change in their financial statements, and the significant judgements and estimates relating to climate change. These disclosures also explain the uncertainty regarding policy response, including the effect of wider geo-political uncertainty on governmental ambitions regarding climate transition and the effect of decarbonisation on wider economic growth and customer behaviours. Many of the impacts arising will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period under the requirements of UK adopted international accounting standards, IFRS as adopted by the European Union and IFRS as issued by the IASB. The Group has also explained within the Accounting Policies, their approach to quantifying the impact of climate transition policy on macroeconomic factors in the future years, and the limitations on the ability to make a reliable estimate for 2022 reporting.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating the Group's assessment of the impact of climate risk, their climate commitments and the significant judgements and estimates disclosed in the Accounting Policies, and whether these have been appropriately reflected in the asset values where these are impacted by future cash flows, and in the timing and nature of liabilities recognised following the requirements of UK adopted international accounting standards, IFRS as adopted by the European Union and IFRS as issued by the IASB. As part of this evaluation, we performed our own risk assessment, supported by our climate change specialists, to determine the risk of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also evaluated the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have considered the impact of climate change on the financial statements to impact certain key audit matters. Details of our procedures and findings are included in our explanation of key audit matters below.

Key audit matters

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

Risk	Our response to the risk
Expected Credit Loss Provisions	
At 31 December 2022 the Group reported total gross loans of £347.8 billion (2021: £344.6 billion) and £3.3 billion of expected credit losses (ECL) (2021: £3.7 billion). Management's judgments and estimates are especially subjective due to significant uncertainty associated with the assumptions used. These include the current uncertain geopolitical and economic outlook and the impact of climate change which were both considered in our risk assessment.. Aspects with increased complexity in respect of the timing and measurement of ECL include: – Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9; – Model estimations - Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') models that calculate the ECL; – Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by the current geopolitical and economic outlook including any changes to scenarios required through 31 December 2022; – Adjustments - Appropriateness, completeness and valuation of model adjustments which represent approximately 12% of total ECL including adjustments due to the ongoing geopolitical and economic uncertainty, and the identification of vulnerable customers which increases the risk of management override; and – Individual provisions - Measurement of individual provisions including the assessment of multiple scenarios considering the impact of current geopolitical and economic outlook on exit strategies, collateral valuations and time to collect.	Controls testing - We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the judgments and estimates noted. These controls, among others, included those over: – the allocation of assets into stages including management's monitoring of stage effectiveness; – model governance including monitoring and model validation; – data accuracy and completeness; – credit monitoring; – multiple economic scenarios; – the governance and review of post-model adjustments; – individual provisions; and – production of journal entries and disclosures. In evaluating the governance process, we observed the executive finance and risk committee meetings where the inputs, assumptions and adjustments to the ECL were discussed and approved, among other procedures. Overall assessment - We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group's portfolios, risk profile, impact of the current geopolitical and economic outlook, and climate change on the Group's customers. We performed peer benchmarking where available to assess overall staging and provision coverage levels. We also performed sensitivity analysis to assess the impact of changing assumptions on the ECL provision. Based on our assessment of the key judgments we used EY specialists to support the audit team in the areas of economics, modelling and collateral and business valuations. Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. We recalculated the assets in stage 1, 2 and 3 to assess if they were allocated to the appropriate stage and performed sensitivity analysis to assess the impact of different criteria on the ECL and also considered the impact of performing collective staging downgrades to industries and geographic regions particularly impacted by climate change. To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high risk industries, such as commercial real estate and leisure. We also assessed the timing of the annual review performed by management on each wholesale loan exposure in our sample to evaluate whether it appropriately considered risk factors by considering independent publicly available information. Model estimations - We performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test, which included new models implemented in the year. We involved EY modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and model implementation. We also considered the results of the Group's internal model validation results. We performed an assessment of the extent to which model methodologies developed using historic experience were able to respond to the current economic conditions, including Consumer Price Index and Bank of England base rates. Where we identified model limitations, we tested the extent to which these effects have been appropriately captured in Post Model Adjustments. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet date data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures.

Risk	Our response to the risk
Expected Credit Loss Provisions continued	
	Economic scenarios - We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights and considering contrary evidence by comparing these to other scenarios from a variety of external sources. This assessment included the latest developments related to the current geopolitical and economic outlook at 31 December 2022. We assessed whether forecasted macroeconomic variables, such as GDP, unemployment rate, Consumer Price Index, Bank of England base rates and the House Price Index were complete and appropriate. With the support of our modelling specialists we evaluated the correlation and translation of the macroeconomic factors to the ECL. Post Model Adjustments (PMAs) - We evaluated and tested the appropriateness, adequacy and completeness of PMAs held at year end, including those applied in response to the current geopolitical and economic outlook and the impact of certain economic factors. This included challenging the identification of retail customers vulnerable to price and rate increases and the identification of commercial sub-sectors more susceptible to inflation and supply chain issues as well as the method by which those PMAs were measured. We have also challenged those PMAs which continued to be applied as a result of COVID-19 related to recovery periods and the associated debt issued to borrowers that obtained government supported loans during Covid-19. With our modelling specialists, we assessed the risk of bias and the completeness of these adjustments by considering the data, judgments, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. Individual provisions - We recalculated and challenged the scenarios, assumptions and cash flows for a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned, involving EY valuation specialists where appropriate. The sample was based on a number of factors, including higher risk sectors identified with reference to external sources, such as commercial real estate, agriculture, oil and gas, mining, retail and leisure, and materiality. We considered the impact of the current geopolitical and economic outlook and climate change had on collateral valuations and time to collect as well as whether planned exit strategies remained viable. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.

Key observations communicated to the NatWest Holdings Limited (NWH) Group Audit Committee (1)

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

- Overall provision levels were reasonable which also considered available peer information and our understanding of the credit environment;
- Control deficiencies were identified in the processes used to calculate the ECL for which compensating controls were identified to mitigate a risk of material misstatement;
- Our testing of models and model assumptions identified some instances of over and under estimation. We aggregated these differences and were satisfied that the overall estimate recorded was reasonable;
- The post-model adjustments recorded were within a reasonable range to reflect risk in the portfolios;
- We recalculated the staging of retail and wholesale exposures in material portfolios and noted no material differences. We also performed sensitivity analysis on the staging criteria and noted that substantial changes would be needed to the criteria to result in a material difference; and
- For individually assessed impairments, in a few instances we identified judgmental differences in respect of the extent of the impairment identified, however, none of these differences, individually or in aggregate, were considered material.

Relevant references in the Annual Report and Accounts

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

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

Risk	Our response to the risk
Recognition of deferred tax assets, impairment of goodwill and, in the Parent Company's accounts, investments in group undertakings.	
At 31 December 2022, NatWest Holdings Ltd had reported goodwill of £5.2 billion (2021: £5.2 billion) and deferred tax assets of £2.0 billion (2021: £1.2 billion). The Parent Company has reported investments in group undertakings of £43.1 billion (2021: £39.3 billion). The recognition and carrying value of deferred tax, goodwill and, in the Parent Company's accounts, investments in group undertakings are based on estimates of future profitability, which require significant management judgment and include the risk of management bias. The recognition of deferred tax also considers the future profit forecasts of the legal entities as well as interpretation of recent changes to tax rates and laws. The judgments and assumptions used are especially complex and subjective due to their forward-looking nature and inherent uncertainties These include: – Revenue forecasts which are inherently challenging due to the current uncertain geopolitical and economic outlook including the impacts of climate change which are driven by delivery of the Group's Strategy; – Cost forecasts given the strategic ambitions of the bank and potential headwinds from inflation and supply chain issues; – Macroeconomic and model assumptions used in the forecasting and valuation assessments (discount rates, growth rates, macroeconomic assumptions, etc.) including the current uncertain geopolitical and economic outlook and the impact of climate change over an extended period; and – Disclosure adequacy including key assumptions, the sensitivity of changes to these assumptions as well as an explanation of the impairment testing performed.	Controls testing: We evaluated the design and operating effectiveness of controls over the preparation and review of the forecasts, and the significant assumptions (such as discount rate and long-term growth rate) inputs, calculations, methodologies and judgments used in the value-in-use model. This included testing controls over the selection of macroeconomic assumptions in addition to controls over the preparation and review of the revenue and cost projections. In evaluating the governance processes we reviewed the Board meeting materials and minutes where forecasts were discussed and approved, and we observed the committee meetings where the value-in-use model and outcomes were discussed and approved. Macroeconomic and model assumptions: With the support of our internal economic specialists, we tested whether macroeconomic assumptions used in the Group's forecasts were reasonable by comparing these to other scenarios from a variety of external sources. We evaluated how the discount rates and long-term growth rates used by management compared to our ranges which were developed using peer practice, external market data and calculations performed by our valuation specialists. We also assessed changes to valuation methodology and benchmarked this against industry practice with the assistance of our valuation specialists. Revenue forecasts: We evaluated the underlying business strategies, comparing to expected market trends and considering anticipated balance sheet growth. We obtained an understanding of the Group's strategy including their consideration of the impact of climate change, and considered its expected impact on the forecasts and the extent to which decisions had been factored into the forecasts, where appropriate, in accordance with the relevant accounting standards. We also inspected the findings from the review performed by management including their own sensitivity analysis of the forecasts. Cost forecasts: We tested how previous management forecasts, including the impact of cost reduction programmes, compared to actual results to evaluate the accuracy of the forecasting process. We also tested the reasonableness of key performance indicators against peers with the help of our valuation specialists to assess the reasonableness of the Group's cost forecast. Deferred Tax Model: With the support of our taxation specialists, we reviewed the deferred tax model including an assessment of the time horizon used for the recoverability of losses and other temporary differences. Sensitivity analysis: We evaluated how management considered alternative assumptions and performed our own sensitivity and scenario analyses on certain assumptions such as cost and revenue forecasts, discount rate, long-term growth rate and other key performance indicators on both the detailed forecasts and on an overall basis. Disclosure: We evaluated the adequacy of disclosures in the financial statements including the appropriateness of assumptions and sensitivities disclosed. We tested the data and calculations included in the disclosures.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that management methodologies, judgments and assumptions supporting the carrying value of goodwill and, in the Parent Company's accounts, investments in group undertakings, were reasonable and in accordance with IFRS. We are also satisfied with management's conclusion that goodwill is not a critical accounting policy, as disclosed in note 1 of the financial statements, and that there is no plausible scenario in which this would change in the 12 months from the reporting date.

We highlighted the following matters to the NWH Group Audit Committee:

- There is inherent uncertainty in predicting revenue and costs over the five-year forecast period, particularly with respect to the impact of the current macro-economic environment on the ability of the bank to achieve strategic objectives, the impact of regulatory and climate change developments, and the impact of competition and disruption in banking business models over an extended period;
- Control deficiencies were identified in the determination of the value in use for which compensating controls were identified to mitigate the risk of material misstatement;
- We are satisfied that management has exercised appropriate judgment in assessing the extent to which it is probable that there will be future taxable profits to recover deferred tax assets; and
- Management impaired the Parent Company's investment in UBIDAC, in addition, they recognised a reversal in accumulated impairments in NWB and RBS plc due to the significant headroom as a result of the improved economic outlook. The sensitivity analyses we reviewed, and our independent procedures supported these assessments.

Relevant references in the Annual Report and Accounts

Accounting policies

Note 7 and Note 15 to the Group financial statements and Note 7 to the Parent Company's financial statements

Risk	Our response to the risk
Provisions for customer redress, litigation and other regulatory matters	
At 31 December 2022, the Group has reported £0.8 billion (2021: £0.9 billion) of provisions for liabilities and charges, including £0.4 billion (2021: £0.5 billion) for customer redress, litigation and other regulatory matters as detailed in Note 20 of the financial statements. Regulatory scrutiny and the continued litigious environment give rise to a high level of management judgment in determining appropriate provisions and disclosures for specific customer redress, litigation and other regulatory matters. Management judgment is needed to determine whether a present obligation exists and a provision should be recorded at 31 December 2022 in accordance with the accounting criteria set out under IAS 37. The most significant areas of judgment are: – Judgment and risk of management bias - Auditing the adequacy of these provisions is complex because judgment is involved in the selection and use of assumptions in the estimation of specific customer redress, litigation and other regulatory matters. There is also a risk of management bias in the determination of whether an outflow in respect of identified material customer redress, litigation and other regulatory matters is probable and can be estimated reliably; and – Disclosure - Judgment is required to assess the adequacy of disclosures of provisions and contingent liabilities given the underlying estimation uncertainty in the provisions, and other uncertainties and assumptions.	Controls testing: We evaluated the design and operating effectiveness of controls over the identification, estimation, monitoring and disclosure of provisions and other uncertainties and assumptions related to customer redress, litigation and other regulatory matters considering the potential for management override of controls. The controls tested, among others, included those to identify and monitor claims, determine when a provision is required and to ensure the completeness and accuracy of data used to estimate provisions. Examination of regulatory correspondence: : We examined the relevant regulatory and legal correspondence to assess developments in certain cases. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements. For cases which were settled during the period, we compared the actual outflows with the provision that had been recorded, considered whether further risk existed, and evaluated the level of disclosures provided. Inquiry of legal counsel: For significant legal matters, we received confirmations from the Group's external legal counsel to evaluate the likelihood of the obligation and management's estimate of the outflow at year-end. We also conducted inquiries with internal legal counsel over the existence of the legal obligations and related provision. We performed a test for unrecorded provisions to assess if there were cases not considered in the provision estimate by assessing against external legal confirmations and discussing with internal counsel. Testing of assumptions: Where appropriate, we involved our conduct risk and forensics specialists to assist us in evaluating the provision for specific customer redress, litigation and other regulatory matters. We tested the underlying data and assumptions used in the determination of the provisions recorded, including expected claim rates, legal costs, and the timing of settlement. We evaluated the accuracy of management's historical estimates by comparing the actual settlement to the provision and considered peer bank settlement in similar cases. We assessed the reasonableness of the assumptions used by management by comparing to the results of our independently performed benchmarking and sensitivity analysis. We also developed our own range of reasonable alternative estimates and compared them to management's provision. We tested utilisations of remaining provisions during the year and assessed the sufficiency of the remaining provisions yet to be paid for specific customer redress, litigation and other regulatory matters. Disclosure: We evaluated the disclosures provided on customer redress, litigation and other regulatory matters to assess whether they complied with accounting standards.

Key observations communicated to the NWH Group Audit Committee

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

- The level of provisions by their nature incorporates significant judgments to be made and may change as a result of future developments; and
- Continued vigilance in assessing conduct risks from the impact of cost-of-living crisis and Consumer Duty Act, which may not manifest until after current economic conditions take effect or implementation deadline, respectively.

Relevant references in the Annual Report and Accounts

Accounting policies
Note 20 and 25 to the financial statements

Risk	Our response to the risk
Pension valuation and net pension asset	
The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2022, the Group reported a net pension asset of £18 million (2021: £51 million) comprising £53 million of schemes in surplus and £35 million of schemes in deficit (2021: £99 million and £48 million respectively). The net pension asset is sensitive to changes in the key judgments and estimates, including the effects of the current uncertain geopolitical and economic outlook and associated market volatility, which include: – Assumptions - Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; – Valuations - Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; – Funding – the pension schemes have adequate liquidity to cover for any shortfall in derivative asset prices as a result of current economic conditions; and – Augmentation cap - Quantification of trustee's rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus.	Controls testing - We evaluated the design and operating effectiveness of controls over the actuarial assumptions setting process, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. Assumptions - We involved our actuarial specialists to evaluate the actuarial assumptions by comparing them to independently obtained third party sources and market practice. We assessed the impact on pension liabilities due to changes in financial, demographic and longevity assumptions over the year, and whether these were supported by objective external evidence and rationales, including the effects of current uncertain geopolitical and economic outlook, including market volatility. Valuations - We tested the fair value of scheme assets by independently calculating the fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. We involved our valuation specialists to assess the appropriateness of management's valuation methodology including the judgments made in determining significant assumptions used in the valuation of complex and illiquid pension assets, including the effects of current uncertain geopolitical and economic outlook, including market volatility. We independently re-priced illiquid and complex assets that had been valued using unobservable market inputs, using alternative pricing sources where available, to evaluate management's valuations. We tested the fair value of scheme assets by independently calculating fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments and illiquid assets. Funding – in the performance of our procedures we consider whether the pension schemes have adequate funding to cover for any shortfall in derivative asset prices. Augmentation cap and equalisation adjustments - We involved our actuarial specialists to test the estimation of the augmentation cap including the inputs used in the calculation. We also assessed the methodology and judgments made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. Disclosure - We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions, sensitivities and disclosures over investment strategy.

Key observations communicated to the NWH Group Audit Committee

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

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

Relevant references in the Annual Report and Accounts

Accounting policies
Note 5 to the financial statements

Risk	Our response to the risk
IT access management	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations on a daily basis with extensive reliance on automated controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. The Group has implemented user access management controls across IT applications, databases and operating systems. We have identified user access-related deficiencies in the past and whilst the number of deficiencies has reduced year over year, the risk of inappropriate access remains.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. Controls testing We tested user access by assessing the controls in place for in-scope applications, in particular testing the addition and periodic recertification of users' access. We continue to focus on key controls enforced by the Group's user access management tools, including the completeness of user data, automated identification of movers and leavers and the adequacy of the overall control environment. During the current audit period, the Identity and Access Management tool used in NatWest Markets was decommissioned and replaced with the Group's strategic tool. We tested the governance process around the migration and onboarding of users to the Identity and Access Management tool and noted no deficiencies, with the suite of access management controls supported by the two tools remaining consistent throughout the year. A number of systems are outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls ("SOC") reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we identified and reviewed compensating business controls to address risks to financial reporting. Several systems have been migrated to a cloud-hosted infrastructure model, however access management processes and controls remained in-house and they formed part of our testing. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk. We also performed a further analysis of access management deficiencies identified by EY, Management and Internal Audit to revalidate our overall approach to access management testing.

Key observations communicated to the NWH Group Audit Committee

We are satisfied that IT controls impacting financial reporting are designed and operating effectively. The following matters were reported to the NWH Group Audit Committee:

- We have seen an overall reduction in the number of discrete IT control deficiencies identified compared to prior year;
- Improvements were made to further standardise access management processes and controls across the Group, which was one of the drivers for the reduced number of deficiencies; and
- Particular attention should continue to be paid to controls over user access management including ensuring the completeness and accuracy of the data used to perform access controls. Where issues were noted in relation to access management, these were remediated by year end or mitigated by compensating controls. We performed additional testing in response to deficiencies identified, where required.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £264 million (2021: £153 million), which is 5% (2021: 5%) of the profit before tax of the Group of £5,347 million (2021: £4,394 million) adjusted for non-recurring conduct and litigation costs. We believe removing these non-recurring charges reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Group materiality is consistent with the wider industry, and is the standard for listed and regulated entities.

We determined materiality for the Parent Company to be £264 million (2021: £153 million) which is 0.6% (2021: 0.4%) of equity of the Parent Company. We believe this reflects the most useful measure for users of the financial statements as the Parent Company's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit based measure is not relevant.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £198 million (2021: £115 million). We have based the percentage of performance materiality on a number of considerations, including the number and amount of identified misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Audit work at component teams for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £101 million to £136 million (2021: £74 million to £103 million).

Reporting threshold

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

We agreed with the NWH Audit Committee that we would report to them all uncorrected audit differences in excess of £13 million (2021: £8 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, and Statement of directors' responsibilities, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and Companies Act 2006.
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and regulatory bodies; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- Conducted a review of correspondence with and reports from the regulators, including the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA').
- Carried out an assessment of matters reported on the group's whistleblowing programmes where these related to the financial statements.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also identified the risks of fraud in our key audit matters as described above and identified areas that we considered when performing our fraud procedures, such as cybersecurity, segregation of duties testing, user access testing and the appropriateness of sources used when performing confirmation testing on accounts such as cash, loans and securities. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgements made in determining these estimates.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel, executive management, and internal audit. We also tested controls and performed procedures to respond to the fraud risks as identified in our key audit matters. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- Identified and tested journal entries including those posted with certain descriptions or unusual characteristics, backdated journals or posted by infrequent and unexpected users.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 25 April 2019 to audit the financial statements of the Group for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering periods from our appointment through 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

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

Ernst & Young LLP

Micha Missakian (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
16 February 2023

Consolidated income statement for the year ended 31 December 2022

	Note	2022 £m	2021 (1) £m
Interest receivable		**11,101**	8,486
Interest payable		**(1,803)**	(1,186)
Net interest income	1	**9,298**	7,300
Fees and commissions receivable		**2,557**	2,326
Fees and commissions payable		**(572)**	(479)
Other operating income		**1,291**	869
Non-interest income	2	**3,276**	2,716
Total income		**12,574**	10,016
Staff costs		**(3,195)**	(3,060)
Premises and equipment		**(1,030)**	(998)
Other administrative expenses		**(1,871)**	(1,937)
Depreciation and amortisation		**(803)**	(901)
Operating expenses	3	**(6,899)**	(6,896)
Profit before impairment losses/releases		**5,675**	3,120
Impairment (losses)/releases	13	**(328)**	1,086
Operating profit before tax		**5,347**	4,206
Tax charge	7	**(1,353)**	(1,208)
Profit from continuing operations		**3,994**	2,998
(Loss)/profit from discontinued operations, net of tax (2)		**(262)**	464
Profit for the year		**3,732**	3,462
Attributable to:			
Ordinary shareholders		**3,511**	3,244
Paid-in equity holders		**216**	213
Non-controlling interests		**5**	5
		3,732	3,462

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

(2) The results of discontinued operations comprising the post-tax profit is shown as a single amount on the face of the income statement. An analysis of this amount is presented in Note 8 to the consolidated financial statements.

The accompanying notes on pages 119 to 165, the accounting policies on pages 111 to 118 and the audited sections of the Financial review and Risk and capital management on pages 7 to 83 form an integral part of these financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2022

	2022 £m	2021 £m
Profit for the year	3,732	3,462
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	(593)	(723)
FVOCI financial assets	1	—
Tax	151	181
	(441)	(542)
Items that do qualify for reclassification		
FVOCI financial assets	(410)	(105)
Cash flow hedges (1)	(2,409)	(603)
Currency translation	49	(227)
Tax	792	168
	(1,978)	(767)
Other comprehensive loss after tax	(2,419)	(1,309)
Total comprehensive income for the year	1,313	2,153
Attributable to:		
Ordinary shareholders	1,092	1,935
Paid-in equity holders	216	213
Non-controlling interests	5	5
	1,313	2,153

(1) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.

The accompanying notes on pages 119 to 165, the accounting policies on pages 111 to 118 and the audited sections of the Financial review and Risk and capital management on pages 7 to 83 form an integral part of these financial statements.

Consolidated balance sheet as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Cash and balances at central banks	9	110,813	143,892
Derivatives	12	1,530	1,980
Loans to banks - amortised cost	9	4,338	5,411
Loans to customers - amortised cost	9	339,909	336,077
Amounts due from holding company and fellow subsidiaries	9	570	603
Securities subject to repurchase agreements		2,140	11,069
Other financial assets excluding securities subject to repurchase agreements		13,543	20,117
Other financial assets	14	15,683	31,186
Intangible assets	15	6,769	6,395
Other assets	16	7,252	6,564
Assets of disposal groups	8	6,861	9,015
Total assets		493,725	541,123
Liabilities			
Bank deposits	9	17,045	24,205
Customer deposits	9	412,080	440,015
Amounts due to holding company and fellow subsidiaries	9	20,313	25,548
Derivatives	12	1,808	4,052
Other financial liabilities	18	5,384	7,252
Subordinated liabilities	19	273	284
Notes in circulation		3,218	3,047
Other liabilities	20	4,363	4,965
Total liabilities		464,484	509,368
Owners' equity	21	29,231	31,745
Non-controlling interests		10	10
Total equity		29,241	31,755
Total liabilities and equity		493,725	541,123

The accompanying notes on pages 119 to 165, the accounting policies on pages 111 to 118 and the audited sections of the Financial review and Risk and capital management on pages 7 to 83 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 16 February 2023 and signed on its behalf by:

Howard Davies
Chairman

Alison Rose-Slade DBE
Chief Executive Officer

Katie Murray
Chief Financial Officer

NatWest Holdings Limited
Registration No. 10142224

Consolidated statement of changes in equity for the year ended 31 December 2022

	2022 £m	2021 £m
Called-up share capital - at 1 January and 31 December	3,263	3,263
Paid-in equity - at 1 January	3,682	3,676
Redeemed	(1,000)	(935)
Issued	1,000	941
At 31 December	3,682	3,682
Merger reserve - at 1 January	(11,074)	(11,028)
Amortisation	18	(46)
At 31 December	(11,056)	(11,074)
FVOCI reserve - at 1 January	194	292
Unrealised (losses)/gains (1)	(524)	17
Realised losses/(gains)	115	(123)
Tax	124	8
At 31 December	(91)	194
Cash flow hedging reserve - at 1 January	(382)	55
Amount recognised in equity (2)	(2,168)	(454)
Amount transferred from equity to earnings	(241)	(149)
Tax	661	166
At 31 December	(2,130)	(382)
Foreign exchange reserve - at 1 January	(209)	24
Retranslation of net assets	183	(280)
Foreign currency (losses)/gains on hedges of net assets	(134)	53
Tax	7	(6)
At 31 December	(153)	(209)
Capital redemption reserve - at 1 January	24	—
Redemption of preference shares	—	24
At 31 December	24	24
Retained earnings - at 1 January	36,247	36,974
Profit attributable to ordinary shareholders and other equity owners		
- continuing operations	3,989	2,993
- discontinued operations	(262)	464
Realised gains in period on FVOCI equity shares	—	1
Ordinary dividends paid	(3,579)	(3,500)
Paid-in equity dividends paid	(216)	(213)
Remeasurement of retirement benefit schemes		
- gross	(593)	(723)
- tax	151	181
Redemption of preference shares	—	(24)
Redemption of paid-in equity		
- gross	1	22
- tax	(36)	12
Employee share schemes	6	10
Share-based payments		
- gross	—	(3)
- tax	2	7
Amortisation of merger reserve	(18)	46
At 31 December	35,692	36,247
Owners' equity at 31 December	29,231	31,745

Consolidated statement of changes in equity for the year ended 31 December 2022 continued

	2022 £m	2021 £m
Non-controlling interests - at 1 January	**10**	10
Profit attributable to non-controlling interests	**5**	5
Dividends paid	**(5)**	(5)
At 31 December	**10**	10
Total equity at 31 December	**29,241**	31,755
Attributable to:		
Ordinary shareholders	**25,549**	28,063
Paid-in-equity holders	**3,682**	3,682
Non-controlling interests	**10**	10
	29,241	31,755

(1) Certain assets within this category have been hedged with derivatives which are not in an accounting hedge relationship. The effect of this creates a temporary difference between other comprehensive income and the income statement due to the difference in recognition criteria. This temporary difference is expected to reverse through the income statement over the duration of the hedge.
(2) The unrealised losses on cash flow hedge reserves is mainly driven by deferment of losses on GBP net received fixed swaps as interest rates have increased.

The accompanying notes on pages 119 to 165, the accounting policies on pages 111 to 118 and the audited sections of the Financial review and Risk and capital management on pages 7 to 83 form an integral part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Operating profit before tax - continuing operations		5,347	4,206
Operating (loss)/profit before tax - discontinued operations		(262)	467
Adjustments for:			
Impairment losses/(releases)		257	(1,248)
Amortisation of discounts and premiums of other financial assets		(5)	186
Depreciation and amortisation		803	901
Change in fair value taken to profit or loss on other financial assets		1,177	1,595
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		(1,523)	(714)
Elimination of foreign exchange differences		528	2,427
Other non-cash items		(167)	(91)
Income receivable on other financial assets		(303)	(412)
Loss/(profit) on sale of other financial assets		115	(123)
Profit on sale of subsidiaries and associates		—	(46)
Loss on sale of other assets and net assets/liabilities		155	23
Interest payable on MRELs and subordinated liabilities		657	608
Loss on redemption of own debt		11	133
Charges and releases on provisions		235	493
Defined benefit pension schemes		199	202
Net cash flows from trading activities		7,224	8,607
(Increase)/decrease in derivative assets		(1,717)	682
Increase in loans to banks		(203)	(132)
(Increase)/decrease in loans to customers		(4,104)	3,899
Increase in amounts due from holding company and fellow subsidiaries		(189)	(72)
Increase in other financial assets		(272)	(92)
Increase in other assets		(128)	(27)
Increase in assets of disposal groups		(4,117)	(9,015)
(Decrease)/increase in bank deposits		(7,160)	5,405
(Decrease)/increase in customer deposits		(27,935)	42,174
(Decrease)/increase in amounts due to holding company and fellow subsidiaries		(4,281)	2,847
Decrease in derivative liabilities		(2,244)	(1,980)
Decrease in other financial liabilities		(1,867)	(248)
Increase in notes in circulation		171	392
Decrease in other liabilities		(1,348)	(1,434)
Changes in operating assets and liabilities		(55,394)	42,399
Income taxes paid		(1,347)	(940)
Net cash flows from operating activities (2,3)		(49,517)	50,066
Cash flows from investing activities			
Sale and maturity of other financial assets		27,270	10,759
Purchase of securities of other financial assets		(13,389)	(3,298)
Income received on other financial assets		371	412
Net movement in business interests and intangible assets	26	5,441	(3,501)
Sale of property, plant and equipment		132	79
Purchase of property, plant and equipment		(626)	(882)
Net cash flows from investing activities		19,199	3,569
Cash flows from financing activities			
Movement in MRELs		(1,317)	2,439
Movement in subordinated liabilities		(310)	(2,477)
Dividends paid		(3,800)	(3,713)
Issue of paid-in equity		1,000	941
Redemption of paid-in equity		(999)	(935)
Net cash flows from financing activities	27	(5,426)	(3,745)
Effects of exchange rate changes on cash and cash equivalents		1,390	(1,317)
Net (decrease)/increase in cash and cash equivalents		(34,354)	48,573
Cash and cash equivalents at 1 January		148,127	99,554
Cash and cash equivalents at 31 December	28	113,773	148,127

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(2) Includes interest received of £11,255 million (2021 - £8,752 million) and interest paid of £1,551 million (2021 - £1,130 million).
(3) The total cash outflow for leases is £148 million (2021- £171 million) including payment of principal amount of £125 million (2021- £143 million) which are included in the operating activities.

The accompanying notes on pages 119 to 165, the accounting policies on pages 111 to 118 and the audited sections of the Financial review and Risk and capital management on pages 7 to 83 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

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

The audited financial statements include audited sections of the Risk and capital management section. The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved (see the Report of the directors) and in accordance with UK adopted International Accounting Standards (IAS). The critical and significant accounting policies and related judgments are set out below.

The financial statements are presented on a historical cost basis except for certain financial instruments and investment properties which are stated at fair value.

The effect of the amendments to IFRS effective from 1 January 2022 on our financial statements was immaterial.

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

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

We apply accounting for associates and joint arrangements (including joint ventures) to entities where we have significant influence, but not control, over the operating and financial policies. We assess significant influence by reference to a presumption of voting rights of more than 20%, but less than 50%, supplemented by a qualitative assessment of substantive rights which include representation at the Board of Directors, significant exchange of managerial personnel or technology amongst others. Joint ventures are arrangements where we have joint control and rights to the net assets of the entity.

Investments in associates and joint ventures are recorded upon initial recognition at cost, increased or decreased each period by the share of the subsequent levels of profit or loss, and other changes in equity are considered in line with their nature.

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

How Climate risk affects our accounting judgments and estimates

We make use of reasonable and supportable information to make accounting judgments and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators. It also includes the effect on our competitiveness and profitability. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates for the current period. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

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

Accounting policies

2. Critical accounting polices

The judgments and assumptions involved in our accounting policies that are considered by the Board to be the most important to the portrayal of our financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by us would affect our reported results. Management's consideration of uncertainty is outlined in the relevant sections of this document, including the ECL estimate in the Risk and capital management section.

Information used for significant estimate

Key financial estimates are based on management's latest five-year revenue and cost forecasts. Changes in judgments and assumptions could result in a material adjustment to those estimates in future reporting periods. Consideration of this source of estimate uncertainty has been set out in the notes below (as applicable).

Policy	Judgment	Estimate	Further information
Deferred tax	Determination of whether sufficient taxable profits will be generated in future years to recover DTA.	Our estimates are based on the five-year revenue and cost forecasts (which include inherent uncertainties).	Note 7
Fair value – financial instruments	Classification of a fair value instrument as level 3, where the valuation is driven by unobservable inputs.	Estimation of the fair value, where it is reasonably possible to have alternative assumptions in determining the FV.	Note 10
Loan impairment provisions	Definition of default against which to apply PD, LGD and EAD models. Criteria for a significant increase in credit risk. Identification of risks not captured by the models.	ECL estimates contain a number of measurement uncertainties (such as the selection of multiple economic scenarios) and disclosures include sensitivities to show impact on other reasonably possible scenarios.	Note 13
Provisions for liabilities and charges	Determination of whether a present obligation exists in respect of customer redress, litigation and other regulatory, property and other provisions. Legal proceedings often require a high degree of judgment and these are likely to change as the matter progresses.	Provisions remain sensitive to the assumptions used in the estimate. We consider a wide range of possible outcomes. It is often not practically to meaningfully quantify ranges of possible outcomes, given the uncertainties involved.	Note 20

2.1. Deferred tax

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

Deferred tax asset recoverability is based on the level of supporting offsetable deferred tax liabilities we have and of our future taxable profits. These future taxable profits are based on our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations on climate risk. We do not consider any additional adjustments to this indicator.

2.2. 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.

We manage some portfolios of financial assets and financial liabilities based on our 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.

The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

2.3. Loan impairment provisions: 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.

The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. Our assessment of sector specific risks, and whether additional adjustments are required, include expectations on the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.

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 our 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 we conclude that there is no longer any realistic prospect of recovery of part, or all, of the loan. For financial assets that are individually assessed for impairment, the timing of the write-off is determined on a case-by-case basis. Such financial assets are reviewed regularly and write-off will be prompted by bankruptcy, insolvency, re-negotiation, and similar events.

The typical time frames from initial impairment to write-off for our collectively assessed portfolios are:

- Retail mortgages: write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- Credit cards: the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,
- Overdrafts and other unsecured loans: write-off occurs within six years,
- Commercial loans: write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

2.4. Provisions and contingent liabilities

We recognise a provision for a present obligation resulting from a past event when it is more likely than not that we 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 we have a constructive obligation. An obligation exists when we have a detailed formal plan for the restructuring and have raised a valid expectation in those affected either by starting to implement the plan or by announcing its main features.

We recognise any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting our contractual obligations that exceed the expected economic benefits. When we intend 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.

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.

3. Significant accounting polices

3.1. Revenue recognition

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

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income. Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

3.2. Discontinued operations, Held for sale and Disposal group

The results of discontinued operations (comprising the post-tax profit or loss of discontinued operations and the post-tax results of either the ongoing measurement at fair value less costs to sell or on disposal of the discontinued operation) are excluded from the results of continuing operations and are presented as a single amount as profit/(loss) from discontinued operations, net of tax in the income statement. Comparatives are represented for the income statement, cash flow statement, statement of changes in equity and related notes.

An asset or disposal group (assets and liabilities) is classified as held for sale if we will recover its carrying amount principally through a sale transaction rather than through continuing use. These are measured at the lower of its carrying amount or fair value less cost to sell unless scoped out of IFRS 5 in which case the existing measurement provisions of IFRS apply. These are presented as single amounts, comparatives are not represented.

3.3. 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 us. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NatWest Group or in ordinary shares of NatWest Group plc subject to deferral, clawback and forfeiture criteria. We operate a number of share-based compensation schemes under which we grant awards of NatWest Group plc shares and share options to our employees. Such awards are subject to vesting conditions.

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

The fair value of shares granted is the market price adjusted for the expected effect of dividends as employees are not entitled to dividends until shares are vested.

The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These consider the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors such as the dividend yield.

Defined contribution pension scheme

A scheme where we pay fixed contributions and; there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

Defined benefit pension scheme

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

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability due to changes in actuarial measurement assumptions) are recognised in other comprehensive income in full in the period in which they arise and not subject to recycling to the income statement.

The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised on the balance sheet if the criteria of the asset ceiling test are met. This requires the net defined benefit surplus to be limited to the present value of any economic benefits available to us in the form of refunds from the plan or reduced contributions to it.

We will recognise a liability where a minimum funding requirement exists for any of our defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined as described above. When estimating the liability for minimum funding requirements we only include contributions that are substantively or contractually agreed and do not include contingent and discretionary features, including dividend-linked contributions or contributions subject to contingent events requiring future verification.

We will recognise a net defined benefit asset when the net defined benefit surplus can generate a benefit in the form of a refund or reduction in future contributions to the plan. The net benefit pension asset is recognised at the present value of the benefits that will be available to us excluding interest and the effect of the asset ceiling (if any, excluding interest). Changes in the present value of the net benefit pension asset are recognised immediately in other comprehensive income.

In instances where Trustees have the ability to declare augmented benefits to participants, we do not recognise a defined benefit pension asset and write-off the surplus immediately in other comprehensive income.

3.4. Intangible assets and goodwill

Intangible assets are identifiable non-monetary assets without physical substance acquired by us, and are stated at cost less accumulated amortisation and impairment losses. Amortisation is a method to spread the cost of such assets over time in the income statement. This is charged to the income statement over the assets' estimated useful economic lives using methods that best reflect the pattern of economic benefits. The estimated useful economic lives are:

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

Expenditure on internally generated goodwill and brands is charged to the income statement as incurred.

Direct costs relating to the development of internal-use computer software are reported on the balance sheet after technical feasibility and economic viability have been established. These direct costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software can operate as intended.

During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate.

Costs incurred prior to the establishment of technical feasibility and economic viability are expensed to the income statement as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also reported on the balance sheet.

Goodwill on the acquisition of a subsidiary is the excess of the fair value of the consideration paid, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the subsidiary's net assets over the net fair value of the subsidiary's identifiable assets, liabilities, and contingent liabilities.

Goodwill is measured at initial cost less any subsequent impairment losses. The gain or loss on the disposal of a subsidiary includes the carrying value of any related goodwill when such transactions occur.

3.5. Impairment of non-financial assets

At each balance sheet date, we assess whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, we estimate the recoverable amount of the asset and compares it to its balance sheet value to calculate if an impairment loss should be charged to the income statement. The balance sheet value of the asset is reduced by the amount of the impairment loss. A reversal of an impairment loss on intangible assets or property, plant and equipment is recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Impairment losses on goodwill are not reversed.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to our cash-generating units or groups of cash-generating units expected to benefit from the combination. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell or its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been considered in estimating future cash flows.

The assessment of asset impairment is based upon value in use. This represents the value of future cashflows and uses our five-year revenue and cost forecasts and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability, including near term effects of climate transition risk. The long term growth rate reflects external indicators which will include market expectations of climate risk. We do not consider any additional adjustments to this indicator.

3.6. Property, plant and equipment & investment property

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

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

The estimated useful lives of our property, plant and equipment are:

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

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

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

3.7. Foreign currencies

Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges and hedges of net investments in foreign operations.

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

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

3.8. 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.

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.

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. We recognise 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.

3.9. Financial instruments

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

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

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

Classification by business model reflects how we manage our 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. When a significant change to our business is communicated to external parties, we reassess our business model for managing those financial assets. We reclassify financial assets if we have a significant change to the business model. A reclassification is applied prospectively from the reclassification date.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and discounts or penalties to interest rates that are part of meeting environmental, social and governance targets as well as other contingent and leverage features, non-recourse arrangements and features that could modify the timing and/or amount of the contractual cash flows 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 for non-monetary assets (equity shares) the cumulative gains or losses are transferred directly to retained earnings.

Regular way purchases and sales 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.

3.10. 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 we retain 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.

3.11. Netting

Financial assets and financial liabilities are offset, and the net amount presented on the balance sheet when, and only when, we currently have a legally enforceable right to set off the recognised amounts and we intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. We are party to a number of arrangements, including master netting agreements, that give us the right to offset financial assets and financial liabilities, but where we do not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented separately on the balance sheet.

3.12. Capital instruments

We classify a financial instrument that we issue 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 we evidence a residual interest in our assets after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

3.13. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value.

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

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

Hedge accounting

We enter into three types of hedge accounting relationships (see later). Hedge accounting relationships are designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and Measurement. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. When designating a hedging relationship, we consider: the economic relationship between the hedged item (including the risk being hedged) and the hedging instrument; the nature of the risk; the risk management objective and strategy for undertaking the hedge; and the appropriateness of the method that will be used to assess hedge effectiveness.

Designated hedging relationships must be expected to be highly effective both on a prospective and retrospective basis. Effectiveness is assessed by reference to the degree of offsetting between the changes in fair value or cash flows attributable to the hedged risk and the changes in fair value of the designated hedging derivatives.

Fair value hedge - the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

Cash flow hedge - the effective portion of the designated hedge relationship is recognised in other comprehensive income and the ineffective portion in the income statement. When the hedged item (forecasted cash flows) results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to the income statement in the same periods in which the hedged forecasted cash flows affect the income statement.

Hedge of net investment in a foreign operation - in the hedge of a net investment in a foreign operation, the effective portion of the designated hedge relationship is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be designated as a hedging instrument in a net investment hedge.

Discontinuation of hedge accounting

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting i.e. the hedge is not highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the documented risk management strategy; the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked.

For fair value hedging any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedge item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement.

For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

For net investment hedging on disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to the income statement.

4. Future accounting developments
International Financial Reporting Standards
Effective 1 January 2023
- IFRS 17 Insurance Contracts (Amendments to IFRS 17 Insurance Contracts);
- 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).

Effective 1 January 2024
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a sale and Leaseback (Amendments to IFRS 16).

We are assessing the effect of adopting these standards and amendments on our financial statements but do not expect the effect to be material.

Notes to the consolidated financial statements

1 Net interest income

	2022 £m	2021 (1) £m
Continuing operations		
Balances at central banks and loans to banks - amortised cost	**1,576**	394
Loans to customers - amortised cost	**9,267**	7,960
Other financial assets	**258**	132
Interest receivable	**11,101**	8,486
Bank deposits	**279**	107
Customer deposits	**589**	532
Amounts due to holding company and fellow subsidiaries	**658**	344
Other financial liabilities	**214**	175
Subordinated liabilities	**63**	28
Interest payable	**1,803**	1,186
Net interest income	**9,298**	7,300

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

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Included in interest receivable is finance lease income of £310 million (2021- £293 million) which is recognised at a constant periodic rate of return before tax on the net investment.

For accounting policy information refer to Accounting policies note 3.1.

2 Non-interest income

	2022 £m	2021 (1) £m
Continuing operations		
Net fees and commissions (2)	**1,985**	1,847
Other operating income		
Loss on redemption of own debt	**(11)**	(133)
Rental income on operating leases and investment property	**234**	231
Changes in fair value of other financial assets fair value through profit or loss (3,4)	**(56)**	5
Hedge ineffectiveness	**(26)**	18
Loss on disposal of amortised cost assets and liabilities	**(16)**	(26)
(Loss)/profit on disposal of fair value through other comprehensive income assets	**(114)**	120
Loss on sale of property, plant and equipment (5)	**(6)**	(30)
Net income from economic hedging (6)	**573**	100
Profit on disposal of subsidiaries and associates	**—**	46
Legal entity recharges (7)	**678**	550
Other income	**35**	(12)
	1,291	869
	3,276	2,716

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Refer to Note 4 for further analysis.
(3) 2022 includes a £19 million gain from reclassification of mortgages from amortised cost to fair value through profit or loss. Refer to Note 9 for further details.
(4) Includes instruments that have failed solely for payment of principal and interest testing under IFRS 9.
(5) 2021 includes £44 million loss on the purchase of freeholds for properties where the Group was the primary leaseholder.
(6) Includes fair value changes on derivatives which have not been designated in a hedge accounting relationship and gains and losses from the management of the NWH Group's funding requirements involving the use of derivatives including FX. These are aimed at managing the interest rate and foreign exchange risk that NWH Group is exposed to.
(7) Relates to income from recharging shared services to other NatWest Group subsidiaries outside NWH Group.

For accounting policy information see Accounting policies note 3.1 and 3.7.

3 Operating expenses

	2022 £m	2021 £m
Continuing operations		
Wages, salaries and other staff costs	**2,364**	2,268
Temporary and contract costs	**217**	213
Social security costs	**279**	257
Pension costs	**335**	322
- defined benefit schemes (see Note 5)	**199**	202
- defined contribution schemes	**136**	120
Staff costs	**3,195**	3,060
Premises and equipment	**1,030**	998
Depreciation and amortisation (1,2)	**803**	901
Other administrative expenses (3)	**1,871**	1,937
Administrative expenses	**3,704**	3,836
	6,899	6,896

(1) 2021 includes impairment of goodwill of £85 million. Refer to Note 15.
(2) Include depreciation on right of use assets of £106 million (2021: £147 million; 2020: £187 million).
(3) Includes redress and other litigation costs. Further details are provided in Note 20.

For accounting policy information see Accounting policies note 3.3, 3.4, 3.5 and 3.6.

The average number of persons employed, rounded to the nearest hundred, during the year, excluding temporary staff, was 56,900 (2021 – 55,900).

The number of persons employed, rounded to the nearest hundred, at 31 December 2022, excluding temporary staff was as follows:

Continuing operations	2022	2021
Retail Banking	**14,800**	15,800
Private Banking	**2,100**	1,900
Commercial & Institutional	**9,000**	8,400
Central items & other (1)	**31,900**	28,700
Total	**57,800**	54,800
UK	**38,800**	38,400
India	**15,700**	13,500
Poland	**1,500**	1,400
Republic of Ireland	**1,400**	1,200
Rest of the World	**400**	300
Total	**57,800**	54,800

(1) Central items & other includes Ulster Bank RoI. Total number of persons employed in Ulster Bank RoI of 2,200 (2021 – 2,400) includes 400 persons employed in discontinued operations at 31 December 2022 (2021 – 700).

Bonus awards

The following tables analyse NWH Group's bonus awards.

	2022 £m	2021 £m	Change %
Non-deferred cash awards (1)	**36**	34	6%
Deferred cash awards	**192**	158	22%
Deferred share awards	**31**	25	24%
Total deferred bonus awards	**223**	183	22%
Total bonus awards (2)	**259**	217	19%

Reconciliation of bonus awards to income statement charge

	2022 £m	2021 £m
Bonus awarded	**259**	217
Less: deferral of charge for amounts awarded for current year	**(83)**	(67)
Income statement charge for amounts awarded in current year	**176**	150
Add: current year charge for amounts deferred from prior years	**57**	42
Less: forfeiture of amounts deferred from prior years	**—**	(4)
Income statement charge for amounts deferred from prior years	**57**	38
Income statement charge for bonus award (2)	**233**	188

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

4 Segmental analysis

Changes in reportable segments:

We have made two changes to our reportable segments:

- On 27 January 2022, NatWest Group announced that a new business segment, Commercial & Institutional, would be created, bringing together the Commercial, NatWest Markets and RBSI businesses to form a single business segment, with common management and objectives, to best support our customers across the full non-personal customer lifecycle.
- Following good progress with respect to the phased withdrawal from the Republic of Ireland, announced in February 2021, Ulster Bank RoI continuing operations are now included in Central items & other.

Comparatives have been re-presented. The re-presentation of operating segments does not change the consolidated financial results of NWH Group.

Reportable operating segments

NWH Group is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional and Central items & other.

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

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

Commercial & Institutional offers SME's and Corporate and Institutional clients comprehensive banking and financing solutions throughout the UK and internationally.

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

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Net interest income	**5,335**	**774**	**3,539**	**(350)**	**9,298**
Net fees and commissions	**422**	**250**	**1,284**	**29**	**1,985**
Other operating income	**13**	**28**	**199**	**1,051**	**1,291**
Total income	**5,770**	**1,052**	**5,022**	**730**	**12,574**
Depreciation and amortisation	**—**	**—**	**(135)**	**(668)**	**(803)**
Other operating expenses	**(2,527)**	**(598)**	**(2,210)**	**(761)**	**(6,096)**
Impairment (losses)/releases	**(229)**	**2**	**(112)**	**11**	**(328)**
Operating profit/(loss)	**3,014**	**456**	**2,565**	**(688)**	**5,347**
2021 (1)					
Continuing operations					
Net interest income	4,136	480	2,675	9	7,300
Net fees and commissions	377	258	1,158	54	1,847
Other operating income	(6)	78	117	680	869
Total income	4,507	816	3,950	743	10,016
Depreciation and amortisation	(85)	—	(146)	(670)	(901)
Other operating expenses	(2,409)	(522)	(2,234)	(830)	(5,995)
Impairment releases/(losses)	37	55	1,074	(80)	1,086
Operating profit/(loss)	2,050	349	2,644	(837)	4,206

Total revenue (2)

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
External	**5,787**	**874**	**4,384**	**3,904**	**14,949**
Inter-segmental	**24**	**428**	**127**	**(579)**	**—**
Total	**5,811**	**1,302**	**4,511**	**3,325**	**14,949**
Year ended 31 December 2021 (1)					
Continuing operations					
External	5,419	792	3,749	1,721	11,681
Inter-segmental	35	166	114	(315)	—
Total	5,454	958	3,863	1,406	11,681

4 Segmental analysis continued

Total income

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
External	**5,746**	**738**	**5,178**	**912**	**12,574**
Inter-segmental	**24**	**314**	**(156)**	**(182)**	**—**
Total	**5,770**	**1,052**	**5,022**	**730**	**12,574**
Year ended 31 December 2021 (1)					
Continuing operations					
External	4,474	757	3,986	799	10,016
Inter-segmental	33	59	(36)	(56)	—
Total	4,507	816	3,950	743	10,016

Analysis of net fees and commissions

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Fees and commissions receivable					
- Payment services	**314**	**25**	**621**	**43**	**1,003**
- Credit and debit card fees	**401**	**15**	**221**	**18**	**655**
- Lending and financing	**17**	**8**	**528**	**3**	**556**
- Brokerage	**43**	**6**	**—**	**—**	**49**
- Investment management, trustee and fiduciary services	**4**	**218**	**—**	**—**	**222**
- Underwriting fees	**—**	**—**	**3**	**—**	**3**
- Other	**—**	**3**	**115**	**(49)**	**69**
Total fees and commissions receivable	**779**	**275**	**1,488**	**15**	**2,557**
Fees and commissions payable	**(357)**	**(25)**	**(204)**	**14**	**(572)**
Net fees and commissions	**422**	**250**	**1,284**	**29**	**1,985**
2021 (1)					
Continuing operations					
Fees and commissions receivable					
- Payment services	307	35	538	49	929
- Credit and debit card fees	343	10	147	19	519
- Lending and financing	13	10	515	4	542
- Brokerage	48	6	—	—	54
- Investment management, trustee and fiduciary services	3	230	—	2	235
- Underwriting fees	—	—	—	—	—
- Other	—	35	105	(93)	47
Total fees and commissions receivable	714	326	1,305	(19)	2,326
Fees and commissions payable	(337)	(68)	(147)	73	(479)
Net fees and commissions	377	258	1,158	54	1,847

Year ended 31 December 2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Continuing operations					
Assets	**206,216**	**19,644**	**109,880**	**157,985**	**493,725**
Liabilities	**192,316**	**41,510**	**171,901**	**58,757**	**464,484**
Year ended 31 December 2021					
Continuing operations					
Assets	191,705	19,072	108,111	222,235	541,123
Liabilities	192,754	39,417	185,743	91,454	509,368

4 Segmental analysis continued

Segmental analysis of goodwill

The total carrying value of goodwill at 31 December 2022 and 2021 was £5,221 million, comprised of Retail Banking £2,606 million; Commercial & Institutional £2,606 million; and Private Banking £9 million. Refer to Note 15 for more details.

Geographical segments

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

2022 Continuing operations	UK £m	RoW £m	Total £m
Total revenue	**14,395**	**554**	**14,949**
Interest receivable	**10,934**	**167**	**11,101**
Interest payable	**(1,649)**	**(154)**	**(1,803)**
Net fees and commissions	**1,951**	**34**	**1,985**
Other operating income	**1,015**	**276**	**1,291**
Total income	**12,251**	**323**	**12,574**
Operating profit/(loss) before tax	**6,036**	**(689)**	**5,347**
Total assets	**466,650**	**27,075**	**493,725**
Total liabilities	**454,317**	**10,167**	**464,484**
Contingent liabilities and commitments	**100,972**	**1,105**	**102,077**
Cost to acquire property, plant and equipment and intangible assets	**1,265**	**159**	**1,424**

2021 (1) Continuing operations			
Total revenue	11,400	281	11,681
Interest receivable	8,342	144	8,486
Interest payable	(1,057)	(129)	(1,186)
Net fees and commissions	1,786	61	1,847
Other operating income	806	63	869
Total income	9,877	139	10,016
Operating profit/(loss) before tax	4,624	(418)	4,206
Total assets	503,825	37,298	541,123
Total liabilities	489,303	20,065	509,368
Contingent liabilities and commitments	100,482	2,674	103,156
Cost to acquire property, plant and equipment and intangible assets	1,317	169	1,486

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8.
(2) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

5 Pensions

Defined contribution schemes

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

Defined benefit schemes

NWH Group sponsors a number of pension schemes in the UK and overseas, including the Main section of the NatWest Group Pension Fund (the "Main section") which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of the scheme's assets, and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants for over ten years, although active members continue to build up additional pension benefits, currently subject to 2% maximum annual salary inflation, while they remain employed by NWH Group.

The Main section corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee comprises four member trustee directors selected from eligible active staff, deferred and pensioner members who apply and six appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities. (the pensions that have been promised to members)

Similar governance principles apply to NWH Group's other pension schemes.

For accounting policy information see Accounting policies note 3.3.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 94% of all plan assets at 31 December 2022 (2021 - 94%) and are invested as shown below.

The Main section employs physical, derivative and non-derivative instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation, and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation. In particular, movements in interest rates and inflation are substantially hedged by the Trustee.

Over the year, increases in bond yields resulted in many pension schemes in the UK having to raise additional collateral to support Liability-driven investment positions held as part of their hedging strategies. Liability-driven investments (LDI) refer to assets that are expected to move broadly in line with liabilities on a specific basis. All the Group's schemes affected by this were able to raise the collateral needed from existing assets, with no additional support from the Group. The Trustee of the Group Pension Fund takes a prudent approach to liquidity and collateral and holds sufficient collateral to withstand substantial rises in gilt yields. The level of collateral held by some of the Group's smaller schemes was increased over the year, to ensure they could withstand further large rises in gilt yields if required.

	2022			2021		
Major classes of plan assets as a percentage of total plan assets of the Main section	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	**0.1**	**7.7**	**7.8**	3.7	4.7	8.4
Index-linked bonds	**37.7**	**—**	**37.7**	46.7	—	46.7
Government bonds	**18.4**	**—**	**18.4**	9.8	—	9.8
Corporate and other bonds	**15.3**	**6.7**	**22.0**	10.7	4.4	15.1
Real estate	**—**	**6.0**	**6.0**	—	4.4	4.4
Derivatives	**—**	**8.2**	**8.2**	—	8.8	8.8
Cash and other assets	**—**	**(0.1)**	**(0.1)**	—	6.8	6.8
	71.5	**28.5**	**100.0**	70.9	29.1	100.0

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

	2022			2021		
	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m	Notional amounts £bn	Fair value Assets £m	Fair value Liabilities £m
Inflation rate swaps	**21**	**1,873**	**990**	20	1,408	796
Interest rate swaps	**103**	**14,317**	**12,546**	172	8,385	4,421
Currency forwards	**12**	**310**	**113**	12	61	98
Equity and bond call options	**—**	**—**	**—**	—	1	—
Equity and bond put options	**—**	**2**	**70**	—	1	3
Other	**1**	**14**	**19**	1	9	10

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparties, including NWB Plc.

At 31 December 2022, the gross notional value of the swaps was £124 billion (2021 - £192 billion) and had a net positive fair value of £2,642 million (2021 - £4,573 million) against which the counterparties had posted approximately 112% collateral.

The schemes do not invest directly in NWH Group but can have exposure to NWH Group through indirect holdings. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWH Group do not exceed the regulatory limit of 5% of plan assets.

5 Pensions continued

Changes in value of net pension asset/(liability)	Fair value of plan assets £m	Present value of defined benefit obligation (1) £m	Asset ceiling/ minimum funding (2) £m	Net pension asset/(liability) £m
At 1 January 2021	54,663	(46,781)	(7,660)	222
Currency translation and other adjustments	(119)	103	3	(13)
Income statement - operating expenses	756	(851)	(107)	(202)
Other comprehensive income	832	1,067	(2,622)	(723)
Contributions by employer	766	—	—	766
Contributions by plan participants and other scheme members	13	(13)	—	—
Liabilities extinguished upon settlement	—	—	—	—
Benefits paid	(1,670)	1,670	—	—
Transfer to/from fellow subsidiaries	—	1	—	1
At 1 January 2022	55,241	(44,804)	(10,386)	51
Currency translation and other adjustments	78	(65)	(11)	2
Income statement - operating expenses	995	(1,005)	(189)	(199)
Net interest expense	995	(797)	(189)	9
Current service cost	—	(181)	—	(181)
Past service cost	—	(5)	—	(5)
Loss on curtailments and settlements	—	(22)	—	(22)
Other comprehensive income	(19,262)	17,769	900	(593)
Return on plan assets excluding recognised interest income(3)	(19,262)	—	—	(19,262)
Experience gains and losses	—	(2,051)	—	(2,051)
Effect of changes in actuarial financial assumptions(3)	—	19,823	—	19,823
Effect of changes in actuarial demographic assumptions	—	(3)	—	(3)
Asset ceiling/minimum funding adjustments	—	—	900	900
Contributions by employer	757	—	—	757
Contributions by plan participants and other scheme members	13	(13)	—	—
Benefits paid	(1,569)	1,569	—	—
Assets and liabilities extinguished upon settlement	(109)	109	—	—
At 31 December 2022	36,144	(26,440)	(9,686)	18

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.
(2) NWH Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NWH Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the current surplus is not recognised as the trustees may have control over the use of the surplus. Other NWH Group schemes that this applies to include the Ulster Bank Pension Scheme (NI).
(3) Changes in market conditions during 2022 resulted in a particularly large increase in discount rate, which is the key driver of the effect of changes in actuarial financial assumptions. Given the level of hedging in place, there was a corresponding reduction in the value of plan assets over the period. The experience losses shown are mainly as a result of inflation over the year being higher than expected.
(4) NWH Group expects to make contributions to the Main section of £196 million in 2023. In 2022 NWH Group made contributions of £757m including a £500m contribution paid in two instalments in January and March 2022 as required by the ring-fencing agreement with the Trustee.

Amounts recognised on the balance sheet	2022 £m	2021 £m
Fund assets at fair value	36,144	55,241
Present value of fund liabilities	(26,440)	(44,804)
Funded status	9,704	10,437
Assets ceiling/minimum funding	(9,686)	(10,386)
Retirement benefit asset	18	51

Net pension asset comprises	2022 £m	2021 £m
Net assets of schemes in surplus (included in Other assets, Note 16)	53	99
Net liabilities of schemes in deficit (included in Other liabilities, Note 20)	(35)	(48)
	18	51

5 Pensions continued

Funding and contributions by NWH Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and to determine future contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where NWH Group sponsors defined benefit pension schemes.

A full triennial funding valuation of the Main section, effective 31 December 2020, was completed during the 2021 financial year.

This triennial funding valuation determined the funding level to be 104%, pension liabilities to be £49 billion and the surplus to be £2 billion, all assessed on the agreed funding basis. The average cost of the future service of current members is 49% of salary before contributions from those members. In addition, the sponsor has agreed to meet administrative expenses. Following the ring-fencing agreement with the Trustee reached in 2018, additional contributions of up to £500 million per annum are payable to the Main section should the Group make distributions to shareholders of an equal amount. These contributions are capped at £1.5 billion in total; a contribution of £500 million was made in 2022 (2021 – £500 million). The remaining distribution linked contribution to the Main section would have fallen due in 2023, but NatWest Bank has agreed with the Trustee that assets to the value of the contributions falling due will instead be paid to a new legal structure. These assets will be restricted and are reserved to ensure they are available should they be needed by the Trustee according to agreed criteria in the future. The assets under this arrangement would be available to the Group to the extent that they are not needed under the defined trigger events.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest swap and gilt yields plus 0.64% per annum, and mortality assumptions, which result in life expectancies of 27.7/29.4 years for males/females who are currently age 60 and 28.9/30.7 years from age 60 for males/females who are currently aged 40.

The 2021 triennial valuation of the Group Pension Fund included an allowance for the estimated impact of guaranteed minimum pension equalisation, which is reflected in the IAS 19 valuation at 31 December 2022.

Accounting Assumptions

Placing a value on NWH Group's defined benefit pension schemes' liabilities requires NWH Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions	
	2022	2021
	%	%
Discount rate	**5.0**	1.8
Inflation assumption (RPI)	**3.2**	3.3
Rate of increase in salaries	**1.8**	1.8
Rate of increase in deferred pensions	**3.2**	3.7
Rate of increase in pensions in payment	**2.5**	2.5
Lump sum conversion rate at retirement	**18**	18
Longevity at age 60:	**Years**	Years
Current pensioners		
Males	**27.3**	27.3
Females	**29.1**	29.0
Future pensioners, currently aged 40		
Males	**28.3**	28.2
Females	**30.1**	30.1

The above financial assumptions are long term assumptions set with reference to the period over which the obligations are expected to be settled.

Discount rate

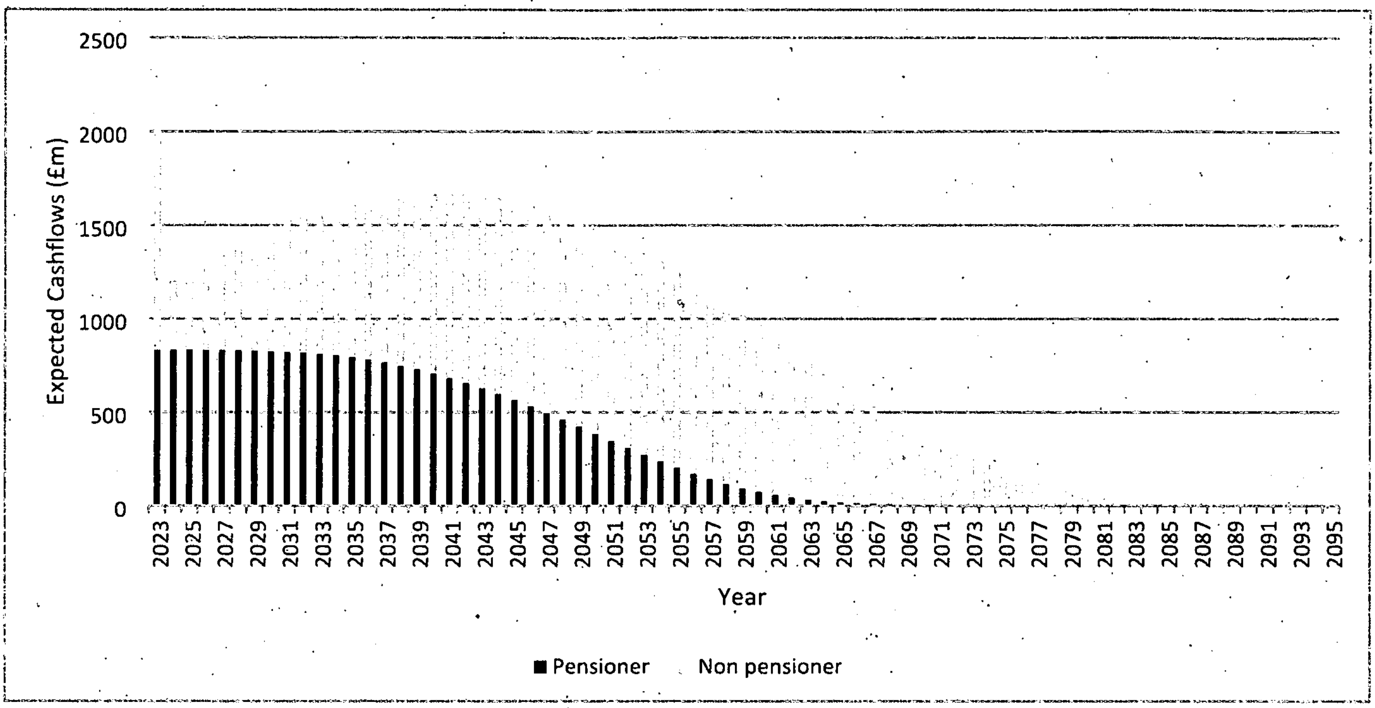
The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds.

Significant judgment is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgment is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

5 Pensions continued

The weighted average duration of the Main section's defined benefit obligation at 31 December 2022 is 15.3 years (2021 - 20 years).

The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2020.



The larger outflow in 2023 represents an assumption in the actuarial valuation of the level of transfers out to 31 December 2023.

The table below shows how the net pension asset of the Main section would change if the key assumptions used were changed independently. In practice, the variables are somewhat correlated and do not move completely in isolation.

2022	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/ assets £m
0.25% increase in interest rates/discount rate	**(1,389)**	**(907)**	**(482)**
0.25% increase in inflation	**963**	**632**	**331**
0.25% increase in credit spreads	**(3)**	**(907)**	**904**
Longevity increase of one year	**—**	**767**	**(767)**
0.25% additional rate of increase in pensions in payment	**—**	**679**	**(679)**
Increase in equity values of 10% (1)	**267**	**—**	**267**

2021			
0.25% increase in interest rates/discount rate	(2,917)	(1,926)	(991)
0.25% increase in inflation	1,883	1,329	554
0.25% increase in credit spreads	(3)	(1,926)	1,923
Longevity increase of one year	—	1,790	(1,790)
0.25% additional rate of increase in pensions in payment	—	1,485	(1,485)
Increase in equity values of 10% (1)	442	—	442

(1) Includes both quoted and private equity.
(2) A 0.5% increase in interest rates/discount rate would lead to a decrease of £2,689m in the value of assets and a £1,766m decrease in the value of liabilities at 31 December 2022.

5 Pensions continued

The funded status is most sensitive to movements in credit spreads and longevity. Note the longevity sensitivities quoted above reflect the impact of a one year increase to single life annuities. The table below shows the combined change in the funded status of the Main section as a result of larger movements in these assumptions, assuming no changes in other assumptions.

		Change in life expectancies				
		- 2 years	- 1 years	No change	+ 1 year	+ 2 years
2022		£bn	£bn	£bn	£bn	£bn
Change in credit spreads	+50 bps	**3.2**	**2.5**	**1.8**	**1.1**	**0.4**
	No change	**1.6**	**0.8**	**—**	**(0.8)**	**(1.5)**
	-50 bps	**(0.3)**	**(1.2)**	**(2.0)**	**(2.8)**	**(3.6)**
2021						
Change in credit spreads	+50 bps	6.9	5.3	3.8	2.3	0.8
	No change	3.6	1.8	—	(1.8)	(3.6)
	-50 bps	(0.3)	(2.4)	(4.5)	(6.6)	(8.7)

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

Membership category	2022 %	2021 %
Active members	**8.4**	10.7
Deferred members	**41.0**	47.6
Pensioners and dependants	**50.6**	41.7
	100.0	100.0

The experience history of NWH Group schemes is shown below:

History of defined benefit schemes	2022 £m	2021 £m	2020 £m	2019 £m
Fair value of plan assets	**36,144**	55,241	54,663	49,539
Present value of plan obligations	**(26,440)**	(44,804)	(46,781)	(42,217)
Net surplus	**9,704**	10,437	7,882	7,322
Experience (losses)/gains on plan liabilities	**(2,051)**	240	441	278
Experience (losses)/gains on plan assets	**(19,262)**	832	5,767	3,366
Actual return on pension schemes assets	**(18,267)**	1,588	6,756	4,679
Actual return on pension schemes assets	**(33.1)%**	2.9%	13.6%	10.0%

6 Auditor's remuneration

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

	2022 £m	2021 £m
Fees payable for:		
- the audit of NWH Group's annual accounts	**2.2**	2.2
- the audit of NWH Ltd's subsidiaries	**19.6**	17.6
Total audit and audit-related service fees	**21.8**	19.8

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

7 Tax

Continuing operations	2022 £m	2021 £m
Current tax		
Charge for the year	**(1,427)**	(1,186)
Over provision in respect of prior years	**65**	50
	(1,362)	(1,136)
Deferred tax		
Charge for the year	**(187)**	(221)
UK tax rate change impact (1)	**(60)**	179
Net increase/(decrease) in the carrying value of deferred tax assets in respect of UK and Ireland losses	**320**	(27)
Under provision in respect of prior years (2)	**(64)**	(3)
Tax charge for the year	**(1,353)**	(1,208)

(1) It was announced in the UK Government's budget on 27 October 2021 that the main UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was enacted on 24 February 2022.
(2) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 19% (2021 – 19%), as follows:

Continuing operations	2022 £m	2021 £m
Expected tax charge	**(1,016)**	(835)
Losses and temporary differences in year where no deferred tax asset recognised	**(99)**	(32)
Foreign profits taxed at other rates	**(58)**	(22)
Non deductible goodwill impairment	**—**	(16)
Items not allowed for tax:		
- losses on disposals and write-downs	**(9)**	(52)
- UK bank levy	**(14)**	(15)
- regulatory and legal actions	**6**	(75)
- other disallowable items	**(16)**	(24)
Non-taxable items	**20**	18
Taxable foreign exchange movements	**(1)**	5
Unrecognised losses brought forward and utilised	**—**	2
Increase in the carrying value of deferred tax assets in respect of:		
- UK losses	**325**	—
- Ireland losses	**(5)**	(27)
Banking surcharge	**(467)**	(396)
Tax on paid-in equity dividends	**40**	35
UK tax rate change impact	**(60)**	179
Adjustment in respect of prior years	**1**	47
Actual tax charge	**(1,353)**	(1,208)

Judgment: Tax contingencies

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

For accounting policy information see Accounting policies note 3.8.

7 Tax continued

Deferred tax

	2022 £m	2021 £m
Deferred tax liability	**150**	218
Deferred tax asset	**(2,100)**	(1,433)
Net deferred tax asset	**(1,950)**	(1,215)

Net deferred tax asset comprised:

	Pension £m	Accelerated capital allowances £m	Expense provisions £m	Financial instruments (1) £m	Tax losses carried forward £m	Other £m	Total £m
1 January 2021	(101)	(322)	(62)	265	(843)	(36)	(1,099)
Charge/(credit) to income statement:							
- continuing operations	17	21	(3)	3	42	(8)	72
- discontinued operations	—	—	—	—	3	—	3
Credit to other comprehensive income	(9)	—	(3)	(177)	—	(3)	(192)
Currency translation and other adjustments	(2)	(2)	—	—	3	2	1
31 December 2021	(95)	(303)	(68)	91	(795)	(45)	(1,215)
(Credit)/charge to income statement:							
- continuing operations	**(1)**	**109**	**8**	**(30)**	**(108)**	**13**	**(9)**
- discontinued operations	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Charge/(credit) to other comprehensive income	**35**	**—**	**1**	**(766)**	**—**	**(3)**	**(733)**
Currency translation and other adjustments	**—**	**10**	**—**	**—**	**—**	**(3)**	**7**
31 December 2022	**(61)**	**(184)**	**(59)**	**(705)**	**(903)**	**(38)**	**(1,950)**

(1) The in-year movement predominantly relates to cash flow hedges.

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

	2022 £m	2021 £m
UK tax losses carried forward		
- NWB Plc	**445**	608
- RBS plc	**452**	176
Total	**897**	784
Overseas tax losses carried forward		
- UBIDAC	**6**	11
	903	795

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax asset of £2,100 million as at 31 December 2022 (2021 - £1,433 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

It was announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was enacted on 24 February 2022. NWH Group's closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise.

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

Estimate - These estimates are partly based on forecast performance beyond the horizon for management's detailed plans. They have regard to inherent uncertainties, such as climate change. The deferred tax asset in UBIDAC is supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022.

UK tax losses

Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in the NWH Group arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge rate introduced by The Finance (No. 2) Act 2015.

NWB Plc – A deferred tax asset of £445 million (2021 - £608 million) has been recognised in respect of losses of £1,847 million of total losses of £2,718 million carried forward at 31 December 2022. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc returned to tax profitability during 2015 and expects the deferred tax asset to be utilised against future taxable profits by the end of 2027.

RBS plc – A deferred tax asset of £452 million (2021 - £176 million) has been recognised in respect of losses of £1,821 million of total losses of £3,692 million carried forward at 31 December 2022. The losses were transferred from NatWest Markets Plc as a consequence of the ring fencing regulations. RBS plc expects the deferred tax asset to be utilised against future taxable profits by the end of 2029.

Overseas tax losses

UBIDAC – A deferred tax asset of £6 million (2021 - £11 million) has been recognised in respect of losses of £48 million, and is now entirely supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022.

Unrecognised deferred tax – Deferred tax assets of £1,933 million (2021 - £2,097 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £12,697 million (2021 - £12,573 million) in jurisdictions where doubt exists over the availability of future taxable profits. These losses and other deductible temporary differences carried forward have no expiry date.

Deferred tax liabilities of £105 million (2021 - £123 million) on aggregate underlying temporary differences of £468 million (2021 - £490 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009.

8 Discontinued operations and assets and liabilities of disposal groups

Three legally binding agreements for the sale of UBIDAC business have been announced as part of the phased withdrawal from the Republic of Ireland. Material developments since the beginning of 2022 are set out below.

Agreement with Allied Irish Banks, p.l.c. (AIB) for the transfer of performing commercial loans.

Successful migration of six tranches of performing commercial loans to AIB was completed during 2022, with €2.1 billion of gross performing loans being fully migrated by year-end. It is expected that remaining migrations of commercial customers will be materially completed in phases over H1 2023. Colleagues who are wholly or mainly assigned to supporting this part of the business are in the process of getting transferred to AIB under Transfer of Undertakings, Protection of Employment (TUPE) arrangements, with more than half having completed their move by the end of 2022. Losses on disposal of €123 million have been recognised in 2022 in respect of the migrations completed to date.

Agreement with Permanent TSB Group Holdings p.l.c. (PTSB) for the sale of performing non-tracker mortgages, the performing loans in the micro-SME business, the UBIDAC Asset Finance business, including its Lombard digital platform, and 25 Ulster Bank branch locations in the Republic of Ireland.

c.€5 billion of performing non-tracker mortgages migrated to PTSB in November 2022, with the remaining balances expected to migrate during H1 2023. In January 2023, 25 branches transferred to PTSB. The remaining performing non-tracker mortgages, micro-SME loans, Lombard Asset Finance business and all remaining eligible colleagues who will move under TUPE regulations, are also expected to transfer in 2023.

Agreement with AIB for the sale of performing tracker and linked mortgages.

In January 2023 the Competition and Consumer Protection Commission (CCPC) granted approval on the portfolio sale of performing tracker and linked mortgages to AIB. Completion of this sale is expected to occur in Q2 2023.

The business activities relating to these sales that meet the requirements of IFRS 5 are presented as a discontinued operation and as a disposal group. Comparatives have been re-presented from those previously published to reclassify certain items as discontinued operations. This has resulted in a re-presentation of 2021 comparatives: a reduction of Operating profit before tax and Profit from continuing operations of £188 million, and an increase of Profit from discontinued operations of £188 million. Total profit for the year remains unchanged. Ulster Bank RoI continuing operations are now reported within Group central items & other. In 2022 we reclassified mortgage loans to fair value through profit or loss, which resulted in a €453 million reduction in mortgage financial assets in UBIDAC to 31 December 2022. This reclassification applies across both our continuing and discontinued operations.

For accounting policy information see Accounting policies note 3.2.

(a) (Loss)/profit from discontinued operations, net of tax

	2022 £m	2021 £m
Interest receivable	177	339
Net interest income	177	339
Non-interest income	(472)	13
Total income	(295)	352
Operating expenses	(38)	(47)
(Loss)/profit before impairment releases	(333)	305
Impairment releases	71	162
Operating (loss)/profit before tax	(262)	467
Tax charge	—	(3)
(Loss)/profit from discontinued operations, net of tax	(262)	464

(b) Assets and liabilities of disposal groups

	2022 £m	2021 £m
Assets of disposal groups		
Loans to customers - amortised cost	1,458	9,002
Other financial assets - loans to customers at fair value through profit or loss	5,397	—
Derivatives	—	5
Other assets	6	8
	6,861	9,015
Liabilities of disposal groups		
Other liabilities	15	5
	15	5
Net assets of disposal groups	6,846	9,010

(c) Operating cash flows attributable to discontinued operations

	2022 £m	2021 £m
Net cash flows from operating activities	1,090	2,212
Net cash flows from investing activities	6,164	—
Net increase in cash and cash equivalents	7,254	2,212

9 Financial instruments - classification

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.

We originate loans that include features that change the contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. These are known as ESG-linked (or sustainability-linked) loans. As part of the terms of these loans, the contractual interest rate is reduced or increased if the borrower meets (fails to meet) specific targets linked to the activity of the borrower for example reducing carbon emissions, increase the level of diversity at Board level, sustainable supply chain, etc. ESG features are first assessed to ascertain whether the adjustment to the contractual cash flows results in a de minimis exposure to risks or volatility in those contractual cash flows. If this is the case the classification of the loan is not affected. If the effect of the ESG feature is assessed as being more than de minimis, we apply judgement to ensure that the ESG features do not generate compensation for risks that are not in line with a basic lending arrangement. This includes amongst other aspects a review of the consistency of the ESG targets with the asset or activity of the borrower, consideration of the targets within our risk appetite etc. Some of these loans are an integral part of NatWest Group's climate and sustainable funding and financing target.

For accounting policy information see Accounting policies notes 3.9, 3.10, 3.11 and 3.13.

The following tables analyse NWH Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

Assets	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Cash and balances at central banks			**110,813**		**110,813**
Derivatives (1)	**1,530**				**1,530**
Loans to banks - amortised cost (2)			**4,338**		**4,338**
Loans to customers - amortised cost (3)			**339,909**		**339,909**
Amounts due from holding company and fellow subsidiaries	**78**	**—**	**162**	**330**	**570**
Other financial assets (4)	**992**	**10,274**	**4,417**		**15,683**
Intangible assets				**6,769**	**6,769**
Other assets				**7,252**	**7,252**
Assets of disposal groups (5)				**6,861**	**6,861**
31 December 2022	**2,600**	**10,274**	**459,639**	**21,212**	**493,725**
Cash and balances at central banks			143,892		143,892
Derivatives (1)	1,980				1,980
Loans to banks - amortised cost (2)			5,411		5,411
Loans to customers - amortised cost (3)			336,077		336,077
Amounts due from holding company and fellow subsidiaries	348	—	110	145	603
Other financial assets	288	28,239	2,659		31,186
Intangible assets				6,395	6,395
Other assets				6,564	6,564
Assets of disposal groups				9,015	9,015
31 December 2021	2,616	28,239	488,149	22,119	541,123

9 Financial instruments – classification continued

Judgment: classification of financial assets

Liabilities	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Bank deposits (6)		17,045		17,045
Customer deposits		412,080		412,080
Amounts due to holding company and fellow subsidiaries	104	20,113	96	20,313
Derivatives (1)	1,808			1,808
Other financial liabilities	17	5,367		5,384
Subordinated liabilities		273		273
Notes in circulation		3,218		3,218
Other liabilities (7)		1,116	3,247	4,363
31 December 2022	1,929	459,212	3,343	464,484
Bank deposits (6)		24,205		24,205
Customer deposits		440,015		440,015
Amounts due to holding company and fellow subsidiaries	114	25,347	87	25,548
Derivatives (1)	4,052			4,052
Other financial liabilities	99	7,153		7,252
Subordinated liabilities		284		284
Notes in circulation		3,047		3,047
Other liabilities (7)		1,260	3,705	4,965
31 December 2021	4,265	501,311	3,792	509,368

(1) Includes net hedging derivative assets of £20 million (2021 - £324 million) and net hedging derivative liabilities of £561 million (2021 - £62 million).
(2) Includes items in the course of collection from other third party banks of £73 million (2021 - £30 million).
(3) Includes finance lease receivables of £8,318 million (2021 - £8,434 million).
(4) Includes amounts reclassified from amortised cost to FVTPL in relation to a mortgage portfolio. Refer to Note 8 for further information.
(5) Includes £5,397 million of assets of disposal groups reclassified from amortised cost to FVTPL during the year. The portfolio is classified as level 3 in the fair value hierarchy.
(6) Includes items in the course of transmission to other third party banks of £6 million (2021 - £27 million).
(7) Includes lease liabilities of £1,036 million (2021 - £1,172 million) held at amortised cost.

Reclassification of mortgages from amortised cost to fair value through profit or loss

In June 2022 UBIDAC announced the cessation of new mortgage business to its customers. On 1 July 2022 UBIDAC mortgages in both its continuing and discontinued businesses were reclassified from amortised cost to fair value through profit or loss, reflecting the change in business model. We fair value these assets using a discounted cash flow method. Key inputs include assumptions around cash flows from legally binding sales agreements for those mortgage assets that form part of the assets of disposal groups.

The effect of the reclassification as at 1 July 2022 is shown below:

	Amortised cost £m	MFVTPL £m	Change in value £m
Amounts reclassified on balance sheet			
Loans to customers (1)	587	606	19
Assets of disposal groups (2)	10,676	10,383	(293)
	11,263	10,989	(274)

(1) Change in value recognised in continuing operations.
(2) Change in value recognised in discontinued operations.

Additional information on finance lease receivables

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases:

Amounts receivable under finance leases	2022 £m	2021 £m
Within 1 year	3,212	3,254
1 to 2 years	2,247	2,019
2 to 3 years	1,381	1,433
3 to 4 years	825	748
4 to 5 years	404	420
After 5 years	1,089	1,357
Lease payments total	9,158	9,231
Unguaranteed residual values	171	225
Future drawdowns	(13)	(21)
Unearned income	(879)	(856)
Present value of lease payments	8,437	8,579
Impairments	(119)	(145)
Net investment in finance leases	8,318	8,434

9 Financial instruments – classification continued

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

	2022 Holding company £m	2022 Fellow subsidiaries £m	2022 Total £m	2021 Holding company £m	2021 Fellow subsidiaries £m	2021 Total £m
Assets						
Loans to banks - amortised cost	—	152	152	—	101	101
Loans to customers - amortised cost	—	10	10	—	9	9
Other financial assets	—	78	78	—	348	348
Other assets	12	318	330	13	132	145
Amounts due from holding company and fellow subsidiaries	12	558	570	13	590	603
Derivatives (1)	304	201	505	294	179	473
Liabilities						
Bank deposits	—	730	730	—	1,122	1,122
Customer deposits	4,254	135	4,389	8,086	181	8,267
Other financial liabilities	—	106	106	—	114	114
Subordinated liabilities	4,592	—	4,592	4,628	—	4,628
MREL instruments issued to NatWest Group plc	10,400	—	10,400	11,330	—	11,330
Other liabilities	68	28	96	—	87	87
Amounts due to holding company and fellow subsidiaries	19,314	999	20,313	24,044	1,504	25,548
Derivatives (1)	577	169	746	316	408	724

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

Financial instruments – financial assets and liabilities that can be offset

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

	Instruments which can be offset			Potential for offset not recognised by IFRS					
2022	Gross £m	IFRS offset £m	Balance sheet £m	Effect of master netting and similar agreements £m	Cash collateral £m	Securities collateral £m	Net amount after the effect of netting agreements and related collateral £m	Instruments outside netting agreements £m	Balance sheet total £m
Derivative assets	17,744	(16,221)	1,523	(1,015)	(116)	(361)	31	7	1,530
Derivative liabilities	21,329	(19,602)	1,727	(1,015)	(365)	—	347	81	1,808
Net position (1)	(3,585)	3,381	(204)	—	249	(361)	(316)	(74)	(278)
Non trading reverse repos	23,255	(4,090)	19,165	—	—	(19,165)	—	—	19,165
Non trading repos	14,260	(4,090)	10,170	—	—	(10,170)	—	—	10,170
Net position	8,995	—	8,995	—	—	(8,995)	—	—	8,995
2021									
Derivatives assets	9,920	(7,961)	1,959	(1,722)	(210)	—	27	21	1,980
Derivative liabilities	12,579	(8,568)	4,011	(1,722)	(355)	(1,842)	92	41	4,052
Net position (1)	(2,659)	607	(2,052)	—	145	1,842	(65)	(20)	(2,072)
Non trading reverse repos	33,397	(7,594)	25,803	—	—	(25,803)	—	—	25,803
Non trading repos	29,525	(7,594)	21,931	—	—	(21,931)	—	—	21,931
Net position	3,872	—	3,872	—	—	(3,872)	—	—	3,872

(1) The net IFRS offset balance of £3,381 million (2021 - £607 million) relates to variation margin netting reflected on other balance sheet lines.

9 Financial instruments – classification continued

Interest rate benchmark reform

NWH Group continues to work on the transition of USD IBOR exposures to risk free rates in advance of the cessation date of 30 June 2023. Derivatives are expected to transition during April and May 2023 and other exposures in line with fallback provisions or deferred switches using widely accepted methodologies. The instruments yet to transition reflect an insignificant element of NWH Group's exposures. Instruments with exposures to other rates transitioned at the end of 2021, or at the first contractual reset date, or at a date agreed with the counterparty.

The level of exposures without explicit or agreed conversion provisions as of the preceding year were as follows:

	Rates subject to IBOR reform			
	GBP LIBOR	USD IBOR	Other IBOR	Total
2021	£m	£m	£m	£m
Loans to customers - amortised cost	2,613	3,107	5	5,725
Other financial assets	744	37	—	781
Amounts due to holding company and fellow subsidiaries	—	6,251	—	6,251
Other financial liabilities	1,070	—	—	1,070
Loan commitments (1)	853	4,453	55	5,361
Derivatives notional (£bn)	—	34.9	—	34.9

(1) Certain loan commitments are multi-currency facilities. Where these are fully undrawn, they are allocated to the principal currency of the facility. Where the facilities are partly drawn, the remaining loan commitment is allocated to the currency with the largest drawn amount.

At December 2021 NWH Group held certain currency swaps with both legs subject to IBOR reform, for which only the GBP LIBOR leg has an explicit or agreed conversion provisions as of 31 December 2021, but not the entire contract. These include currency swaps of GBP LIBOR and USD LIBOR of £0.4 billion.

AT1 issuances

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

10 Financial instruments – valuation

(D) = Descriptive; (T) = Table

Critical accounting policy: Fair value - financial instruments

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

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

NatWest Holdings Group manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs (see 'Valuation Adjustments').

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

For accounting policy information see Accounting policies notes 3.9 and 3.13.

Valuation

Fair value hierarchy

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

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

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

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

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

10 Financial instruments – valuation continued

Valuation techniques

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

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

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

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives (e.g. balance guaranteed 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 the more complex products remain classified as level 2 due to the low 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 or the value of the underlying collateral.

Valuation control

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

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

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

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

10 Financial instruments – valuation continued

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

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

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

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

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

Key areas of judgment

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

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

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

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the Business and IPV.

The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

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

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives	—	1,510	20	1,530	—	1,980	—	1,980
Amounts due from holding company and fellow subsidiaries	—	78	—	78	—	348	—	348
Other financial assets								
Securities	5,127	5,144	4	10,275	21,239	6,799	3	28,041
Loans	—	424	567	991	—	397	89	486
Total financial assets held at fair value	5,127	7,156	591	12,874	21,239	9,524	92	30,855
As % of total fair value assets	40%	55%	5%		69%	31%	0%	
Liabilities								
Amounts due to holding company and fellow subsidiaries	—	104	—	104	—	114	—	114
Derivatives	—	1,805	3	1,808	—	3,913	139	4,052
Other financial liabilities								
Deposits	—	17	—	17	—	99	—	99
Total financial liabilities held at fair value	—	1,926	3	1,929	—	4,126	139	4,265
As % of total fair value liabilities	—	100%	0%		—	97%	3%	

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

10 Financial instruments – valuation continued

Valuation adjustments

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below:

Adjustment	2022 £m	2021 £m
Funding – FVA	166	31
Credit – CVA	—	1
Bid – Offer	22	29
	188	61

Funding valuation adjustments on the group defined benefit pension plan increased during the year, primarily driven by increases in GBP interest rates.

Funding valuation adjustments (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge (positive) or funding benefit (negative).

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the exposure reflects the future valuation of the derivative. For collateralised derivatives, the exposure reflects the difference between the future valuation of the derivative and the level of collateral posted.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that is made to incorporate the counterparty credit risk inherent in derivative exposures. CVA is actively managed by a credit and market risk hedging process, and therefore movements in CVA are partially offset by trading revenue on the hedges.

The CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where NatWest Holdings Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

Bid-offer

Fair value positions are required to be marked to exit levels, represented by bid (long positions) or offer (short positions) levels. Non-derivative positions are typically marked directly to bid or offer prices. However derivative exposures are adjusted to exit levels by taking bid-offer reserves calculated on a portfolio basis. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability.

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

Product and deal specific

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

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

Level 3 additional information

For illiquid assets and liabilities, classified as level 3, additional information is provided on the valuation techniques used and price sensitivity of the products to those inputs. This is to enable the reader to gauge the level of uncertainty that arises from positions with significant unobservable inputs or modelling parameters.

Level 3 ranges of unobservable inputs

The table below provides additional information on level 3 instruments and inputs. This shows the valuation technique used for the fair value calculation, the unobservable input and input range.

Financial instrument	Valuation technique	Unobservable inputs	Units	2022 Low	2022 High	2021 Low	2021 High
Other financial assets							
Loans	Discount cash flow	Discount margin	bps	174	222	113	169
Derivative assets and liabilities							
Interest rate & FX derivatives	Discount cash flow	Conditional prepayment risk	%	2	4	4	6

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

10 Financial instruments – valuation continued

L3 sensitivities

The level 3 sensitivities presented below are calculated at a trade or low-level portfolio basis rather than an overall portfolio basis. As individual sensitivities are aggregated with no reflection of the correlated nature between instruments, the overall portfolio sensitivity may not be accurately reflected. For example, some portfolios may be negatively correlated to others, where a downwards movement in one asset would produce an upwards movement in another. However, due to the additive presentation of the above figures this correlation impact cannot be displayed. As such, the actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the below table.

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information considering consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

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

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

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

	2022			2021		
	Level 3 £m	Favourable £m	Unfavourable £m	Level 3 £m	Favourable £m	Unfavourable £m
Assets						
Derivatives	20	—	—	—	—	—
Other financial assets						
Securities	4	—	—	3	—	—
Loans	567	—	(10)	89	—	—
	591	—	(10)	92	—	—
Liabilities						
Derivatives	3	—	—	139	10	(10)
	3	—	—	139	10	(10)

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.

	2022				2021			
	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	—	92	92	139	—	97	97	228
Amounts recorded in the income statement (1)	20	(8)	12	(131)	—	(2)	(2)	(70)
Amounts recorded in the statement of comprehensive income	—	1	1	—	—	1	1	—
Level 3 transfers in	—	498	498	—	—	—	—	—
Level 3 transfers out	—	(33)	(33)	—	—	(3)	(3)	—
Purchases/originations	—	—	—	—	—	2	2	—
Settlements/other decreases	—	—	—	(5)	—	—	—	(19)
Other adjustments	—	21	21	—	—	(3)	(3)	—
At 31 December	20	571	591	3	—	92	92	139
Amounts recorded in the income statement in respect of balances held at year end								
- unrealised	20	(10)	10	(136)	—	(5)	(5)	(89)
- realised	—	—	—	5	—	—	—	19

(1) Net gains on trading assets and liabilities of £151 million (2021 - £70 million gains) were recorded in income from trading activities. Net losses on other instruments of £8 million (2021 - £2 million) were recorded in other operating income and interest income as appropriate.
(2) Trading assets comprise assets held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

10 Financial instruments valuation continued

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

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

2022	Items where fair value approximates carrying value £bn	Carrying value £bn	Fair value £bn	Fair value hierarchy level Level 1 £bn	Level 2 £bn	Level 3 £bn
Financial assets						
Cash and balances at central banks	**110.8**					
Loans to banks	**—**	**4.3**	**4.3**	**—**	**3.7**	**0.6**
Loans to customers		**339.9**	**328.1**	**—**	**19.4**	**308.7**
Amounts due from holding company and fellow subsidiaries		**0.2**	**0.1**	**—**	**—**	**0.1**
Other financial assets - securities		**4.4**	**4.3**	**0.8**	**3.1**	**0.4**
2021						
Financial assets						
Cash and balances at central banks	143.9					
Loans to banks	0.1	5.3	5.2	—	4.6	0.6
Loans to customers		336.1	331.3	—	27.6	303.7
Amounts due from holding company and fellow subsidiaries		0.1	0.1	—	—	0.1
Other financial assets - securities		2.7	2.7	1.6	0.7	0.4
2022						
Financial liabilities						
Bank deposits	**4.2**	**12.8**	**12.4**	**—**	**12.3**	**0.1**
Customer deposits	**380.4**	**31.7**	**31.7**	**—**	**12.4**	**19.3**
Amounts due to holding company and fellow subsidiaries	**0.5**	**19.6**	**19.1**	**—**	**14.6**	**4.5**
Other financial liabilities - debt securities in issue		**5.4**	**5.4**	**—**	**2.9**	**2.5**
Subordinated liabilities		**0.3**	**0.3**	**—**	**0.2**	**0.1**
Notes in circulation	**3.2**					
2021						
Financial liabilities						
Bank deposits	4.7	19.5	19.1	—	18.8	0.3
Customer deposits	412.1	27.9	28.1	—	18.1	10.0
Amounts due to holding company and fellow subsidiaries	0.8	24.5	24.5	—	16.2	8.3
Other financial liabilities - debt securities in issue		7.2	7.2	—	3.0	4.2
Subordinated liabilities		0.3	0.4	—	0.3	0.1
Notes in circulation	3.0					

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, including but not limited to; cash and balances at central banks, settlement balances, loans with short-term maturities, notes in circulation and customer demand deposits, carrying value is deemed a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, NWH Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cashflows that 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.

(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Ulster Bank RoI, Commercial & Institutional (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Debt securities and subordinated liabilities

Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments. The remaining population is valued using discounted cashflows at current offer rates.

Bank and customer deposits

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

11 Financial instruments - maturity analysis
Remaining maturity

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

	2022			2021		
	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	110,813	—	110,813	143,892	—	143,892
Derivatives	133	1,397	1,530	209	1,771	1,980
Loans to banks - amortised cost	4,088	250	4,338	5,402	9	5,411
Loans to customers - amortised cost	72,079	267,830	339,909	93,108	242,969	336,077
Amounts due from holding company and other fellow subsidiaries (1)	240	—	240	458	—	458
Other financial assets	1,460	14,223	15,683	5,068	26,118	31,186
Liabilities						
Bank deposits	5,045	12,000	17,045	12,205	12,000	24,205
Customer deposits	410,845	1,235	412,080	439,116	899	440,015
Amounts due to holding company and fellow subsidiaries (2)	8,576	11,641	20,217	9,949	15,512	25,461
Derivatives	454	1,354	1,808	126	3,926	4,052
Other financial liabilities	2,486	2,898	5,384	3,552	3,700	7,252
Subordinated liabilities	75	198	273	89	195	284
Notes in circulation	3,218	—	3,218	3,047	—	3,047
Lease liabilities	124	912	1,036	220	952	1,172

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £330 million (2021 - £145 million) have been excluded from the table.
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £96 million (2021 - £87 million) have been excluded from the table.

11 Financial instruments - maturity analysis continued
Liabilities by contractual cash flows up to 20 years

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

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

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

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

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

Held-for-trading liabilities amounting to £1.4 billion (2021 - £4.2 billion) have been excluded from the tables.

2022	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	**5,062**	**311**	**5,019**	**8,503**	**89**	**—**
Customer deposits	**402,908**	**8,013**	**1,232**	**1**	**12**	**—**
Amounts due to holding company and fellow subsidiaries (1)	**3,206**	**5,800**	**4,758**	**4,159**	**5,172**	**—**
Derivatives held for hedging	**296**	**(189)**	**566**	**319**	**121**	**85**
Other financial liabilities	**2,313**	**176**	**2,461**	**375**	**109**	**79**
Subordinated liabilities	**76**	**15**	**30**	**30**	**72**	**105**
Other liabilities- notes in circulation	**3,218**	**—**	**—**	**—**	**—**	**—**
Lease liabilities	**39**	**103**	**240**	**187**	**290**	**243**
	417,118	**14,229**	**14,306**	**13,574**	**5,865**	**512**
Guarantees and commitments notional amount						
Guarantees (2)	**2,146**	**—**	**—**	**—**	**—**	**—**
Commitments (3)	**96,851**	**—**	**—**	**—**	**—**	**—**
	98,997	**—**	**—**	**—**	**—**	**—**

2021	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity up to 20 years						
Bank deposits	12,202	—	—	12,003	—	—
Customer deposits	434,731	4,147	1,118	4	2	—
Amounts due to holding company and fellow subsidiaries (1)	1,987	6,578	7,573	5,505	5,536	—
Derivatives held for hedging	(52)	(32)	490	145	(147)	(200)
Other financial liabilities	2,285	1,177	2,915	289	499	79
Subordinated liabilities	2	107	29	29	75	200
Other liabilities- notes in circulation	3,047	—	—	—	—	—
Lease liabilities	69	148	200	152	252	239
	454,271	12,125	12,325	18,127	6,217	318
Guarantees and commitments notional amount						
Guarantees (2)	1,197	—	—	—	—	—
Commitments (3)	98,886	—	—	—	—	—
	100,083	—	—	—	—	—

(1) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) The NWH Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWH Group expects most guarantees it provides to expire unused.
(3) The NWH Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The NWH Group does not expect all facilities to be drawn, and some may lapse before drawdown.

12 Derivatives

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

	2022			2021		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	**35**	**154**	**416**	25	176	203
Interest rate contracts	**448**	**1,376**	**1,392**	386	1,804	3,849
		1,530	**1,808**		1,980	4,052

For accounting policy information see Accounting policies notes 3.9 and 3.13.

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

NWH Group applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge the following risks: interest rate, foreign exchange and the foreign exchange risk associated with net investment in foreign operations.

NWH Group's interest rate hedging relates to the management of NWH Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NWH Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

Suitable larger fixed rate financial instruments are subject to fair value hedging in line with documented risk management strategies.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, which convert variable cash flows into fixed. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rates, most notably USD LIBOR, SOFR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWH Group and encompasses the majority of cash flow variability risk.

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

NWH Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWH Group reviews the value of the investments' net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

Exchange rate risk also arises in NWH Group where payments are denominated in currencies other than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships NWH Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the expected highly probable forecast cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging instruments. instruments. and the determination of effectiveness is in line with the requirements of IAS39.

NWH Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured in line with the requirements of IAS39 and recognised in the income statement as it arises.

12 Derivatives continued

Included in the table below are derivatives held for hedging purposes as follows:

	2022				2021			
	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m	Notional £bn	Assets £m	Liabilities £m	Changes in fair value used for hedge ineffectiveness (1) £m
Fair value hedging								
Interest rate contracts	**32.9**	**1,195**	**1,492**	**1,423**	42.8	733	1,729	1,183
Cash flow hedging								
Interest rate contracts	**155.5**	**2,676**	**5,224**	**(2,526)**	126.1	895	1,010	(712)
Exchange rate contracts	**0.2**	**4**	**3**	**21**	1.3	6	3	32
Net investment hedging								
Exchange rate contracts	**0.1**	**—**	**4**	**1**	0.2	4	1	7
	188.7	**3,875**	**6,723**	**(1,081)**	170.4	1,638	2,743	510
IFRS netting		**(3,856)**	**(6,162)**			(1,314)	(2,681)	
		19	**561**			324	62	

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

12 Derivatives continued

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

2022	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	**0.1**	**0.3**	**3.4**	**3.8**	**3.8**	**2.4**	**0.8**	**14.6**
Hedging liabilities - interest rate risk	**0.1**	**3.3**	**6.2**	**3.7**	**5.0**	**—**	**—**	**18.3**
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	**6.3**	**8.6**	**41.4**	**18.9**	**7.0**	**—**	**—**	**82.2**
Average fixed rate interest (%)	***1.37***	***2.03***	***1.75***	***2.07***	***0.86***	***3.12***	***—***	***1.75***
Hedging liabilities								
Interest rate risk	**17.4**	**26.4**	**16.3**	**5.0**	**7.5**	**0.7**	**—**	**73.3**
Average fixed rate interest (%)	***1.27***	***0.93***	***2.75***	***0.95***	***2.69***	***4.55***	***—***	***1.04***
Exchange rate risk	**—**	**0.2**	**—**	**—**	**—**	**—**	**—**	**0.2**
Net investment hedging								
Exchange rate risk	**0.1**	**—**	**—**	**—**	**—**	**—**	**—**	**0.1**

2021	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	10-20 years £bn	20+ years £bn	Total £bn
Fair value hedging								
Hedging assets - interest rate risk	0.8	1.7	3.2	5.2	5.9	4.4	3.5	24.7
Hedging liabilities - interest rate risk	0.8	—	7.0	5.0	5.3	—	—	18.1
Cash Flow hedging - interest rate								
Hedging assets								
Interest rate risk	4.9	7.6	14.1	21.4	9.2	—	—	57.2
Average fixed rate interest (%)	*1.30*	*1.25*	*1.32*	*0.68*	*0.89*	—	—	1.00
Hedging liabilities								
Interest rate risk	8.8	21.0	32.7	3.3	2.4	0.7	—	68.9
Average fixed rate interest (%)	*0.50*	*0.24*	*0.39*	*0.47*	*0.84*	*4.55*	—	*0.42*
Exchange rate risk	0.1	0.1	—	1.1	—	—	—	1.3
Net investment hedging								
Exchange rate risk	0.2	—	—	—	—	—	—	0.2

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships were USD/GBP: n/a (2021 - 1.44), INR/GBP: 100.54 (2021 - 106.58) and CHF/GBP: 1.15 (2021 - 1.25) for the main currencies hedged.

For net investment hedging of exchange rate risk, the average foreign exchange rates applicable were SEK/GBP: 13.23 (2021 - 11.74), DKK/GBP: n/a (2021 - 8.85) and NOK/GBP 12.34 (2021 - 12.12) for the main currencies hedged.

12 Derivatives continued

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

2022	Carrying value of hedged assets and liabilities £m	Impact on hedged items included in carrying value £m	Change in fair value used as a basis to determine ineffectiveness (1) £m	Impact of hedged items ceased to be adjusted for hedging gains or losses £m
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	4,800	(491)	(1,106)	131
Other financial assets - securities	8,600	(666)	(2,008)	(2)
Total	13,400	(1,157)	(3,114)	129
Other financial liabilities - debt securities in issue	12,492	(1,010)	1,352	—
Subordinated liabilities	4,593	(345)	366	—
Total	17,085	(1,355)	1,718	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost (2)	81,226		4,435	
Other financial assets - securities	993		60	
Total	82,219		4,495	
Bank and customer deposits	73,214		(2,020)	
Other financial liabilities - debt securities in issue	80		(2)	
Total	73,294		(2,022)	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	—		(26)	
Other	204		5	
Total	204		(21)	
2021				
Fair value hedging - interest rate				
Loans to banks and customers - amortised cost	5,377	599	(414)	118
Other financial assets - securities	25,936	506	(1,396)	—
Total	31,313	1,105	(1,810)	118
Other financial liabilities - debt securities in issue	13,471	289	471	—
Subordinated liabilities	4,628	22	189	—
Total	18,099	311	660	—
Cash flow hedging - interest rate				
Loans to banks and customers - amortised cost	56,681		1,768	
Other financial assets - securities	519		19	
Total	57,200		1,787	
Bank and customer deposits	68,383		(1,084)	
Other financial liabilities - debt securities in issue	560		(6)	
Total	68,943		(1,090)	
Cash flow hedging - exchange rate				
Other financial liabilities - debt securities in issue	1,112		(5)	
Subordinated liabilities	—		(17)	
Other	200		(10)	
Total	1,312		(32)	

(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.
(2) Includes cash and balances at central banks

12 Derivatives continued

The following shows analysis of the pre-tax cash flow hedge reserve and foreign exchange hedge reserve:

	2022		2021	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(2,643)	—	(204)	—
Foreign exchange risk	2	(52)	3	34
De-designated				
Interest rate risk	(311)	—	(344)	—
Foreign exchange risk	—	(63)	—	(15)
	(2,952)	(115)	(545)	19

	2022		2021	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	(2,173)	—	(460)	—
Foreign exchange risk	5	(134)	6	53
Total	(2,168)	(134)	(454)	53
Amount transferred from equity to earnings				
Interest rate risk to net interest income	(237)	—	(206)	—
Interest rate risk to non-interest income (1)	13	—	32	—
Interest rate risk to operating expenses	(14)	—	—	—
Foreign exchange risk to net interest income	—	—	5	—
Foreign exchange risk to non-interest income	—	—	17	—
Foreign exchange risk to operating expenses	(3)	—	3	—
Total	(241)	—	(149)	—

(1) There was £13 million (2021 - £32 million) reclassified with the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur.

Hedge ineffectiveness recognised in other operating income comprised:

	2022 £m	2021 £m
Fair value hedging		
Loss on the hedged items attributable to the hedged risk	(1,396)	(1,150)
Gain on the hedging instruments	1,423	1,183
Fair value hedging ineffectiveness	27	33
Cash flow hedging		
- Interest rate risk	(53)	(15)
Cash flow hedging ineffectiveness	(53)	(15)
Total	(26)	18

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- The effect of the counterparty credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; (fair value hedge);
- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	2022 £m	2021 £m
Loans - amortised cost		
Stage 1	**297,344**	306,344
Stage 2	**45,470**	33,357
Stage 3	**4,916**	4,761
Inter-Group (1)	**112**	111
Total	**347,842**	344,573
ECL provisions (2)		
Stage 1	**597**	289
Stage 2	**1,026**	1,452
Stage 3	**1,703**	1,926
Inter-Group (1)	**1**	—
Total	**3,327**	3,667
ECL provision coverage (3)		
Stage 1 (%)	**0.20**	0.09
Stage 2 (%)	**2.26**	4.35
Stage 3 (%)	**34.64**	40.45
Inter-Group (%) (1)	**0.89**	—
Total	**0.96**	1.06
Continuing operations		
Impairment (releases)/losses		
ECL (release)/charge (4,5)		
Third party	**327**	(1,085)
Inter-Group	**1**	(1)
Total	**328**	(1,086)
Amounts written off	**423**	781

(1) NWH Group's intercompany assets were classified in Stage 1.
(2) Includes £2 million (2021 – £4 million) related to assets at FVOCI.
(3) ECL provisions coverage is calculated as total ECL provisions divided by third party loans – amortised cost and FVOCI.
(4) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 8 to the consolidated financial statements.
(5) Includes a £1 million charge (2021 – £3 million release) related to other financial assets, of which nil (2021 – £2 million release) related to assets at FVOCI, and a £5 million release (2021 – £31 million release) related to contingent liabilities.
(6) The table above shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £109.3 billion and debt securities of £14.7 billion (2021 – £142.5 billion and £30.3 billion respectively).

13 Loan impairment provisions

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

Accounting policies note 2.3 sets out how the expected loss approach is applied. At 31 December 2022, customer loan impairment provisions amounted to £3,327 million (2021 - £3,667 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced.

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

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

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

IFRS 9 ECL model design principles

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

Approach for multiple economic scenarios (MES)

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

14 Other financial assets

	Debt securities								
	Central and local government			Other		Equity		Settlement	
	UK	US	Other	debt	Total	shares	Loans	balances	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	—	—	—	—	—	1	991	—	992
Fair value through other comprehensive income	681	3,171	453	5,966	10,271	3	—	—	10,274
Amortised cost	888	—	—	3,523	4,411	—	—	6	4,417
Total	1,569	3,171	453	9,489	14,682	4	991	6	15,683
2021									
Mandatory fair value through profit or loss	—	—	—	—	—	11	277	—	288
Fair value through other comprehensive income	10,118	6,088	3,855	7,966	28,027	3	209	—	28,239
Amortised cost	1,582	—	—	1,076	2,658	—	—	1	2,659
Total	11,700	6,088	3,855	9,042	30,685	14	486	1	31,186

For accounting policy information see Accounting policies note 3.9.

15 Intangible assets

	2022			2021		
	Goodwill	Other (1)	Total	Goodwill	Other (1)	Total
Cost	£m	£m	£m	£m	£m	£m
At 1 January	9,685	3,015	12,700	9,685	2,572	12,257
Currency translation and other adjustments	(8)	(3)	(11)	—	28	28
Additions	—	723	723	—	465	465
Disposals and write-off of fully amortised assets	—	(27)	(27)	—	(50)	(50)
At 31 December	9,677	3,708	13,385	9,685	3,015	12,700
Accumulated amortisation and impairment						
At 1 January	4,464	1,841	6,305	4,378	1,538	5,916
Currency translation and other adjustments	(8)	(3)	(11)	1	30	31
Disposals and write-off of fully amortised assets	—	(17)	(17)	—	(28)	(28)
Amortisation charge for the year	—	339	339	—	299	299
Impairment of intangible assets	—	—	—	85	2	87
At 31 December	4,456	2,160	6,616	4,464	1,841	6,305
Net book value at 31 December	5,221	1,548	6,769	5,221	1,174	6,395

(1) Principally internally generated software.

Intangible assets and goodwill are reviewed for indicators of impairment. No impairment was indicated at 31 December 2022. In 2021 goodwill in the Retail Banking segment was impaired by £85 million.

NatWest Holdings Group's goodwill acquired in business combinations is reviewed for impairment annually at 31 December by cash-generating unit (CGU) (2022 and 2021: Retail Banking £2,607 million; Commercial Banking £2,606 million; Private Banking £9 million). Analysis by reportable segment is in Note 4 Segmental analysis.

Impairment testing involves the comparison of the carrying value of each CGU with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management, which are consistent with the Group's capital targets.

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

The recoverable amounts for all CGUs at 31 December 2022 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected growth of the CGUs (2022: 1.4% and 2021: 1.6%). The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs (2022: 15.3%, and 2021: 13.9%).

For accounting policy information see Accounting policies notes 3.4 and 3.5.

16 Other assets

	2022	2021
	£m	£m
Property, plant and equipment (Note 17)	3,867	3,852
Pension schemes in net surplus (Note 5)	53	99
Prepayments	331	351
Accrued income	193	194
Tax recoverable	35	31
Deferred tax (Note 7)	2,100	1,433
Acceptances	216	215
Other assets	457	389
	7,252	6,564

17 Property, plant and equipment

2022	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	840	7,763	1,095	9,698
Transfers to disposal groups	—	(19)	—	(19)
Currency translation and other adjustments	(17)	5	—	(12)
Additions	145	410	146	701
Disposals and write-off of fully depreciated assets	(27)	(417)	(111)	(555)
At 31 December	941	7,742	1,130	9,813
Accumulated impairment, depreciation and amortisation				
At 1 January	—	5,277	569	5,846
Transfers to disposal groups	—	(12)	—	(12)
Currency translation and other adjustments (1)	—	45	—	45
Disposals and write-off of fully depreciated assets	—	(312)	(85)	(397)
Charge for the year				
- continuing operations	—	287	128	415
- discontinued operations	—	—	—	—
Impairment of property, plant and equipment				
- continuing operations	—	49	—	49
- discontinued operations	—	—	—	—
At 31 December	—	5,334	612	5,946
Net book value at 31 December	941	2,408	518	3,867

2021	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
Cost or valuation				
At 1 January	760	7,900	1,129	9,789
Implementation of IFRS 16 on 1 January 2019	—	—	—	—
Transfers to disposal groups	—	(86)	—	(86)
Currency translation and other adjustments	(64)	(2)	—	(66)
Additions	144	779	98	1,021
Disposals and write-off of fully depreciated assets	—	(828)	(132)	(960)
At 31 December	840	7,763	1,095	9,698
Accumulated impairment, depreciation and amortisation				
At 1 January	—	5,322	529	5,851
Transfers to disposal groups	—	(48)	—	(48)
Currency translation and other adjustments	—	250	—	250
Disposals and write-off of fully depreciated assets	—	(622)	(100)	(722)
Charge for the year	—			—
- continuing operations	—	338	140	478
- discontinued operations	—	1	—	1
Impairment of property, plant and equipment	—			—
- continuing operations	—	37	—	37
- discontinued operations	—	(1)	—	(1)
At 31 December	—	5,277	569	5,846
Net book value at 31 December	840	2,486	526	3,852

(1) Other adjustments include the effect of the purchase of freeholds for properties where the Group was the primary leaseholder.

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £33 million (2021- £27 million) on the value of Investment property.

Valuations were carried out by qualified surveyors who are members of the Royal Institution of Chartered Surveyors, or an equivalent overseas body; property with a fair value of £135 million (2021 - £236 million) was valued by independent valuers for the purpose of year end valuations.

For accounting policy information see Accounting policies notes 3.5 and 3.6.

18 Other financial liabilities

	2022 £m	2021 £m
Debt securities in issue		
- Covered bonds	2,842	2,886
- Commercial paper and certificates of deposit	1,664	3,399
- Securitisation	859	867
Customer deposits - held-for-trading	10	33
Bank deposits - held-for-trading	7	66
Settlement balance	2	1
Total	5,384	7,252

For accounting policy information see Accounting policies notes 3.9 and 3.12.

19 Subordinated liabilities

	2022 £m	2021 £m
Undated loan capital	154	166
Preference shares	119	118
	273	284

The preference shares issued are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

(1) The table above excludes amounts due to holding company and fellow subsidiaries of £4,853 million (2021 - £4,669 million), refer Note 6 to Parent company financial statements and notes for further details.

Undated loan capital		First call date	Maturity date	Capital treatment	2022 £m	2021 £m
Natwest Bank Plc						
£53 million	7.125% notes	Oct-2022	—	Tier 2	—	56
£35 million	11.5% notes	Dec-2022	—	Tier 2	72	31
Other subsidiaries						
€31 million	11.38% notes	—	—	Tier 2	49	46
£11 million	11.75% notes	—	—	Tier 2	25	25
	Other notes	—	—	Tier 2	8	8
					154	166
Preference shares						
Natwest Bank Plc						
£140 million	Non-cumulative preference shares of £1	—	—	Tier 1	119	118
					119	118
					273	284

For accounting policy information see Accounting policies notes 3.9 and 3.11.

20 Other liabilities

	2022 £m	2021 £m
Lease liabilities	**1,036**	1,172
Provisions for liabilities and charges	**849**	905
Retirement benefit liabilities (Note 5)	**35**	48
Accruals	**1,154**	1,359
Deferred income	**277**	257
Current tax	**58**	212
Deferred tax (Note 7)	**150**	218
Acceptances	**216**	215
Other liabilities (1)	**588**	579
	4,363	4,965

(1) Other liabilities include liabilities of disposal groups of £15 million (2021: £5 million). See Note 8 for further information.

Provisions for liabilities and charges	Redress and other litigation (1) £m	Property £m	Financial commitments and guarantees £m	Other (2) £m	Total £m
At 1 January 2022	**471**	**214**	**88**	**132**	**905**
Expected credit losses impairment release	**-**	**-**	**(8)**	**-**	**(8)**
Currency translation and other movements	**1**	**-**	**-**	**7**	**8**
Charge to income statement	**180**	**31**	**-**	**190**	**401**
Release to income statement	**(40)**	**(70)**	**-**	**(56)**	**(166)**
Provisions utilised	**(175)**	**(36)**	**-**	**(80)**	**(291)**
At 31 December 2022	**437**	**139**	**80**	**193**	**849**

(1) Includes payment protection insurance provision which reflects the estimated cost of PPI redress attributable to claims prior to the Financial Conduct Authority (FCA) complaint deadline of 29 August 2019. All pre-deadline complaints have been processed which removes complaint volume estimation uncertainty from the provision estimate. NatWest Group continues to conclude remaining bank-identified closure work and conclude cases with the Financial Ombudsmen Service.
(2) Other materially comprises provisions relating to restructuring costs.

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

Critical accounting policy: Provisions for liabilities

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

For accounting policy information see Accounting policies note 2.4.

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

- Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NWH Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 25.
- Property: This includes provision for contractual costs associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 25.

21 Share capital and reserves

	2022	2021	Number of shares 2022	2021
Allotted, called up and fully paid	£m	£m	000s	000s
Ordinary shares of £1	**3,263**	3,263	**3,263,386**	3,263,386

Ordinary shares

No ordinary shares were issued during 2022 or 2021.

In 2022, NWH Ltd paid an ordinary dividend of £3.6 billion to NatWest Group plc (2021 – £3.5 billion).

Paid-in equity

Comprises equity instruments issued by NWH Ltd other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWH Ltd having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWH Ltd's discretion.

Reserves

NWH Ltd optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and paid-in-equity instruments are also included within regulatory capital. The remittance of reserves to NatWest Group plc or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

For accounting policy information see Accounting policies note 3.12.

	2022 £m	2021 £m
Additional Tier 1 instruments		
US$2.0 billion 5.4697% instruments callable February 2024 (1)	**1,185**	1,581
US$2.65 billion 5.6964% instruments callable February 2024 (2)	**556**	1,160
US$750 million 4.3517% instruments callable June 2031	**541**	541
GBP£400 million 3.9438% instruments callable March 2028	**400**	400
GBP£1.0 billion 6.8543% instruments callable May 2027	**1,000**	-
	3,682	3,682

(1) Instrument was partially redeemed in June 2022.
(2) Coupon reset on 15th August 2021 from 7.9916% to 5.6964% and Instrument partially redeemed in June 2022.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

22 Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose, they do not carry out a business or trade and typically have no employees.

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred, or the credit risk is transferred via a derivative or financial guarantee to a SE which then issues liabilities to third party investors.

NWH Group's involvement in client securitisations takes a number of forms. It may provide secured finance to, or purchase asset-backed notes from, client sponsored SEs secured on assets transferred by the client entity; or purchase asset backed securities issued by client sponsored SEs in the primary or secondary markets. In addition, NWH Group undertakes own-asset securitisations to transfer the credit risk on portfolios of financial assets.

Other credit risk transfers securitisations

NWH Group transfers credit risk on originated loans and mortgages without the transfer of the assets to a SE. As part of this, NWH Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2022, debt securities in issue by such SEs (and held by third parties) were £859 million (2021 - £867 million). The associated loans and mortgages at 31 December 2022 were £4,361 million (2021 - £7,137 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £20 million (2021 - £28 million) as a result of financial guarantee contracts with consolidated SEs.

Covered bond programme

Certain loans to banks and customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWH Group. NWH Group retains all of the risks and rewards of these loans. The partnerships are consolidated by NWH Group, the loans retained on NWH Group's balance sheet and the related covered bonds included within debt securities in issue of the NWH Group. At 31 December 2022, £6,992 million (2021 - £8,267 million) of loans to customers have been assigned to bankruptcy remote limited liability partnership to provide security for issue of debt securities by NWH Group of £2,842 million (2021 - £2,886 million).

Unconsolidated structured entities

NWH Group's interest in unconsolidated structured entities is analysed below.

	2022			2021		
	Asset backed securitisation vehicles	Investment funds and other	Total	Asset backed securitisation vehicles	Investment funds and other	Total
Non trading assets	£m	£m	£m	£m	£m	£m
Loans to customers - amortised cost	30	376	406	5	337	342
Other financial assets	1,403	—	1,403	964	—	964
Total	1,433	376	1,809	969	337	1,306
Liquidity facilities/loan commitments	250	84	334	1	61	62
Guarantees	—	14	14	—	—	—
Maximum exposure	1,683	474	2,157	970	398	1,368

23 Asset transfers

Transfers that do not qualify for derecognition

The NWH Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level.

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions are not derecognised if the NWH Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such repurchase transactions included on the balance sheet, are set out below. All of these securities could be sold or re-pledged by the holder.

For accounting policy information see Accounting policies note 3.10.

The following assets have failed derecognition (1)	2022 £m	2021 £m
Loans to bank - amortised cost	16	38
Loans to customers - amortised cost	398	1,837
Other financial assets	2,140	11,069
Total	2,554	12,944

(1) Associated liabilities were £2,137 million (2021 - £11,041 million).

Assets pledged as collateral

The NWH Group pledges collateral with its counterparties in respect of derivative liabilities and bank and stock borrowings.

Assets pledged against liabilities	2022 £m	2021 £m
Loans to banks - amortised cost	**66**	62
Loans to customers - amortised cost	**17,493**	20,108
Other financial assets (1)	**699**	2,429
Total	**18,258**	22,599

(1) Includes amounts pledged for pension derivatives.

As part of the covered bond programme £6,992 million of loans to customers (2021 – £8,267 million) have been transferred to a bankruptcy remote limited liability partnership within the NWH Group to provide collateral for issues of debt securities by the NWH Group of £2,842 million (2021 – £2,886 million). See Structured Entities Note.

24 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis are set out below.

	2022 £m	2021 £m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	**29,231**	31,745
Other equity instruments	**(3,682)**	(3,682)
	25,549	28,063
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	**(46)**	(86)
Cash flow hedging reserve	**1,797**	50
Deferred tax assets	**(866)**	(713)
Prudential valuation adjustments	**(25)**	(15)
Goodwill and other intangible assets	**(6,769)**	(5,984)
Excess of expected losses over impairment provisions	**(6)**	—
Foreseeable dividends	**(1,200)**	(1,879)
Foreseeable pension contributions	**—**	(365)
Adjustment for trust assets (1)	**(365)**	—
Adjustment under IFRS 9 transition arrangements	**374**	649
Insufficient coverage for non-performing exposures	**(17)**	(5)
	(7,123)	(8,348)
CET1 capital	**18,426**	19,715
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	**3,682**	3,682
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	**—**	—
AT1 Capital	**3,682**	3,682
Tier 1 capital	**22,108**	23,397
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	**4,917**	4,587
Qualifying own funds instruments issued by subsidiaries and held by third parties	**75**	126
Other regulatory adjustments	**—**	431
Tier 2 Capital	**4,992**	5,144
Total regulatory capital	**27,100**	28,541

(1) Prudent deduction in respect of agreement with the pension fund to establish new legal structure. See Notes 5 and 33 in the NatWest Group 2022 Annual Report and Accounts.

In the management of capital resources, NWH Ltd is governed by NatWest Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a common equity Tier 1 component of not less than 4%.

NWH Ltd has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWH Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

25 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2022. Although NWH Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWH Group's expectation of future losses.

For accounting policy information see Accounting policies note 2.4.

	2022 £m	2021 £m
Guarantees	2,146	1,197
Other contingent liabilities	1,800	1,879
Standby facilities, credit lines and other commitments	98,131	100,080
Contingent liabilities and commitments	102,077	103,156

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

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

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

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

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

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

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

Capital Support Deed

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

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	2022 £m	2021 £m
Capital expenditure on other property, plant and equipment	5	15
Contracts to purchase goods or services (1)	674	678
	679	693

(1) Of which due within 1 year: £319 million (2021 - £299 million).

25 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, the NWH Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in the NWH Group's financial statements. The NWH Group earned fee income of £221 million (2021 - £235 million) from these activities.

The Financial Services Compensation Scheme

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

Litigation and regulatory matters

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

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

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

There are situations where NWH Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWH Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities in respect of any such Matter.

It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWH Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised. NWH Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 20 for information on material provisions.

Matters which are, or could be material, having regard to NWH Group, considered as a whole, in which NWH Group is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States retail borrowers against the USD ICE LIBOR panel banks and their affiliates (including NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc. and NWB Plc), alleging (i) that the very process of setting USD ICE LIBOR amounts to illegal price-fixing; and (ii) that banks in the United States have illegally agreed to use LIBOR as a component of price in variable retail loans. In September 2022, the district court dismissed the complaint, subject to re-pleading by the plaintiffs. The plaintiffs filed an amended complaint in October 2022, which the defendants are again seeking to have dismissed.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

Regulatory matters

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

25 Memorandum items continued

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

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

Investment advice review

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

Review and investigation of treatment of tracker mortgage customers in Ulster Bank Ireland DAC

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation process has now largely concluded, although certain cases remain outstanding.

UBIDAC customers have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). UBIDAC is challenging three FSPO adjudications in the Irish High Court. The outcome and impact of that challenge on those and related complaints is uncertain but may be material.

Other customer remediation in Ulster Bank Ireland DAC

UBIDAC has identified further legacy business issues and these remediation programmes are ongoing.

26 Analysis of the net investment in business interests and intangible assets

	2022 £m	2021 £m
Fair value given for business acquired	—	(2)
Additional investment in associates	—	(11)
Net assets and liabilities purchased	—	(3,128)
Net outflow of cash in respect of purchases	—	(3,141)
Disposal of net assets and liabilities	6,270	50
(Loss)/profit on disposal of net assets and liabilities	(106)	55
Net inflow of cash in respect of disposals	6,164	105
Net cash expenditure on intangible assets	(723)	(465)
Net inflow/(outflow) of cash	5,441	(3,501)

27 Analysis of changes in financing during the year

	Called-up share capital and paid-in equity		Subordinated liabilities (1)		MRELs (2)	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	6,945	6,939	4,912	6,265	11,330	8,970
Issue of paid-in equity	1,000	941				
Redemption of paid-in equity	(999)	(935)				
Issue of subordinated liabilities			—	1,981		
Redemption of subordinated liabilities			(66)	(4,190)		
Interest on subordinated liabilities			(244)	(268)		
Issue of MRELs					750	2,785
Redemption of MRELs					(1,675)	—
Interest on MRELs					(392)	(346)
Net cash inflow/(outflow) from financing	1	6	(310)	(2,477)	(1,317)	2,439
Effects of foreign exchange	—	—	335	1,035	1,182	(21)
Changes in fair value of subordinated liabilities and MRELs			(329)	(304)	(1,194)	(410)
Interest on subordinated liabilities and MRELs			258	256	399	352
Loss on redemption of own debt			11	133		
Other	(1)	—	—	4	—	—
At 31 December	6,945	6,945	4,877	4,912	10,400	11,330

(1) Subordinated liabilities include intercompany subordinated liabilities.
(2) MRELs balances are included in amounts due to holding company and fellow subsidiaries.

28 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and loans to banks with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	2022 £m	2021 £m
At 1 January	148,127	99,554
Net (decrease)/increase in cash and cash equivalents	(34,354)	48,573
At 31 December	113,773	148,127
Comprising:		
Cash and balances at central banks	110,813	143,892
Other financial assets	234	8
Loans to banks including intragroup balances (1)	2,726	4,227
Cash and cash equivalents	113,773	148,127

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £234 million (2021 - £8 million).

29 Directors' and key management remuneration

The executive and non-executive directors of NWH Ltd are aligned with its sub-group's boards (NWB Plc, RBS plc and UBL). The directors were remunerated for their services to NWH Group as a whole and NWH Ltd did not remunerate them, nor could their remuneration be apportioned, in respect of their services to these subsidiaries.

Directors' remuneration	2022 £000	2021 £000
Non-executive directors emoluments	1,950	1,955
Chairman and executive directors emoluments	5,804	4,688
	7,754	6,643
Amounts receivable under long-term incentive plans and share option plans	542	549
	8,296	7,192

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £3,497,000 (2021 - £2,808,000).

The executive directors may participate in NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWH Ltd are also directors of NatWest Group plc, details of their share interests can be found in the 2022 Annual Report and Accounts of NatWest Group plc, in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management(1) during the year was as follows:

	2022 £000	2021 £000
Short-term benefits	18,390	14,921
Post-employment benefits	594	683
Share-based payments	1,823	1,967
	20,807	17,571

(1) Key management comprises members of the NWH Ltd Executive Committee.

Short term benefits include benefits expected to be settled wholly within twelve months of Balance Sheet date. Post-employment benefits include defined benefit contributions for active members and pension funding to support contributions to the defined contribution schemes. Share-based payments include awards vesting under rewards schemes.

30 Transactions with directors and key management

At 31 December 2022, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NWH Group, as defined in UK legislation, were £9,636,586 in respect of loans to 8 persons who were directors of NWH Ltd at any time during the financial period.

For the purposes of IAS 24 'Related Party Disclosures', key management comprises directors of NWH Ltd and members of the NWH Ltd Executive Committee. Amounts in the table below are attributed to each person at their highest level of NatWest Group key management.

	2022 £000	2021 £000
Loans to customers - amortised cost	11,172	8,632
Customer deposits	42,932	45,719

Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the ultimate holding company.

31 Related parties

UK Government

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

At 31 December 2022, HM Treasury's holding in NatWest Group's ordinary shares was 45.97%

NWH Group enters into transactions with many of these bodies. Transactions include the payment of: taxes principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levy; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

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

Members of NWH Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.403% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England rate.

NWH Group provides guarantees for certain subsidiaries liabilities to the Bank of England.

Other related parties

(a) In their roles as providers of finance, NWH Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business.
(b) To further strategic partnerships, NWH Group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NatWest Group. We disclose as related parties where stakes of 10 per cent or more are held. Ongoing business transactions with these entities are on normal commercial terms.
(c) NWH Group recharges NatWest Group Pension Fund with the cost of administration services incurred by it. The amounts involved are not material to NWH Group.
(d) In accordance with IAS 24, transactions or balances between NWH Group entities that have been eliminated on consolidation are not reported.
(e) The primary financial statements of the parent company include transactions and balances with its subsidiaries which have been further disclosed in the relevant notes.

Holding company and fellow subsidiaries

Transactions NWH Group enters with its holding company and fellow subsidiaries also meet the definition of related party transactions. The table below discloses transactions between NWH Group and subsidiaries of NatWest Group.

	2022 £m	2021 £m
Interest receivable	1	5
Interest payable	(658)	(344)
Fees and commissions receivable	52	1
Fees and commissions payable	(59)	(9)
Other operating income (1)	701	583
	37	236

(1) Includes internal service recharges of £678m

Amounts due from/to holding company and fellow subsidiaries are shown in Note 9.

32 Holding company

NWH Group's holding company is NatWest Group plc which is incorporated in the United Kingdom and registered in Scotland.

As at 31 December 2022, NatWest Group plc heads the largest group in which NWH Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from Legal, Governance & Regulatory Affairs, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, The UK Government, through HM Treasury, held 45.97% (at 31 December 2022) of the issued ordinary share capital of NatWest Group plc and is therefore NWH Group's ultimate controlling party.

33 Post balance sheet events

On 6 February 2023, NWB reached agreement with the trustees of the Main Section of the Group pension scheme to recognise that the final distribution linked contribution to the Main Scheme, of up to £471 million, in 2023 is not expected to be required. In its place, agreement was reached to establish a new legal structure to hold assets with a value equivalent to £471 million. These assets would become transferrable to the Main section in the event that future triggers, reflecting a funding requirement, were met. The assets are not de-recognised from NWB balance sheet, but are recorded as encumbered. The Group believes likelihood of triggers being met are remote given the current funding position of the Main section.

There have been no other significant events between 31 December 2022 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

Parent company financial statements and notes

Balance sheet as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Derivatives		**500**	502
Amounts due from holding company and fellow subsidiaries	3	**13,874**	14,634
Investment in group undertakings	7	**43,058**	39,308
Other assets		**24**	43
Total assets		**57,456**	54,487
Liabilities			
Amounts due to holding company and fellow subsidiaries	3	**15,311**	16,370
Derivatives		**851**	329
Other liabilities		**2**	8
Total liabilities		**16,164**	16,707
Owners' equity		**41,292**	37,780
Total liabilities and equity		**57,456**	54,487

Owners' equity of NWH Ltd as at 31 December 2022 includes the profit for the year of £7,311 million (2021 - £7,804 million).

As permitted by section 408(3) of the Companies Act 2006, the primary financial statements of the parent company do not include an income statement or a statement of comprehensive income.

The accompanying notes on pages 169 to 178 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 16 February 2023 and signed on its behalf by:

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

Statement of changes in equity for the year ended 31 December 2022

	2022 £m	2021 £m
Called-up share capital - at 1 January and 31 December	**3,263**	3,263
Paid-in equity - at 1 January	**3,682**	3,676
Redeemed	**(1,000)**	(935)
Issued	**1,000**	941
At 31 December	**3,682**	3,682
Cash flow hedging reserve - at 1 January	**(2)**	(7)
Amount recognised in equity	**28**	3
Amount transferred from equity to earnings	**(24)**	3
Tax	**(1)**	(1)
At 31 December	**1**	(2)
Retained earnings - at 1 January	**30,837**	26,713
Profit attributable to ordinary shareholders and other equity owners	**7,311**	7,804
Ordinary dividends paid	**(3,579)**	(3,500)
Paid-in equity dividends paid	**(216)**	(213)
Redemption of paid-in equity		
- gross	**1**	22
- tax	**(8)**	11
At 31 December	**34,346**	30,837
Owners' equity at 31 December	**41,292**	37,780
Attributable to:		
Ordinary shareholders	**37,610**	34,098
Paid-in equity holders	**3,682**	3,682
	41,292	37,780

(1) The total distributable reserves for NWH Ltd is £34,346 million (2021 – £30,835 million)

Cash flow statement for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Operating profit before tax		7,286	7,774
Adjustments for:			
Net impairment reversals of investments in Group undertakings		(3,169)	(4,014)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities		(791)	(388)
Elimination of foreign exchange differences		729	45
Other non-cash items		(28)	34
Dividends receivable from subsidiaries		(4,319)	(3,863)
Profit on sale of subsidiaries and associates		(70)	(23)
Interest payable on MRELs and subordinated liabilities		345	373
Loss on redemption of own debt		11	95
Net cash flows from trading activities		(6)	33
Decrease in derivative assets		29	327
Decrease/(increase) in amounts due from holding company and fellow subsidiaries		1,478	(2,191)
Increase in other assets		(8)	—
Decrease in amounts due to holding company and fellow subsidiaries		(56)	(108)
Increase/(decrease) in derivative liabilities		522	(220)
Decrease in other liabilities		(5)	(6)
Change in operating assets and liabilities		1,960	(2,198)
Income taxes received		44	36
Net cash flows from operating activities (1)		1,998	(2,129)
Cash flows from investing activities			
Additional investments in Group undertakings		(1,348)	(943)
Disposals of investments in Group undertakings		929	957
Dividends received from subsidiaries		4,319	3,863
Net cash flows from investing activities		3,900	3,877
Cash flows from financing activities			
Movement in MRELs		(1,843)	699
Movement in subordinated liabilities		(205)	(396)
Dividends paid		(3,795)	(3,713)
Issue of paid-in equity		1,000	941
Redemption of paid-in equity		(999)	(935)
Net cash flows from financing activities	8	(5,842)	(3,404)
Effects of exchange rate changes on cash and cash equivalents		12	(16)
Net increase/(decrease) in cash and cash equivalents		68	(1,672)
Cash and cash equivalents at 1 January		168	1,840
Cash and cash equivalents at 31 December (2)		236	168

(1) Includes interest received of £168 million (2021 - £115 million) and interest paid of £312 million (2021 - £225 million).
(2) Cash and cash equivalents is comprised of intragroup loans and advances to banks with maturity of less than 3 months for 2022 and 2021.

1 Presentation of financial statements

The accounting policies applied to the parent company financial statements are the same as those applied in the consolidated financial statements except investment in group undertaking (subsidiaries) are stated at cost less impairment and that it has no policy regarding consolidation.

The directors have prepared the financial statements on a going concern basis based on the directors' assessment that the parent company will continue in operational existence for a period of twelve months from the date the financial statements are approved (refer to the Report of the directors).

2 Critical accounting policies and sources of estimation uncertainty

The reported results of the parent company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgments and assumptions involved in the parent company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are those involved in assessing the impairment, if any, in its investment in group undertakings, refer to Note 7.

3 Financial instruments - classification

The following tables analyse NWH Ltd's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

For accounting policy information see Accounting policies notes 3.9, 3.10, 3.11 and 3.13.

Assets	MFVTPL £m	Amortised cost £m	Other assets £m	Total £m
Derivatives (1)	**500**			**500**
Amounts due from holding company and fellow subsidiaries	**7,747**	**6,081**	**46**	**13,874**
Investment in group undertakings			**43,058**	**43,058**
Other assets			**24**	**24**
31 December 2022	**8,247**	**6,081**	**43,128**	**57,456**
Derivatives (1)	502			502
Amounts due from holding company and fellow subsidiaries	7,391	7,243		14,634
Investment in group undertakings			39,308	39,308
Other assets			43	43
31 December 2021	7,893	7,243	39,351	54,487

Liabilities	Held-for-trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Amounts due to holding company and fellow subsidiaries	**—**	**6,746**	**8,507**	**58**	**15,311**
Derivatives (1)	**851**				**851**
Other financial liabilities				**2**	**2**
31 December 2022	**851**	**6,746**	**8,507**	**60**	**16,164**
Amounts due to holding company and fellow subsidiaries	114	6,331	9,925		16,370
Derivatives (1)	329				329
Other financial liabilities				8	8
31 December 2021	443	6,331	9,925	8	16,707

(1) Includes net hedging derivatives assets of £32 million (2021 - £237 million) and net hedging derivative liabilities of £390 million (2021 - £82 million).

3 Financial instruments - classification continued

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

	2022				2021			
Assets	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Loans to banks - amortised cost	—	—	6,033	6,033	—	—	7,243	7,243
Loans to customers - amortised cost	—	—	48	48	—	—	—	—
Other financial assets	—	73	7,674	7,747	—	—	7,391	7,391
Other assets	—	—	46	46	—	—	—	—
Amounts due from holding company and fellow subsidiaries	—	73	13,801	13,874	—	—	14,634	14,634
Derivatives (1)	224	11	265	500	279	119	104	502
Liabilities								
Other financial liabilities - subordinated liabilities	4,853	—	—	4,853	4,669	—	—	4,669
Other financial liabilities - bank deposits	—	—	—	—	—	114	—	114
MREL instruments issued to NatWest Group plc	10,400	—	—	10,400	11,587	—	—	11,587
Other liabilities	53	—	5	58	—	—	—	—
Amounts due to holding company and fellow subsidiaries	15,306	—	5	15,311	16,256	114	—	16,370
Derivatives (1)	439	85	326	850	293	3	33	329

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

Interest rate benchmark reform

NWH Ltd continues to work on the transition of USD IBOR exposures to risk free rates in advance of the cessation date of 30 June 2023. Derivatives are expected to transition during April and May 2023 and other exposures in line with fallback provisions or deferred switches using widely accepted methodologies. The instruments yet to transition reflect an insignificant element of NWH Ltd's exposures. Instruments with exposures to other rates transitioned at the end of 2021, or at the first contractual reset date, or at a date agreed with the counterparty.

	Rates subject to IBOR reform			
2021	GBP LIBOR £m	USD IBOR £m	Other IBOR £m	Total £m
Amounts due from holding company and fellow subsidiaries	—	3,626	—	3,626
Amounts due to holding company and fellow subsidiaries	—	6,436	—	6,436
Derivatives notional (£bn)	—	11.3	—	11.3

AT1 issuances

As part of its capital management activities NWH Ltd has acquired certain equity instruments issued by its subsidiaries which contain reset clauses linked to IBOR rates. These are reported in investment in group undertakings.

These are outlined below:

	31 December 2021 £m
USD $1.35 billion 6.49%	969
USD $2 billion 6.4%	1,436

4 Financial instruments: fair value of financial instruments measured at amortised cost

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

			Fair value hierarchy level	
2022	Carrying value £bn	Fair value £bn	Level 2 £bn	Level 3 £bn
Financial assets				
Amounts due from holding company and fellow subsidiaries	6.1	5.7	3.7	2.0
Financial liabilities				
Amounts due to holding company and fellow subsidiaries	8.5	8.1	8.1	—
2021				
Financial assets				
Amounts due from holding company and fellow subsidiaries	7.2	7.3	4.3	3.0
Financial liabilities				
Amounts due to holding company and fellow subsidiaries	9.9	9.9	9.9	—

5 Financial instruments - maturity analysis

Remaining maturity

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

	2022			2021		
	Less than 12 months £m	More than 12 months £m	Total £m	Less than 12 months £m	More than 12 months £m	Total £m
Assets						
Derivatives	67	433	500	85	417	502
Amounts due from holding company and fellow subsidiaries	2,179	11,649	13,828	3,455	11,179	14,634
Liabilities						
Amounts due to holding company and fellow subsidiaries	3,354	11,899	15,253	560	15,810	16,370
Derivatives	95	756	851	63	266	329

Assets and liabilities by contractual cash flow maturity

2022	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Assets by contractual maturity						
Derivatives held for hedging	27	6	—	—	—	—
Amounts due from holding company and fellow subsidiaries (1)	194	1,989	296	296	4,379	—
	221	1,995	296	296	4,379	—
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	112	3,718	4,758	4,159	5,172	—
Derivatives held for hedging	60	91	149	84	32	—
	172	3,809	4,907	4,243	5,204	—
2021						
Assets by contractual maturity						
Derivatives held for hedging	17	88	84	40	13	—
Amounts due from holding company and fellow subsidiaries (1)	460	3,079	269	269	3,828	349
	477	3,167	353	309	3,841	349
Liabilities by contractual maturity						
Amounts due to holding company and fellow subsidiaries (2)	422	466	5,860	5,505	5,536	—
Derivatives held for hedging	(7)	38	32	12	10	—
	415	504	5,892	5,517	5,546	—

For further information on the timing of cash flows to settle financial liabilities, refer to Note 12 on the consolidated accounts.

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.
(2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

6 Subordinated liabilities

Amounts due to the holding company and fellow subsidiaries include £4,853 million (2021 - £4,669 million) of subordinated liabilities. The following tables analyse these intercompany subordinated liabilities:

For accounting policy information see Accounting policies notes 3.9 and 3.11.

Dated loan capital		First call date	Maturity date	Capital treatment	2022 £m	2021 £m
$2,000 million	6.071% notes	Dec-2023	Dec-2028	Tier 2	**1,587**	1,502
$615 million	6.073% notes	Dec-2023	Dec-2028	Tier 2	**508**	471
$750 million	3.754% notes	Nov-2024	Nov-2029	Tier 2	**627**	560
£500 million	3.622% notes	Aug-2025	Aug-2030	Tier 2	**507**	507
£1,000 million	2.105% notes	Nov-2026	Nov-2031	Tier 2	**1,001**	1,002
€750 million	1.043% notes	Sep-2027	Sep-2032	Tier 2	**623**	627
					4,853	4,669

7 Investments in Group undertakings

Critical accounting policy: Investments in Group undertakings

At each reporting date, the company assesses whether there is any indication that its investment in its Group undertakings is impaired. If any such indication exists, the company undertakes an impairment test by comparing the carrying value of the investment in its Group undertakings with its estimated recoverable amount. The key judgment is in determining the recoverable amount. The recoverable amount of an investment in its Group undertakings is the higher of its fair value less cost to sell and its value in use, being an assessment of the discounted future cash flows of the entity. Impairment testing inherently involves a number of judgments: the five-year cash flow forecast, the choice of appropriate discount and growth rates, and the estimation of fair value.

For accounting policy information see Accounting policies note 3.4.

Investments in Group undertakings are carried at cost less impairment losses. Movements during the year were as follows:

	2022 £m	2021 £m
At 1 January	39,308	35,315
Currency translation and other adjustments	92	(30)
Additional investments in Group undertakings	1,348	943
Disposals of investments in Group undertaking	(859)	(934)
Net reversal of impairments of investments	3,169	4,014
At 31 December	43,058	39,308

The recoverable amount of investments in Group undertakings is the higher of net asset value as a proxy for fair value less cost to sell or value in use. Where recoverable value is based on net asset value, the fair value measurement is categorised as Level 3 of the fair value hierarchy. The carrying value of Investments in Group undertakings at 31 December 2022 is supported by the respective recoverable values of the entities.

In May 2022 the company issued £1,000 million of contingent convertible AT1 notes to NWB Plc and RBS plc and injected additional capital of €368.5 million into NatWest Germany GmbH. In June 2022 the company redeemed £860 million of contingent convertible AT1 notes issued to NWB Plc and RBS plc. The additional investment in 2021 was related to the AT1 issuances to NWB Plc.

In 2022, net reversal of impairments of investments includes reversals of earlier impairments of the company's investments in NWB Plc (£2,450 million) and RBS plc (£800 million) as improved five-year cash flow forecasts increased their value in use. The reversals are partially offset by a £81 million impairment of the company's investment in UBIDAC, in connection with the withdrawal strategy. The impairment reversal in 2021 was mainly related to NWB Plc.

The impact of reasonably possible changes to the more significant variables in the value in use calculations for NWB Plc are presented below. This reflects the sensitivity of the value in use to each variable on its own. It is possible that more than one change may occur at the same time. The value in use calculations use 15.3% as a pre-tax discount rate and 1.4% as a long term growth rate.

	Potential value in use movement	
	2022 £bn	2021 £bn
1% adverse movement in discount rate	(5.3)	(3.9)
1% adverse movement in terminal growth rate	(2.9)	(1.9)
5% adverse movement in forecast income	(5.1)	(4.1)
5% adverse movement in forecast cost	(2.6)	(2.3)
£500 million adverse movement in forecast operating profit before tax	(3.8)	(4.3)

The principal subsidiary undertakings of the company are shown below. All of these subsidiaries are included in NatWest Group's consolidated financial statements and have an accounting reference date of 31 December. Their capital consists of ordinary shares, preference shares and additional Tier 1 notes which are unlisted with the exception of certain preference shares issued by NWB Plc.

Name of subsidiary	Nature of business	Country of incorporation and principal area of operation	Company's interest %
National Westminster Bank Plc (1)	Banking	Great Britain	100%
The Royal Bank of Scotland plc (1)	Banking	Great Britain	100%
Coutts & Company (2), (3)	Private Banking	Great Britain	100%
Ulster Bank Ireland Designated Activity Company (1)	Banking	Republic of Ireland	100%
Ulster Bank Limited (2)	Banking	Northern Ireland	100%
Lombard North Central PLC (2)	Leasing	Great Britain	100%

(1) Directly owned by NWH Ltd.
(2) Owned by NWH Ltd through NWB Plc.
(3) Coutts & Company is incorporated with unlimited liability.

8 Analysis of changes in financing during the year

	Called-up share capital and paid-in equity		Subordinated liabilities (1)		MRELs (2)	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
At 1 January	**6,945**	6,939	**4,669**	4,919	**5,001**	4,371
Issue of paid-in equity	**1,000**	941				
Redemption of paid-in equity	**(999)**	(935)				
Issue of subordinated liabilities			**—**	1,630		
Redemption of subordinated liabilities			**(11)**	(1,802)		
Interest paid on subordinated liabilities			**(194)**	(224)		
Issue of MRELs					**—**	854
Redemption of MRELs					**(1,675)**	—
Interest on MRELs					**(168)**	(155)
Net cash inflow/(outflow) from financing	**1**	6	**(205)**	(396)	**(1,843)**	699
Effects of foreign exchange	**—**	—	**331**	52	**502**	(55)
Changes in fair value of subordinated liabilities and MRELs			**(147)**	(220)	**(644)**	(168)
Interest payable on subordinated liabilities and MRELs			**195**	219	**150**	154
Loss on redemption of own debt			**11**	95	**—**	—
Other	**(1)**	—	**—**	—	**—**	—
At 31 December	**6,945**	6,945	**4,854**	4,669	**3,166**	5,001

(1) Subordinated liabilities include intercompany subordinated liabilities.

(2) MRELs balances are shown net of the effect of down streaming funding to subsidiary companies.

9 Directors' and key management remuneration

Directors' remuneration is disclosed in Note 29 to the consolidated accounts. The directors had no other reportable related party transactions or balances with the company.

10 Related undertakings

Legal entities and activities at 31 December 2022

In accordance with the Companies Act 2006, NWH Ltd's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWH Ltd or subsidiaries of NWH Ltd and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWH Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive ("CRD V") and the definitions in Article 4 of the UK Capital Requirements Regulation.

The following table details active related undertakings incorporated in the UK which are 100% owned by NWH Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
AD Aggregator Platform Ltd	OTH	FC	(35)
Caledonian Sleepers Rail Leasing Ltd	BF	FC	(1)
Coutts & Company	CI	FC	(13)
Coutts Finance Company	BF	FC	(13)
East Grove Holding Ltd	INV	DE	(36)
Esme Loans Ltd	BF	FC	(1)
FreeAgent Central Ltd	SC	FC	(24)
FreeAgent Holdings Ltd	SC	FC	(24)
G L Trains Ltd	BF	FC	(16)
Gatehouse Way Developments Ltd	INV	DE	(1)
German Biogas Holdco Ltd	INV	DE	(35)
ITB1 Ltd	BF	FC	(3)
KUC Properties Ltd	BF	DE	(3)
Land Options (West) Ltd	INV	DE	(3)
Lombard & Ulster Ltd	BF	FC	(12)
Lombard Business Leasing Ltd	BF	FC	(1)
Lombard Corporate Finance (December 1) Ltd	BF	FC	(1)
Lombard Corporate Finance (December 3) Ltd	BF	FC	(1)
Lombard Corporate Finance (June 2) Ltd	BF	FC	(1)
Lombard Discount Ltd	BF	FC	(1)
Lombard Finance Ltd	BF	FC	(1)
Lombard Industrial Leasing Ltd	BF	FC	(1)
Lombard Lease Finance Ltd	BF	FC	(1)
Lombard Leasing Company Ltd	BF	FC	(1)
Lombard Leasing Contracts Ltd	BF	FC	(1)
Lombard Lessors Ltd	BF	FC	(1)
Lombard Maritime Ltd	BF	FC	(1)
Lombard North Central Leasing Ltd	BF	FC	(1)
Lombard North Central PLC	BF	FC	(1)
Lombard Property Facilities Ltd	BF	FC	(1)
Lombard Technology Services Ltd	BF	FC	(1)
Mettle Ventures Ltd	OTH	FC	(1)
National Westminster Bank Plc	CI	FC	(1)
National Westminster Home Loans Ltd	BF	FC	(1)
NatWest Property Investments Ltd	INV	DE	(1)
Pittville Leasing Ltd	BF	FC	(1)
Premier Audit Company Ltd	BF	FC	(1)
R.B. Capital Leasing Ltd	BF	FC	(1)
R.B. Leasing (September) Ltd	BF	FC	(1)
R.B. Quadrangle Leasing Ltd	BF	FC	(1)
RBS Asset Management Holdings	BF	FC	(13)
RBS Collective Investment Funds Ltd	BF	FC	(10)
RBS Invoice Finance Ltd	BF	FC	(1)
RBSG Collective Investments Holdings Ltd	BF	FC	(10)
RBSSAF (2) Ltd	BF	FC	(1)
RBSSAF (25) Ltd	BF	FC	(1)
Royal Bank Leasing Ltd	BF	FC	(3)
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	(3)
Royal Scot Leasing Ltd	BF	FC	(3)
RoyScot Trust Plc	BF	FC	(1)
Silvermere Holdings Ltd	BF	FC	(3)
The One Account Ltd	BF	FC	(1)
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	(3)
The Royal Bank of Scotland plc	CI	FC	(21)
Ulster Bank Ltd	BF	FC	(12)
Ulster Bank Pension Trustees Ltd	TR	DE	(12)
Walton Lake Developments Ltd	INV	DE	(1)
World Learning Ltd	BF	FC	(22)

The following table details active related undertakings incorporated outside the UK which are 100% owned by NWH Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	(2)
Airside Properties ASP Denmark AS	BF	FC	(11)
Airside Properties Denmark AS	BF	FC	(11)
Arkivborgen KB	BF	FC	(2)
Artul Koy	BF	FC	(4)
BD Lagerhus AS	BF	FC	(5)
Bilfastighet i Akalla AB	BF	FC	(2)
Bilfastighet i Avesta AB	BF	FC	(2)
Bilfastighet i Bollnas AB	BF	FC	(2)
Bilfastighet i Hemlingby AB	BF	FC	(2)
Bilfastighet i Hudiksvall AB	BF	FC	(2)
Bilfastighet i Ludvika AB	BF	FC	(2)
Bilfastighet i M!rsta AB	BF	FC	(14)
Bilfastighet i Mora AB	BF	FC	(2)
Bilfastighet i Uppsala KB	BF	FC	(14)
Bilfastighet Kista AB	BF	FC	(14)
Brödmagasinet KB	BF	FC	(2)
Eiendomsselskapet Apteno La AS	BF	FC	(5)
Espeland Naering AS	BF	FC	(5)
Eurohill 4 KB	BF	FC	(2)
Fab Ekenäs Formanshagen 4	BF	FC	(4)
Fastighets AB Flöjten I Norrköping	BF	FC	(10)
Fastighets Aktiebolaget Sambiblioteket	BF	FC	(2)
Fastighetsbolaget Holma I Höör AB	BF	FC	(10)
First Active Ltd	BF	FC	(7)
Forskningshöjden KB	BF	FC	(2)
Förvaltningsbolaget Dalkyrkan KB	BF	FC	(10)
Förvaltningsbolaget Klöverbacken Skola KB	BF	FC	(10)
Fyrs!te Fastighets AB	BF	FC	(2)
Grinnhagen KB	BF	FC	(2)
Hatros 1 AS	BF	FC	(5)
Horrsta 4:38 KB	BF	FC	(2)
IR Fastighets AB	BF	FC	(2)

10 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Kallebäck Institutfastigheter AB	BF	FC	(10)
Kastrup Commuter K/S	BF	FC	(11)
Kastrup Hangar 5 K/S	BF	FC	(11)
Kastrup V & L Building K/S	BF	FC	(11)
KB Eurohill	BF	FC	(2)
KB Lagermannen	BF	FC	(2)
KB Likriktaren	BF	FC	(2)
Koy Lohjan Ojamonharjuntie 61	BF	FC	(4)
Koy Vantaan Rasti IV	BF	FC	(4)
Koy Harkokuja 2	BF	FC	(18)
Koy Pennalan Johtotie 2	BF	FC	(4)
Koy Porkkanakatu 2	BF	FC	(4)
Koy Espoon Entresse II	BF	FC	(4)
Koy Helsingin Mechelininkatu 1	BF	FC	(4)
Koy Helsingin Osmontie 34	BF	FC	(4)
Koy Helsingin Panuntie 6	BF	FC	(4)
Koy Helsingin Panuntie 11	BF	FC	(4)
Koy Iisalmen Kihlavirta	BF	FC	(4)
Koy Jämsän Keskushovi	BF	FC	(4)
Koy Jasperintie 6	BF	FC	(18)
Koy Kokkolan Kaarlenportti Fab	BF	FC	(4)
Koy Kouvolan Oikeus ja Poliisitalo	BF	FC	(4)
Koy Millennium	BF	FC	(4)
Koy Nummelan Portti	BF	FC	(4)
Koy Nuolialan päiväkoti	BF	FC	(4)
Koy Peltolantie 27	BF	FC	(18)
Koy Porkkanakatu 2	BF	FC	(18)
Koy Puotikuja 2 Vaasa	BF	FC	(4)
Koy Raision Kihlakulma	BF	FC	(4)
Koy Ravattulan Kauppakeskus	BF	FC	(4)
Koy Tapiolan Louhi	BF	FC	(4)
Koy Vapaalan Service-Center	BF	FC	(4)
Kvam Eiendom AS	BF	FC	(5)
Läkten 1 KB	BF	FC	(2)
Leiv Sand Eiendom AS	BF	FC	(5)
LerumsKrysset KB	BF	FC	(2)
Limstagården KB	BF	FC	(2)
Lundbyfilen 5 AB	BF	FC	(14)
Narmovegen 455 AS	BF	FC	(5)
National Westminster International Holdings B.V.	BF	FC	(3)
NatWest Bank Europe GmbH	BF	FC	(25)
NatWest Services (Switzerland) Ltd	SC	FC	(32)
Nordisk Renting AB	BF	FC	(2)
Nordisk Renting AS	BF	FC	(30)
Nordisk Renting OY	BF	FC	(4)
Nordisk Specialinvest AB	BF	FC	(3)
Nordiska Strategifastigheter Holding AB	BF	FC	(3)
Nybergflata 5 AS	BF	FC	(5)
OFH Eiendom AS	BF	FC	(37)
Optimus KB	BF	FC	(2)
RBS Asset Management (Dublin) Ltd	BF	FC	(34)
RBS Deutschland Holdings GmbH	BF	FC	(25)
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	(31)
RBS Services India Private Ltd	SC	FC	(27)
Rigedalen 44 Eiendom AS	BF	FC	(5)
Ringdalveien 20 AS	BF	FC	(5)
Sandmoen Naeringsbygg AS	BF	FC	(5)
SFK Kommunfastigheter AB	BF	FC	(2)
Sjöklockan KB	BF	FC	(2)
Skinnarängen KB	BF	FC	(2)
Sletta Eiendom II AS	BF	FC	(5)
Snipetjernveien 1 AS	BF	FC	(5)
Solbänken KB	BF	FC	(2)
Solnorvika AS	BF	FC	(5)
Strand European Holdings AB	BF	FC	(14)
Svenskt Fastighetskapital AB	BF	FC	(2)
Svenskt Energikapital AB	BF	FC	(2)
Svenskt Fastighetskapital Holding AB	BF	FC	(2)
The RBS Group Ireland Retirement Savings Trustee Ltd	TR	DE	(7)
Tygverkstaden 1 KB	BF	FC	(2)
Ulster Bank Dublin Trust Company Unlimited Company	TR	FC	(7)
Ulster Bank Holdings (ROI) Ltd	BF	FC	(7)
Ulster Bank Ireland Designated Activity Company	CI	FC	(7)
Ulster Bank Pension Trustees (RI) Ltd	TR	DE	(7)
Nordisk Renting Facilities Management AB	BF	FC	(14)

The following table details active related undertakings which are 100% owned by NWH Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Bioenergie Dargun Immobilien GmbH	OTH	DE	(33)
Bioenergie Jessen Immobilien GmbH	OTH	DE	(33)
Bioenergie Wiesenburg GmbH & Co. KG	INV	DE	(33)
Bioenergie Wiesenburg Verwaltungs GmbH	OTH	DE	(33)
Bioenergie Zittau GmbH	OTH	DE	(33)
Bioenergie Zittau Immobilien GmbH	OTH	DE	(33)
Capulet Homes Florida LLC	OTH	DE	(6)
Crook Hill Properties Ltd	OTH	DE	(38)
DBV Deutsche Bioenergie Verbinder GmbH	OTH	DE	(33)
European Investments (Crook Hill) Ltd	OTH	DE	(39)
Montague Homes Florida LLC	OTH	DE	(6)
Reaps Moss Ltd	OTH	DE	(38)
Reppinichen Dritte Biogas Betriebs GmbH	OTH	DE	(33)
Reppinichen Erste Biogas Betriebs GmbH	OTH	DE	(33)
Reppinichen Zweite Biogas Betriebs GmbH	OTH	DE	(33)
Romeo Homes Florida LLC	OTH	DE	(6)
Romeo Homes Georgia LLC	OTH	DE	(6)
Romeo Homes Indiana LLC	OTH	DE	(6)
Romeo Homes Kansas LLC	OTH	DE	(6)
Romeo Homes Nevada LLC	OTH	DE	(6)
Romeo Homes North Carolina LLC	OTH	DE	(6)
Romeo Homes Oklahoma LLC	OTH	DE	(6)
Romeo Homes Tennessee LLC	OTH	DE	(6)
Romeo Homes Texas LLC	OTH	DE	(6)
Ventus Investments Ltd	OTH	DE	(39)
West Granite Homes Inc.	INV	DE	(6)
WGH Development LLC	OTH	DE	(6)
WGH Florida LLC	OTH	DE	(6)
WGH Georgia LLC	OTH	DE	(6)
WGH Indiana LLC	OTH	DE	(6)
WGH Kansas LLC	OTH	DE	(6)
WGH Nevada LLC	OTH	DE	(6)
WGH North Carolina LLC	OTH	DE	(6)
WGH Oklahoma LLC	OTH	DE	(6)
WGH Texas LLC	OTH	DE	(6)
Wiesenburg Dritte Biogas Betriebs GmbH	OTH	DE	(33)
Wiesenburg Erste Biogas Betriebs GmbH	OTH	DE	(33)
Wiesenburg Zweite Biogas Betriebs GmbH	OTH	DE	(33)
Wiesenburger Marktfrucht GmbH	OTH	DE	(33)

10 Related undertakings continued

The following table details active related undertakings incorporated in the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Ltd	OTH	EAJV	PC	50	(23)
GWNW City Developments Ltd	BF	EAJV	DE	50	(23)
Jaguar Cars Finance Ltd	BF	FC	FC	50	(1)
JCB Finance Ltd	BF	FC	FC	75	(20)
London Rail Leasing Ltd	BF	EAJV	PC	50	(28)
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	(15)
Natwest Covered Bonds LLP	BF	FC	FC	73	(16)
Pollinate International Ltd	OTH	AHC	DE	30	(40)

The following table details active related undertakings incorporated outside the UK where NWH Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Dunmore Securities No.1 DAC	BF	FC	DE	0	(17)
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	(9)
Nightingale LF 2021-1 Ltd	BF	FC	DE	0	(9)
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	(9)
Nightingale Securities 2017-1 Ltd.	BF	FC	DE	0	(9)
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	(9)
Pharos Estates Ltd	OTH	AHC	DE	49.49	(26)
The Drive4Growth Company Ltd	OTH	IA	DE	20	(29)
Wiśniowy Management sp. Z.o.o.	SC	AHC	DE	25	(31)

The following table details related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Ardmore Securities No.2 DAC	FC	DE	0	17
Belfast Bankers' Clearing Company Ltd	AHC	OTH	25	(41)
Celtic Residential Irish Mortgage Securitisation No 10 Plc	FC	DE	0	(19)
Celtic Residential Irish Mortgage Securitisation No 11 Plc	FC	DE	0	(19)
Lombard Ireland Group Holdings Unlimited	FC	FC	100	(42)
Lombard Ireland Ltd	FC	FC	100	(42)
NatWest Nominees Ltd	FC	FC	100	(1)
UB SIG (ROI) Ltd	FC	FC	100	(25)

The following table details related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Coutts Scotland Nominees Ltd	FC	FC	100	(10)
Custom House Docks Basement Management No. 2 Ltd	EAA	DE	25	(24)
Dunfly Trustee Ltd	FC	FC	100	(1)
JCB Finance Pension Ltd	FC	DE	88	(10)
NatWest FIS Nominees Ltd	FC	FC	100	(1)
NatWest Group Secretarial Services Ltd	FC	FC	100	(3)
NatWest Group Retirement Savings Trustee Ltd	FC	FC	100	(1)
NatWest PEP Nominees Ltd	FC	FC	100	(1)
NatWest Invoice Finance Ltd	FC	FC	100	(1)
NatWest Pension Trustee Ltd	NC	DE	100	(1)
Nordisk Renting A/S	FC	FC	100	(5)
Nordisk Renting HB	FC	FC	100	(2)
NWB Nominee 1 Ltd	FC	FC	100	(1)
R.B. Leasing (March) Ltd	FC	FC	100	(1)
RBS Investment Executive Ltd	NC	DE	100	(3)
RBSG Collective Investments Nominees Ltd	FC	FC	100	(8)
RoosterMoney UK Ltd	FC	FC	100	(15)
Strand Nominees Ltd	FC	FC	100	(10)

The following table details the overseas branches of the Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

10 Related undertakings continued

Key:

BF	Banking and financial institution
CI	Credit institution
INV	Investment (shares or property) holding company
SC	Service company
TR	Trustee
OTH	Other
DE	Deconsolidated
FC	Full consolidation
PC	Pro-rata consolidation
AHC	Associate held at cost
EAJV	Equity accounting – Joint venture
IA	Investment accounting
NC	Not consolidated

Notes	Registered addresses	Country of incorporation
(1)	250 Bishopsgate, London, EC2M 4AA	UK
(2)	Care of Nordisk Renting AB, Jakobsbergsgatan 13, 8th Floor, Box 14044, Stockholm, SE-111 44	Sweden
(3)	RBS Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ	UK
(4)	c/o Epicenter, Mikonkatu 9, 6th Floor, Helsinki, 00100	Finland
(5)	c/o Advokatfirmaet Wiersholm AS, Postboks 1400, 0115 Oslo	Norway
(6)	251, Little Falls Drive, Wilmington, DE, 19808	USA
(7)	Ulster Bank Head Office, Block B Central Park, Leopardstown, Dublin 18, D18 N153	RoI
(8)	Grand Pavilion Commercial Centre, 802 West Bay Road, P.O. Box 31119	Cayman Islands
(9)	44 Esplanade, St Helier, JE4 9WG	Jersey
(10)	6-8 George Street, Edinburgh, EH2 2PF	UK
(11)	C/O Visma Services Danmark A/S, Lyskaer 3C-3D, 2730 Herlev	Denmark
(12)	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB	UK
(13)	440, Strand, London, WC2R OQS	UK
(14)	C/O Nordisk Renting AB, Box 14044, SE-104 40 Stockholm	Sweden
(15)	1 Bartholomew Lane London EC2N 2AX	UK
(16)	1 Princes Street, London, EC2R 8BP	UK
(17)	3rd Floor, Fleming Court, Fleming's Place, Dublin 4, D04 N4X9	RoI
(18)	c/o Nordisk Renting Oy, Mikonkatu 9, 00100, Helsinki	Finland
(19)	One Spencer Dock, Dublin, D01 X9R7	RoI
(20)	The Mill, High Street, Rocester, Staffordshire, ST14 5JW	UK
(21)	36 St Andrew Square, Edinburgh, EH2 2YB	UK
(22)	64 New Cavendish Street, London, W1G 8TB	UK
(23)	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR	UK
(24)	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG	UK
(25)	Roßmarkt 10, Frankfurt am Main, 60311	Germany
(26)	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
(27)	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Gurugram, Haryana, 122016	India
(28)	99 Queen Victoria Street, London, EC4V 4EH	UK
(29)	c/o Denis Crowley & Co Chartered Accountants, Unit 6 Riverside Grove, Riverstick, P43 W221	RoI
(30)	H. Heyerdahlsgate 1, Postboks 2020 Vika, Oslo, 0125	Norway
(31)	ul. Ilzecka 26, building E, 02-135, Warsaw	Poland
(32)	Lerchenstrasse 18, Zurich, CH 8022	Switzerland
(33)	Liszt Straße 10, Regensburg, D-93053	Germany
(34)	One Dockland Central, Guild Street, IFSC, Dublin 1	RoI
(35)	Greencoat Capital, 5 The Peak, Wilton Road, London, Greater London, SW1V 1AN, England	UK
(36)	8 Sackville Street, London, W1S 3DG, England	UK
(37)	Rakkestadsveien 15, 1814 Askim	Norway
(38)	2nd floor, Palm Grove House, Road Town, Tortola	British Virgin Islands
(39)	18 Riversway Business Village, Navigation Way, Ashton-on Ribble, Preston, PR2 2YP	UK
(40)	2nd Floor 120 Old Broad Street, London, EC2N 1AR	UK
(41)	Scottish Provident Building, 7 Donegall Square West, Belfast, BT1 6JH	UK
(42)	13-18 City Quay, Dublin 2	RoI