Company Registered Number: 25766

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

ANNUAL REPORT AND ACCOUNTS

31 December 2021

Contents

Board of directors and secretary

Chairperson
Martin Murphy

Executive directors
Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

Independent non-executive directors
David Guest
Brendan Nelson
Rosemary Quinlan
Mary Walsh

Non-executive directors
Peter Norton

Board resignations in 2021
Dermot Browne resigned on 31 March 2021
Gervaise Slowey resigned on 31 October 2021
Both independent non-executive directors

Board appointments in 2021
Brendan Nelson appointed on 16 June 2021
David Guest appointed on 21 June 2021
Mary Walsh appointed on 1 July 2021
All independent non-executive directors

Peter Norton appointed on 22 September 2021
Non-executive director

Company Secretary
Colin Kelly

Auditors
Ernst & Young
Chartered Accountants and Statutory Auditor
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin 2
D02 YA40

Registered office and head office
Ulster Bank Head Office
Block B
Central Park
Leopardstown
Dublin 18
D18 N153

Ulster Bank Ireland Designated Activity Company
Registered in Republic of Ireland No. 25766

Report of the directors

Presentation of information

Ulster Bank Ireland Designated Activity Company ('UBIDAC' or the 'Bank') is a wholly-owned subsidiary of NatWest Holdings Limited ('NatWest Holdings'). The ultimate holding company is NatWest Group plc ('NWG' or the 'ultimate holding company'). The 'Group' or 'UBIDAC Group' comprises UBIDAC and its subsidiary and associated undertakings. 'NatWest Group' comprises the ultimate holding company and its subsidiary and associated undertakings.

The Bank publishes its financial statements in euros ('€' or 'Euro'). The abbreviation '€bn' represents billions of euros, the abbreviation '€m' represents millions of euros and the abbreviation '€k' represents thousands of euros.

The directors of UBIDAC present their report, together with audited financial statements of the Group for the financial year ended 31 December 2021. The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union (EU).

Phased withdrawal announcement

On 19 February 2021 NatWest Group announced its intention to begin a phased withdrawal from the Republic of Ireland (ROI) after conducting a strategic review of the Group's business in ROI and concluding that Ulster Bank's business in ROI will not be in a position to achieve an acceptable level of sustainable returns over its planning horizon.

The strategy governing the Group's phased withdrawal from the market is being overseen by the Board. The Group's strategic focus during this process is to continue to be a purpose-led organisation that "*supports customers and colleagues now and helps them to prepare for the future*".

Foundational to this purpose, the Group is committed to the guiding principle of "*acting in the best interests of customers, colleagues and stakeholders*" by making decisions that minimise disruption and deliver meaningful solutions for those impacted.

The phased withdrawal from the market will be undertaken over an extended period of time with a focus on helping customers to move to a new financial services provider as safely and seamlessly as possible and minimising job losses, and where we cannot, supporting colleagues with reskilling.

Principal activities

The Group, operating under the Ulster Bank and Lombard brands, provides a comprehensive range of Personal Banking and Commercial Banking financial services. Personal Banking provides loan and deposit products, and other services, to personal and micro-SME (small and medium enterprise) customers, through the Group's network of branches and direct channels, including mobile, internet and telephony. Commercial Banking provides services to business and corporate customers, including SMEs.

On 29 October 2021 the Group stopped accepting applications from new Personal and Commercial Banking customers across the majority of the product range, with the exception of Lombard Asset Finance which remains open for new and existing customers. However, in all other respects the Bank currently continues to service existing customers across its full product range and continues to write certain new business to existing customers, pending further decisions on its phased withdrawal.

The Bank is regulated by the Central Bank of Ireland (CBI) and the Joint Supervisory Team (JST) as part of the EU Single Supervisory Mechanism (SSM).

Business review

On 28 June 2021, as part of the phased withdrawal process, the Bank announced that it had signed a legally binding agreement with Allied Irish Banks p.l.c. (AIB) for the sale of the majority of the Group's performing commercial loan book. The sale, subject to Competition and Consumer Protection Commission (CCPC) approval, is expected to be completed in a series of transactions during 2022 and Q1 2023.

On 17 December 2021 the Bank announced that it had signed a legally binding agreement with Permanent TSB Group Holdings plc (PTSB) for the sale of a material part of the Group's Personal Banking business (including performing non-tracker mortgages, performing micro-SME loans and a subset of the Bank's branch locations) and the Lombard Asset Finance business (including the Lombard digital platform). It is expected that, subject to CCPC, regulatory and PTSB shareholder approval, the sale of non-tracker mortgages, branch locations and the Lombard Asset Finance business will be completed in 2022, and the sale of micro-SME loans will be completed in 2023.

Those assets expected to be sold to AIB and PTSB in 2022 are classified on the Group and Bank balance sheets as 'Assets of disposal groups' at 31 December 2021. The financial results of the associated business activities are classified in the consolidated income statement as discontinued operations. Further information on the impact of these changes on the financial statements is included in Note 1(c) to the accounts.

The Bank continues to explore opportunities with other counterparties about their potential interest in buying the remaining assets not yet agreed for sale. These discussions may or may not result in an agreement.

During the financial year, in challenging market conditions due to the impact of the announcement of the phased withdrawal and the continued uncertainty as the wider Irish economy dealt with the impacts of COVID-19, Personal Banking generated new mortgage lending of €607 million for the ten months to October 2021, before new to bank customer applications were no longer accepted. Subsequently, the Bank launched the first phase of its 'Choose, Move & Close' readiness campaign for current and deposit accounts, designed to give customers, and other stakeholders including financial institutions, as much information and notice as possible of the steps they will be required to take in due course to manage the products and services they hold with the Bank.

Commercial Banking supported new and existing customers with their investment plans and working capital requirements in 2021, including key sectors such as Food and Drink, Agriculture and Healthcare. This support generated new lending of €654 million for the ten months to October 2021, before the majority of new customer applications were stopped, with the Bank continuing to support its existing customers' needs beyond this point. Commercial Banking also focused on effective and timely communications, writing to all of its customers impacted by the agreement with AIB announced in June.

The comprehensive customer remediation of legacy issues remains a key priority for the Group. In March 2021 the Bank paid a fine of €38 million following the conclusion of the CBI's Tracker Mortgage Investigation. Whilst this materially concludes actions the Bank must take as part of the tracker mortgage examination programme, some of the Bank's customers have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank is challenging three recent 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.

The Group continued to make good progress in delivering on the European Central Bank (ECB) requirement for banks to reduce their non-performing loans. The Group's non-performing loan balances (measured in accordance with the European Banking Authority definition) reduced from €1,499 million at 31 December 2020 to €990 million at 31 December 2021. This reduction was due to the sale of non-performing loans, transfers to assets of disposal groups and customers moving out of financial difficulty either through improved financial circumstances or with the Bank's help in moving to sustainable repayment solutions.

In July the Group launched its Customer Charter. The charter is a set of principles for our colleagues, underpinned by 'Our Culture' and aligned to 'Our Purpose', developed to best serve customers and the communities in which we operate throughout the withdrawal process. Colleagues were encouraged to share their ideas as to how best to support customers and leave a positive legacy. This includes helping vulnerable customers to close or move their accounts, continuing to provide financial education enabling customers to make better informed decisions and donating office furniture to local communities and charities as property locations are exited.

The Group recognises the significant impact that the phased withdrawal announcement had on colleagues and the importance that colleague wellbeing was prioritised. Following the announcement, a series of townhalls and colleague "listening sessions", with smaller groups, were held to answer questions and provide further information. These events are ongoing for colleagues throughout the withdrawal. The Group is also providing colleagues with access to mental health and financial wellbeing resources, ensuring colleagues can continue to serve customers safely and securely.

Subsequently, there has been a concerted focus on building colleague capability and developing professional skills, ensuring colleagues continue to have access to personal and career development support. Individual career coaching sessions were offered, and colleagues continued to have the opportunity to apply for relevant professional qualifications as part of the Bank's learning and development programme. Colleagues were also all granted one year's access to Datacamp, a digital platform providing the opportunity to build data-related capabilities and skills.

It is expected that colleagues who work wholly or mainly to support those parts of the Commercial and Personal Banking businesses that have been agreed to be sold will transfer to AIB and PTSB. Colleagues will transfer under TUPE regulations, ensuring recognition of their length of service and, to the extent possible, equivalent employment terms and conditions.

The Board continues to focus on improving culture which it has defined as "*the way we do things – consistently living our values to act in the best interests of our customers, colleagues and stakeholders*", and will maintain an emphasis on this throughout the phased withdrawal process.

The Group is a founding member of the Irish Banking Culture Board, a body which has been established to rebuild trust and embed a customer-focused culture across the banking sector.

The Group's expected behaviours and mindsets guide our decisions and actions through living our core values of 'serving customers', 'working together', 'doing the right thing' and 'thinking long term'. Our Code sets out what we expect of each other, and what our customers and communities expect of us. The 'Yes Check' tool is part of Our Code and guides our decision-making and actions. Our Critical People Capabilities underpin the retention, selection and development of our colleagues, ensuring we have the right knowledge, skills and behaviours to help the Bank navigate the phased withdrawal process.

The Group's risk management, operational risk, compliance and control frameworks, together with its corporate governance processes, form essential building blocks in improving culture.

Financial performance

The Group's financial performance is presented in the consolidated income statement on page 21.

The Group reported an operating loss before tax on continuing operations for the financial year of €280 million (2020 - €408 million loss).

Net interest income

Net interest income decreased by 15% to €121 million in 2021 primarily reflecting a reduction in asset volumes, with new lending volumes reducing following the phased withdrawal announcement and the decision to no longer accept applications for the majority of products from new to bank customers from the end of October.

Non-interest income

Non-interest income increased from €109 million in 2020 to €134 million, primarily due to a one-off gain on discontinuation of cash flow hedging driven by the legally binding agreement to sell the performing Commercial loan portfolio, partially offset by a reduction in net fees and commissions.

Operating expenses

Operating expenses increased by €65 million to €568 million in 2021 mainly from higher charges for regulatory fees in 2021, including a retrospective Single Resolution Fund Levy charge, and charges relating to customer remediation.

Impairment

The impairment release of €33 million (2020 - €157 million loss) primarily reflects improvements in existing stock and cures exceeding new into default customers, predominately in the Commercial loan portfolio. The €157 million charge in 2020 reflected increased credit risk due to the uncertain economic environment created by the COVID-19 pandemic.

Tax

The Group incurred a tax charge in 2021 of €34 million (2020 - €154 million) mainly driven by an impairment of the deferred tax asset on losses on continuing operations following an updated recoverability assessment as a result of the strategic withdrawal. Similarly, the 2020 tax charge related primarily to an impairment of the deferred tax asset on losses based on a revised economic outlook.

Profit from discontinued operations, net of tax
Profit from discontinued operations increased from €131 million to €312 million principally due to a €190 million favourable movement on impairment losses.

A €124 million impairment loss in 2020 reflected increased credit risk due to the uncertain economic environment created by the COVID-19 pandemic. A €66 million impairment release in 2021 reflects an improvement in that position, particularly in respect of mortgages.

Return on assets
At the financial year end the total assets of the Group were €27,927 million (2020 - €31,205 million). Return on total assets for 2021 was 0% (2020 – -1.4%).

Capital ratios
The Group's capital position remained strong during 2021, as evidenced by the CET1 ratio of 27.8% at 31 December 2021 (2020 – 28.1%). Total risk weighted assets (RWAs) reduced from €14.1 billion in 2020 to €13.8 billion at the balance sheet date.

Share capital presented as equity
Details of share capital presented as equity can be found in Note 19 to the accounts.

Accounting policies
The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in Notes 5, 9, 10, 12 and 18 to the accounts.

Risk management
The major risks associated with the Group's business are credit; capital, liquidity and funding; non-traded market; climate-related; operational; model; reputational; compliance & conduct and financial crime. The Group is also exposed to risks from its defined benefit pension schemes. The Group has a risk management framework for managing these risks which are under continual review as the Group's business activities change in response to the phased withdrawal strategy and consumer, market, credit, product, regulatory and other developments.

The Group's policies for managing each of these risks and its exposures are detailed in Note 22 to the accounts.

Principal risks and uncertainties
Set out below are certain risks and uncertainties which may adversely affect the Group.

Risks and uncertainties arising from the Group's withdrawal from the market
The Group's withdrawal from the market is expected to take a number of years and may expose its business to many risks and uncertainties that may have a material adverse effect on its operating results, financial condition, outlook, prospects and ability to comply with its regulatory capital requirements. These risks and uncertainties may be accentuated by colleague and customer reaction and external speculation about the Group's future. The Board will continue to review and consider these risks and uncertainties in seeking to achieve appropriate implementation of the phased withdrawal strategy. The Group's capital and liquidity positions remain strong to underpin this strategy.

Risks relating to potential transfers of the Group's businesses and assets
The Bank has entered into legally binding agreements for the proposed sale of the majority of the Group's performing commercial loan book to Allied Irish Banks p.l.c. and for a material part of the Group's personal banking business to Permanent TSB Group Holdings plc (the 'Proposed Sales'). Successful completion of the Proposed Sales remains subject to a number of risks and uncertainties of which some are beyond the control of the Group. These include: satisfying relevant conditions precedent, obtaining regulatory and other approvals, potential legislative changes and other transaction execution risks and uncertainties, including purchasers' technology and operational capability (including scaling of relevant platforms) to accept large volumes of customer onboarding. Accordingly, the Proposed Sales may not be completed on acceptable terms in the timescale envisaged, or at all.

As part of the Group's phased withdrawal from the market, it will explore other potential transfers of its business and assets. Whether any transfers are agreed will depend on a variety of factors, such as the willingness and ability of purchasers to complete the transfers on acceptable terms, including raising any necessary financing when needed; purchasers' technology and operational capability (including scaling of relevant platforms) to accept large volumes of customer onboarding and continuing customer service; and obtaining any necessary legislative, regulatory or other approvals.

A phased withdrawal of the Group from the market, whether effected by the Proposed Sales, other business transfers, asset transfers, or other mechanisms, is likely to be highly complex from an IT and operational perspective with full implementation to be spread over the coming years. Changes may be required to the Group's business model and strategy; and material execution, commercial, legal, IT and operational risks may be involved.

Substantial effort, resource and expense may be needed to mitigate the manual and limited capacity and capability of existing customer account migration processes within the industry and any customer onboarding capability issues of purchasers and other banks.

Additional uncertainties include customer action or inaction, the inability to obtain necessary approvals and/or support from government agencies, regulators, trade unions and/or other stakeholders resulting in additional cost, resource and delays, resulting in significantly increased costs beyond acceptable levels. The phased withdrawal, the Proposed Sales and any other transfers may also be subject to various internal and external factors and risks, including (but not limited to) market, regulatory, economic and political uncertainties.

Successful implementation of the withdrawal, the Proposed Sales and any other transfers will also depend on how the Group is perceived by its customers, regulators, rating agencies, stakeholders and the wider market, the Group's ability to retain employees required to deliver the transition and its strategic plans.

The Board will review and consider these risks in seeking to achieve appropriate implementation of the phased withdrawal strategy.

Potential adverse impacts of uncertainties on the Group
The above-mentioned uncertainties relating to the Group's phased withdrawal, the Proposed Sales and any other transfer of the Group's business and assets may, therefore, materially and adversely affect the Group's business, results

of operations, financial condition, regulatory compliance and plans in many ways. These adverse impacts include (but are not limited to):

- potential damage to the Group's brand and reputation from press speculation, regulatory and other stakeholder scrutiny regarding its future;
- increased operating costs and losses during the phased withdrawal;
- adverse impact on the Group's culture and morale from increased people risk through the potential loss of key staff, loss of institutional knowledge and increased challenges of attracting and retaining colleagues;
- material and increased operational, IT system, culture, conduct, business and financial risks due to colleague and customer disengagement;
- the impact of disposal losses as part of an orderly run-down of certain of the Group's loan portfolios which may be higher than anticipated;
- regulatory risk, relating to the need for the Group to remain compliant, including in relation to its prudential, conduct and other regulatory and corporate governance requirements;
- the diversion of management resources and attention away from day-to-day management of the Group; and
- potential diminished willingness of suppliers and other counterparties to supply and transact with the Group on preferential terms, or at all.

These risks and uncertainties may also jeopardise completion of the Proposed Sales or any other transfers, result in higher than expected operating costs, negatively impact the Group's products and services offering and may adversely impact the Group's ability to deliver its strategy.

The Board will review and consider these risks and uncertainties in seeking to achieve appropriate implementation of the phased withdrawal strategy.

Risks arising from customer remediation in respect of legacy issues

The Group has materially concluded actions required as part of the CBI's Tracker Mortgage Examination. However, some of the Bank's customers have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank is challenging three recent 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.

Furthermore, there is a risk that throughout implementation of the phased withdrawal process further issues may be identified that require remediation.

Risks and uncertainties arising from COVID-19 pandemic

In many countries, including Ireland, the COVID-19 pandemic has, at times, resulted in the imposition of strict social distancing measures, restrictions on non-essential activities and travel quarantines, in an attempt to slow the spread, and reduce the impact, of COVID-19.

Despite widespread geographical deployment of COVID-19 vaccination programmes, the proliferation of COVID-19 variants continues to impact the Irish and global economies. Further waves of infection or the spread of new strains may result in renewed restrictions in affected countries and regions. As a result, significant uncertainties remain as to how long the impact of the COVID-19 pandemic will last, and how it will continue to affect the global economy.

In response to the COVID-19 pandemic and associated containment measures, unprecedented government and central bank mechanisms to support businesses and individuals, including various forms of financial assistance, as well as legal and regulatory initiatives, were introduced. However, uncertainty remains as to the impact of the tapering or ending of these schemes and the repayment of the related loans on customers, the economy and the Group.

Moreover, it is unclear as to how any secondary impacts and risk-related factors, such as rising interest rates and inflation, may affect the Group's business and performance.

The COVID-19 pandemic has prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and more working from home. These changes may have long-lasting impacts on the economic environment, including asset values.

Uncertainties relating to the COVID-19 pandemic have made reliance on analytical models more complex and may result in uncertainty impacting the risk profile of the Group and/or that of the wider banking industry. The medium and long-term implications of the COVID-19 pandemic for the Group's customers, the Irish housing market, and the Irish and global economies and financial markets remain uncertain.

Risks and uncertainties arising from Brexit

The EU-UK Trade and Cooperation Agreement ('TCA') was implemented on 1 January 2021. The TCA provides for free trade in goods between the EU and UK, with zero tariffs and quotas on goods that satisfy rules of origin requirements. Simultaneously the Northern Ireland Protocol was implemented, with Northern Ireland remaining in the EU single market for goods.

The future effects of Brexit on the Group's operating environment remain difficult to predict. Those effects may be impacted by wider global macro-economic trends and events, particularly COVID-19 pandemic related uncertainties, which may significantly impact the Group and its customers who are themselves dependent on trading with the UK or personnel from the UK. Equally, the future effects of Brexit may exacerbate the economic impacts of the COVID-19 pandemic on Ireland, the rest of the EU/EEA and the UK.

Furthermore, significant uncertainty remains as to the extent to which UK law, under which the Group's parent operates, will diverge from EU/EEA laws, whether and what equivalence determinations will be made by the various regulators and therefore what respective legal and regulatory arrangements the Group will be subject to. The legal and political uncertainty and any new or amended rules, could have a significant adverse impact on the Group. This includes increases in operating, compliance and restructuring costs and increased impairments. There is also potential for adverse impacts on capital requirements, the regulatory environment and taxation and, as a result, the Group's business and performance.

Other risks and uncertainties

The Group remains vulnerable to risks and uncertainty in the external economic environment, including persistent weakness in the global economy; escalation in global trade disputes; shifts in the international tax policy environment; persistently low or lower interest rates; inflation risks; global financial market volatility (including in euro area sovereign debt markets) linked to the effects of highly accommodative monetary policy settings in advanced economies and climate change. Furthermore, unfavourable political, military or diplomatic events, including armed conflict, state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the Group.

Board of directors

The Board is the main decision-making forum for the Bank. It has overall responsibility for management of the business and affairs of the Group, strategy and the allocation and raising of capital, and is accountable to its shareholder for financial and operational performance.

The Board considers strategic issues and ensures the Bank manages risk effectively through approving and monitoring the Bank's risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Bank's business operations. The Board's terms of reference includes key aspects of the Bank's affairs reserved for the Board's decision and are reviewed at least annually.

The roles of Chairperson and Chief Executive Officer are distinct and separate, with a clear division of responsibilities. The Chairperson leads the Board and ensures the effective engagement and contribution of all executive, non-executive and independent non-executive directors. The Chief Executive Officer has responsibility for all Group businesses and acts in accordance with authority delegated by the Board.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement, and they provide independent challenge to the executive directors and leadership team.

Board and Executive Committees with delegation from the Board include:

The Audit Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. The committee assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's systems and standards of internal controls, and monitors the Group's processes for internal audit and external audit.

The Board Risk Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and oversees the operation of the Group Policy Framework.

The Nominations Committee - comprises at least three members, all of whom are independent non-executive directors, and is chaired by the Board Chair. The Nominations Committee is responsible for: (i) recommending suitable candidates to the Board and senior management positions; (ii) ensuring succession plans are in place for both Board and Senior Management positions; and (iii) reviewing the structure, size and composition of the Board, making recommendations with regard to any changes required.

The Performance and Remuneration Committee - comprises at least three members who are all independent non-executive directors. The committee advises the Board on remuneration matters.

The Related Party Lending Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. The committee is responsible for approving lending to related parties, which is regulated under the CBI Code of Practice on Related Party Lending 2013.

The Strategic Oversight Committee – comprises a minimum of seven members, including the CEO and a majority of independent non-executive directors. The purpose of the Committee is to provide oversight and challenge of the Group's strategy and plans in executing the phased withdrawal from the market. From February 2022 the responsibilities of this Committee were subsumed within the Board.

The Executive Committee - comprises the Group's senior executives and supports the CEO in managing the Group's businesses. It reviews strategic issues and initiatives and monitors financial performance and capital allocations.

Directors and secretary

The directors and secretary who served at any time during the financial year and up to the date of signing are listed on page 3.

In accordance with the Constitution, the directors are not required to retire by rotation.

Non-financial information

The following information is disclosed in compliance with European Union (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017.

Business model

The Group earns income from interest on loans to our personal, business and commercial customers, and from interest charged on specific deposits placed with us, as well as fees from customer transactions and other services. The Group pays interest to customers and investors who have placed certain deposits with us and bought our debt securities.

We are a digital-first bank that has been focused on technological and digital capabilities, reflecting changing trends in customer behaviours.

The percentage of digitally active customers, being customers who have used online or mobile banking in the preceding 90 days, has been a key measure of the success of the Bank's digital propositions, with 78% customers digitally active in 2021 (2020 – 73%). As customers transfer to new financial service providers, their familiarity with digital banking may be beneficial in availing of digital account opening processes with their chosen new provider.

Environmental matters

Climate-related risk, in addition to the threat of financial loss, includes potential adverse non-financial impacts associated with climate change and the associated political, economic and environmental responses.

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms, and a rise in sea level. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. Transition risks may arise as borrowers adjust their business models towards a low-carbon economy. Changes in policy, technology and sentiment may prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets.

The Board is responsible for monitoring and overseeing climate-related risk within the Group's overall business strategy and risk appetite. In 2021 the Board approved the allocation of senior management function responsibility for identifying and managing financial risks associated with climate change to the Group's Director of Risk.

Many longer-term climate risk impacts for the Group are substantially mitigated by the phased withdrawal decision and associated portfolio sales. For example, the Group will not be a participant in the European Banking Authority's 2022 climate stress test exercise. Nonetheless, the Group intends to maintain a focus on regulatory risk management and reporting guidelines related to climate risk during the phased withdrawal process and has access to the expertise of the NatWest Group Climate Centre of Excellence, which provides strategic horizon scanning, guidance and specialist climate expertise.

In 2021 the Group achieved a 19% reduction in its operational Scopes 1 & 2 Greenhouse Gas emissions, measured against the Group's 2019 baseline. This contributed to the Group maintaining its Net Carbon Zero status, by offsetting as much carbon as it emitted, having first achieved this in 2020. The Group also continued to purchase 100% of its energy from renewable energy sources and maintained its Zero Waste to landfill accreditation in 2021.

As part of the Group's Sustainable Futures Network, colleagues were encouraged to participate in 'Plastic Free July', a global movement that encourages people to reduce or eliminate their use of plastics in everyday life.

Social matters

The Group recognises the important role the Bank plays both in supporting its customers and wider society now, as well as helping future generations. In 2021 the Group was, for the fifth time, certified with the Business Working Responsibly Mark by Business in the Community. This is the highest level of sustainability accreditation in Ireland, recognising the Group's efforts across areas such as community engagement, responsible workplace practices and protection of the environment.

The Group recognises the significant detrimental impact that victims of fraud can experience and helping customers to keep their finances secure remains a top priority. The 'Friends Against Scams' initiative remains a key aspect of the Group's fraud prevention strategy, providing guidance to customers and the wider community as to how consumers can best protect themselves from becoming victims of fraud. Events are delivered by frontline staff, including community bankers and the Bank's Community Protection Advisor, and the content has been enhanced to specifically highlight to customers ways in which they might be targeted by fraudsters during the phased withdrawal process.

MoneySense, the Group's financial education programme for primary and secondary level students provides a range of resources and delivers digital workshops to schools and home-schooling families. The programme has been awarded the Financial Education Quality Mark by Young Money and has been created with input from practising teachers to support the curriculum. The newly created 'Save our money, save our planet' workshop for 8-12 year-olds explores the topic from a money-saving angle, with pupils tasked to think about everyday activities that use a lot of energy, the role they play in climate change and how to reduce energy costs for a household.

The 'Do Good, Feel Good' initiative, giving colleagues the opportunity to support communities and causes that are important to them, is central to the Bank's culture. The Bank-wide "5K or My Way" challenge encouraged colleagues to fundraise in a way that worked for them, for example, with a 5km run or walk with their team, 50,000 steps per week, or trying five new recipes to share with neighbours or colleagues in exchange for donations.

Over €45k was raised as part of 'Do Good, Feel Good' and other fundraising activities in 2021, supporting charities across the Republic of Ireland. This effort was boosted by the Group's Community Cashback matching programme. Colleagues who raised over €300 or volunteered more than 50 hours for a charity or community group could apply for one of 4,000 €300 awards available across the NatWest Group in 2021.

Employee matters

Since the phased withdrawal announcement, we have engaged with our colleagues and their representative bodies to provide as much certainty and clarity as possible with respect to the different stages of the withdrawal process. In particular we made an immediate commitment to there being no new compulsory redundancy exits in 2021.

The Bank aims to minimise job losses via TUPE transfer where appropriate. TUPE is the legal protection for employees when they are transferred to a new employer on the sale of a business. In Ireland, TUPE is dealt with by the 'European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003'. These regulations provide employment rights to employees when their employer changes because their work is transferring to another organisation. The key objective of the legislation requires the new employer to employ those employees transferring (with continuity of service) and to give them the same or similar contractual terms.

In June the Bank agreed on a new collective agreement with its employee representative bodies to cover the phased withdrawal from the market. The agreement included new enhanced redundancy terms, a training grant of up to €5,000 (that can alternatively be used as a pension contribution), and a long service payment for colleagues with service of 25 years or more.

Colleague engagement

The Group's purpose was revised to reflect our strategy to safely withdraw from the market while supporting customers, minimising job losses and building skills for the future, becoming "*We support our colleagues and customers now and help them to prepare for the future*".

Our focus is to be a responsible and responsive employer and to support our colleagues throughout the withdrawal process. The Bank is committed to maintaining stability and to safely withdraw from the market by exiting all colleagues safely, minimising job losses where possible, and providing development opportunities for a future after the Bank.

Since the withdrawal decision announcement, the Bank has undertaken two employee engagement surveys, a series of all Bank townhalls and an ongoing series of virtual team visits and colleague listening sessions with smaller groups of colleagues.

Over 70% of our colleagues completed the engagement surveys and their feedback remains crucial to us as we navigate the phased withdrawal together. The Group's most recent survey, in September, showed colleague sentiment improving through higher scores for building capability and performance management, demonstrating the support and care being given to colleagues and a culture where we can support colleagues now and for the future.

Colleagues are also engaged in activities relating to how we can best serve customers throughout the phased withdrawal. For example, colleagues have been involved in the design of guidance produced to help customers move their accounts, in due course, as safely and as easily as possible.

The Group has invested significantly in colleague support, including €1.2 million to support colleagues completing a professional qualification in 2021, almost 400 one-to-one career coaching sessions and 45 development focus sessions with c.7,500 attendee places filled. The Group continues to enhance its comprehensive and evolving offering that targets both information and interventions connected to skills that are in demand in the marketplace.

Colleagues are encouraged to report concerns relating to wrongdoing or misconduct. They can raise these in the first instance with their line manager or alternatively they can raise any concerns via 'Speak Up', the Group's whistleblowing service. Engagement surveys continue to show that a significant proportion of colleagues feel safe to speak up, as well as understanding the process of how they should do that.

Employment of people with disabilities
The Group's policy is that people with disabilities are always considered for employment and subsequent training, career development and promotion based on merit. If colleagues develop a disability, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in suitable alternative duties, making appropriate adjustments.

Diversity and inclusion
The Group's Diversity and Inclusion strategy, along with Our Values, promotes diversity in all areas of recruitment and employment. The principal aim of our Diversity and Inclusion strategy is to provide an inclusive culture and environment in which all colleagues can bring the best of themselves to work.

The Group has four employee-led networks: Rainbow Network Ireland, UB Women's Network, Enable Network, and Sustainable Futures.

Maintaining a working environment throughout the withdrawal process in which all our colleagues can develop is important to us irrespective of their age, disability, ethnic or national origin, including membership of the traveller community, gender, gender identity, marital or civil partnership status, race, religion or sexual orientation. We work to avoid limiting colleagues' potential through bias, prejudice or discrimination. The Group recognises the beneficial contribution of a diverse mix of uniquely talented individuals for the delivery of great service to our diverse customer base.

Key principles of the Group's Diversity and Inclusion Policy include that we attract, motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code, which sets out the Group's expected behaviours and standards of conduct, to build and develop an inclusive workforce in order to understand and respond to our diverse customer base.

The Group's 2021 version of Our Code has been updated to capture our new purpose which underpins our phased withdrawal from the market and to "*support our colleagues and customers now and help them to prepare for the future*". We also have wellbeing plans and initiatives in place that support inclusion, for example our Employee Assistance Programme and our "Moments that Matter" toolkits and guidelines.

Gender balance
As at the end of 2021 the Group's permanent headcount was 1,935 (39% male and 61% female). As at the 31 December 2021 we have 38% female representation on our Board, 50% at Executive level and 32% at Senior Manager level. Our positive action approach is helping us to improve the balance of women in senior roles, in line with our aspiration to have a fully balanced workforce at all levels of the Group.

2021 Gender profile

	Male	Female
Board Member	62%	38%
Executive & attendees	42%	58%
Senior Management	68%	32%
Manager	53%	47%
Appointed	45%	55%
Clerical	20%	80%

Safety, health and wellbeing
The Group is committed to the safety, health and wellbeing of colleagues. Benchmarking, industry leading expertise, innovative events and resources are combined to ensure a comprehensive 'Wellbeing Plan' continues to be developed and delivered. Feedback on effectiveness of this plan is facilitated through the 'Our View' survey results, cross divisional colleague focus groups, the Financial Services Union and HR Business Partners.

The Group's 'Live Well, Being You' wellbeing campaign is about helping our colleagues bring the best of themselves to work. We believe everyone should be able to be themselves at work and achieve a healthy life balance in a place where colleagues' wellbeing is supported. The Group's four wellbeing pillars focus on Mental, Physical, Social and Financial Wellbeing.

The Group also holds the 'KeepWell Mark', the Irish Business and Employers Confederation's workplace wellness national accreditation programme.

Wellbeing is central to the Group's purpose to help colleagues prepare for the future and we continue to support our colleagues as they continue to work from home or from one of our office locations through the ongoing COVID-19 pandemic.

Comprehensive wellbeing activities and supports across Mental, Physical, Social and Financial wellbeing are in place with a range of events, open to all colleagues to participate in, held throughout 2021.

Human rights and modern slavery
The Group does not tolerate or condone abuse of human rights within our businesses, supply chain or within our sphere of influence. The Group's approach to respecting human rights is guided by the United Nations Guiding Principles on Business and Human Rights and aligned to Our Purpose-led strategy and Our Values of "Doing the Right Thing' and "Thinking Long Term'.

We seek to tackle modern slavery through implementation of policies covering our customers, colleagues and suppliers, and by monitoring our financing and supply chain for this activity.

NatWest Group's Statement on Modern Slavery and Human Trafficking, to which the Group subscribes, is published at natwest.com.

Our customers
The Group's relationship with its customers is governed by a wide range of risk considerations, including our Anti-Money Laundering (AML) and Environmental, Social, and Ethical (ESE) risk assessments on current and new customers, to consider whether any of their activities carry human rights infringements.

Our people
The Group is an equal opportunities employer. In addition to complying with all applicable Irish and EU employment laws, we have internal policies and tools in place such as Our Code, a revised Yes Check that supports our Purpose and Speak Up to support a great place to work for our people.

Our suppliers
The Group's Supplier Code of Conduct continues to be a contractual requirement and we expect our suppliers to uphold the same values and commitments we have made on social and environmental impacts.

Anti-bribery and corruption (ABC)
The Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for the Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles.

The Group considers ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

As part of the Group's wider financial crime approach, the anti-money laundering controls applied to customer relationships (particularly with Politically Exposed Persons) and transaction monitoring, mitigate the risk of the Bank's services enabling the flow of criminal funds including in relation to bribery or corruption.

Corporate Governance Requirements for Credit Institutions
The Corporate Governance Requirements for Credit Institutions 2015 ("the Code") imposes standards on all credit institutions licensed or authorised by the CBI with additional requirements on credit institutions which are designated as Significant. The Bank has been designated as a Significant credit institution and is therefore subject to the additional requirements for Significant designated credit institutions included within Appendices 1 and 2 of the Code.

Corporate Governance Statement under Section 1373(2) of the Companies Act 2014
The Group operates internal control processes over financial reporting to support the preparation of the consolidated financial statements and manage risk in relation to financial statements preparation. The main components of this framework are as follows:
- a comprehensive set of accounting policies are in place to facilitate preparation of the annual financial statements in accordance with International Financial Reporting Standards as adopted by the EU;
- a control process is in place involving the appropriate level of management review of significant account line items and disclosures to ensure that the financial information required for the financial statements is presented fairly and disclosed appropriately;
- the financial statements are subject to detailed review and approval by senior management and executive personnel within Finance and Risk with other specialists consulted as appropriate;
- a Disclosure Committee operates as a sub-committee of the Executive Committee to oversee, evaluate and review accounting issues and developments and recommendations on key accounting judgements including provisions and valuations prior to presentation to the Audit Committee and Board;
- detailed papers are prepared for review and approval by the Audit Committee and Board setting out significant judgemental and technical accounting issues and any significant presentation and disclosure considerations;
- user access to financial reporting systems is restricted to those individuals that require it to fulfil their assigned roles and responsibilities; and
- Internal Audit, as the Third Line of Defence, and in accordance with the Institute of Internal Auditors International Professional Practices Framework, provides independent assurance to the Board and executive management on the quality and effectiveness of governance, risk management and internal controls to monitor manage and mitigate key risks to achieving the Group's objectives. Further detail on the Three Lines of Defence model is included in Note 22.

Directors' compliance statement
In accordance with the provisions of Section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Group's compliance with the relevant obligations, as defined by the Act. The directors confirm that:
- a compliance statement has been drawn up setting out the Group's policies in relation to complying with the relevant obligations;
- appropriate measures are in place that are designed to ensure material compliance with the relevant obligations; and
- a review of these measures has been carried out during the financial year.

Accounting records
The measures taken by the directors to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerised accounting systems. The Company's accounting records are maintained at the Company's registered office at Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin 18, D18 N153.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in this report on pages 4 to 7.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements.

Notes 10, 22 and 32 to the accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its management of market, credit and liquidity risks.

The Group's liquidity position remained strong during 2021, evidenced by the Liquidity Coverage Ratio (LCR) of 167% at 31 December 2021 (2020 - 250%). The primary driver of the reduction in the LCR ratio is the early maturity of the Group's TLTRO 3 borrowing of €3.1 billion. The Group's primary source of liquidity is from personal and commercial customer deposits. The Group's assets at 31 December 2021 contain €7.5 billion of high quality liquid assets (2020 - €8.6 billion). In addition, this is supported by contingent liquidity of €1.9 billion at 31 December 2021 (2020 – €3.0 billion). Furthermore, on 15 February 2022 the Group entered into a €9.5 billion contingent liquidity agreement with National Westminster Bank Plc, replacing a pre-existing contingent liquidity facility of €1 billion.

The Group's capital position remained strong during 2021, as evidenced by the CET1 ratio of 27.8% at 31 December 2021 (2020 – 28.1%).

Following the legally binding agreements for the sale of a significant portion of the Commercial and Personal loan books, the future scale and focus of the Group's operations will be materially altered on completion of these transactions. Successful completion of the Proposed Sales remains subject to a number of risks and uncertainties of which some are beyond the control of the Group. These include satisfying relevant conditions precedent, obtaining regulatory, CCPC and other approvals, potential legislative changes and other transaction execution risks and uncertainties. Accordingly, the Proposed Sales may not be completed on acceptable terms in the timelines envisaged or at all.

The directors have considered the Group's capital and liquidity position as set out above and the results of stressed liquidity scenarios and concluded that the Group has the ability to continue as a going concern for the foreseeable future. The Group continues to service existing customers across its full product range and continues to write certain new business to existing customers. However, there are material uncertainties as to the outcome and timing of the Proposed Sales which will impact the timing of future decisions in respect of the Group's business which may have a bearing on the going concern assumption. Notwithstanding these material uncertainties the directors are of the opinion that it remains appropriate to prepare the accounts on a going concern basis.

Interests in shares or debentures
At 1 January and 31 December 2021, the directors and secretary did not have any interests in the shares or debentures of NatWest Group plc representing more than 1% of the nominal value of its issued share capital.

Change of registered office
On 16 April 2021 the registered office of the Company changed from Ulster Bank Group Centre, George's Quay, Dublin 2, D02 VR98 to Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin 18, D18 N153.

Branches outside the Republic of Ireland
The Bank and Group has a branch (as defined by Council Directive 89/666/EEC) in Northern Ireland. The banking activities of the branch ceased on 31 December 2018. The remaining procurement activities ceased during the financial year.

Investments in Group undertakings
Details of the Bank's investments in Group undertakings are shown in Notes 14 and 28. All of the Group undertakings are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

Country-by-country reporting
The Bank has opted to publish the information required under Section 77 of Statutory Instrument No.158 of 2014 on its website: www.ulsterbank.ie.

Charitable contributions
During the financial year the Group made charitable and community investment donations in the Republic of Ireland totalling €123,817 (2020 - €37,800).

Political donations
During the financial year the Group did not make any political donations (2020 - nil).

Dividends
The directors did not pay any interim dividends during the financial year (2020 - nil). The directors do not recommend the payment of a final dividend (2020 - nil).

Post balance sheet events
There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Auditors
The auditors, Ernst & Young, Chartered Accountants and Statutory Audit Firm, were appointed on 20 April 2016 and will continue in office in accordance with the Companies Act 2014.

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 the Bank's auditors are unaware; and

(b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330(1) of the Companies Act 2014.

On behalf of the Board:

Martin Murphy
Chairperson

Jane Howard
Chief Executive Officer

17 February 2022

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts in accordance with the Companies Act 2014 and applicable regulations.

Irish company law requires the directors to prepare the financial statements for each financial year. Under company law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting framework"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Bank as at the financial year end date and of the profit or loss of the Group and Bank for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements the directors are required to:

- select suitable accounting policies for the Bank and the Group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for ensuring that the Group and Bank keep or cause to be kept adequate accounting records which correctly explain and record the transactions of the Group and Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

By order of the Board:

Martin Murphy
Chairperson

Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

17 February 2022

Board of directors

Chairperson
Martin Murphy

Executive directors
Jane Howard
Paul Stanley

Non-executive directors
David Guest
Brendan Nelson
Peter Norton
Rosemary Quinlan
Mary Walsh

Independent auditor’s report to the members of Ulster Bank Ireland Designated Activity Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ulster Bank Ireland Designated Activity Company (‘the Company’) and its controlled entities (‘the Group’) for the year ended 31 December 2021, which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and notes to the financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2021 and of its loss for the year then ended;
- the Company financial statements give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2021;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) 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 Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), 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.

Material Uncertainty related to going concern

We draw attention to note 1(a) in the financial statements, which indicates that there are material uncertainties as to the outcome and timing of the Proposed Sales which will impact the timing of future decisions in respect of the Group’s business which may have a bearing on the going concern assumption. As stated in note 1 (a), the outcome and timing of these events indicate that a material uncertainty exists that may cast significant doubt on the Group’s continued adoption of the going concern basis of preparation. Our opinion is not modified in respect of this matter.

How we evaluated management's assessment:

- We obtained management's going concern assessment which includes an analysis of the capital, liquidity and funding position of the Group both at year end and forecast over the planned execution of the phased withdrawal as well as an assessment of the Group's intention to remain in operation.
- As part of our procedures we confirmed our understanding of management's going concern assessment process, including the inputs, estimates and assumptions used by management.
- Increased involvement from the audit engagement partner, directing and supervising the audit procedures on going concern and senior members of the audit team increased their time and involvement in performing the audit procedures on going concern.
- We challenged the reasonableness of and performed sensitivity on, the assumptions utilised by management in preparation of forecasts supporting the going concern assumption including related stress testing and the ability of the Group to avail of contingent liquidity.
- We made enquiries of management, including at the ultimate parent management NatWest Group plc level, as to the status of the phased withdrawal and the intention to remain in operation, and updated this to the date of approval of our audit report.
- We obtained supporting documentation for the Group's contingent liquidity arrangements.
- We reviewed board minutes and regulatory correspondence for any matters which could impact the going concern basis of accounting.
- We assessed the disclosures in the Financial Statements relating to going concern, including the material uncertainties, to ensure compliance with IAS 1 "Presentation of Financial Statements" and IAS 10 "Events after the Reporting Period".

Our key observations

- The capital and liquidity position as at year end and up to the date of signing the annual report are above the required regulatory minimums. The forecast capital and liquidity position over the planned execution of the phased withdrawal (including in a stressed scenario) indicates the Group maintains capital and liquidity buffers in excess of minimum regulatory requirements. The Group also has access to contingent liquidity funding which could be utilized if required.
- There is material uncertainty as to the outcome and timing of the proposed sales which will impact the timing of future decisions in respect of the Group's business which may have a bearing on the going concern assumption.
- The disclosures in the Financial Statements in relation to going concern, including the material uncertainties, are in compliance with IAS 1 "Presentation of Financial Statements" and IAS 10 "Events after the Reporting Period".

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, including 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.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Risk	Our response to the risk
Impairment provision on loans and advances to customers At 31 December 2021 the Group reported total gross loans to customers of €19,381m, including €10,812m classified as assets of disposal groups (2020: €21,059m; nil) and €676m of expected credit loss provisions (ECL), including €129m related to assets of disposal groups (2020: €893 m; nil). Key judgements and estimates in respect of the timing and measurement of ECL include: – Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard, – Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation – Inputs and assumptions used to consider the impact of multiple economic scenarios, particularly those influenced by COVID-19 and Brexit including any changes to scenarios required through 31 December 2021; and – Appropriateness, completeness and valuation of post model adjustments including COVID-19 specific adjustments due to the increased uncertainty and less reliance on modelled outputs considering the risk of management override. – Measurements of individually assessed provisions including the assessment of multiple scenarios Refer to the Accounting policies and Notes 12 and 22 of the Consolidated Financial Statements.	Tested the design and operating effectiveness of key controls across the processes relevant to the ECL, including the key judgements and estimates noted involving specialists where appropriate. This included the allocation of assets into stages including management's monitoring of stage effectiveness, model monitoring, model validation, data accuracy and completeness, credit monitoring, multiple economic scenarios, post model adjustments, individual provisions and production of journal entries and disclosures. In obtaining sufficient audit evidence we: – Attended the key executive finance and risk committees where the inputs, assumptions and adjustments to the ECL were discussed and approved. – 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 COVID-19 including geographic considerations and high risk industries, the impact of government support measures, such as payment breaks, may have had on delaying expected defaults, credit risk management practices and the macroeconomic environment by considering trends in the economy and industries to which the Group is exposed. – Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9; this included peer benchmarking to assess staging levels. Tested assets in stage 1, 2 and 3 to verify that 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 due to COVID-19. – Performed a risk assessment on all models involved in the ECL calculation to select a sample of models to test. We involved modelling specialists to assist us to test this sample of ECL models by testing the assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default, and model implementation. We also tested material in-model and post-model adjustments which were applied as a result of COVID-19. With our modelling specialists, we assessed the data, judgments, methodology, sensitivities, completeness, and governance of these adjustments. – To evaluate data quality, agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. We included COVID-19 specific data points in this testing. – Involved economic specialists to assist us to evaluate the base case and alternative economic scenarios including evaluating probability weights and comparing these to other scenarios from a variety of external sources, as well as EY internally developed forecasts. This assessment included the latest developments related to COVID-19 at 31 December 2021. We assessed whether forecasted macroeconomic variables were complete and appropriate, such as GDP, unemployment rates, interest rates and the House Price Index. With the support of our modelling specialists we evaluated the correlation and the overall impact of the macroeconomic factors to the ECL. – With the support of our internal valuation specialists, recalculated a sample of individually assessed provisions including the alternative scenarios and challenge of probability weights assigned. We considered the impact COVID-19 had on collateral valuations and time to collect. We also considered whether planned exit strategies remained viable under COVID-19. – Assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards, including expectations of COVID-19 specific disclosures and the process and controls management had in place to create and approve the disclosures. Our planned audit procedures were completed without material exception. We are satisfied impairment provisions on loans and advances to customers were complete and accurate, in all material respects, in accordance with IFRS.

Risk	Our response to the risk
IT systems and controls impacting financial reporting The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. 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. Our audit approach relies upon IT applications and the related control environment including: – User access management across application, database and operating systems, – Changes to the IT environment, including transformation that changes the IT landscape including system migrations, – IT operational controls, – IT application or IT dependent controls, and – Evaluation of IT control environment at third party service providers.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. In obtaining sufficient audit evidence we: – Tested user access by assessing the controls in place for in-scope applications and verifying the addition and periodic recertification of users' access. – Tested system migrations and related technology changes (including where relevant new systems) resulting from IT transformations during the current financial year, where material to financial statement reporting. This included verifying the completeness of information transferred to new systems as well as testing the controls in place for both the migration and the new system. – Assessed automated controls within business processes and the reliability of relevant reports used as part of a manual control. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input and validation controls. – There continues to be a high number of systems outsourced to third party service providers. For these systems, we tested IT general controls through evaluating the relevant Service Organisation Controls 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 control deficiencies were identified, 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 are satisfied that IT controls impacting financial reporting are designed and operating effectively.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on 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 economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of audit procedures.

We determined materiality for the Group to be €38m (2020: €44m), which is 1% (2020: 1%) of equity. We believe that Equity provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements.

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 overall control environment, our judgment was that performance materiality should be set at 50% (2020: 50%) of our planning materiality, namely €19m (2020: €22m). We have set performance materiality at this percentage having considered our prior year experience of the risk of misstatements, both corrected and uncorrected.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €1.9m (2020: €2.2m), 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.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

There have been no significant changes in scoping from that applied in our prior year audit as all subsidiaries are included in full scope population and all audit work performed for the purposes of these financial statements was undertaken by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this 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 2014

In our opinion, based solely on the work undertaken in the course of the audit, we report that:

- The information given in the directors' report for the financial year for which the financial statements are prepared, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, is consistent with the financial statements, and
- The directors' report, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, has been prepared in accordance with applicable legal requirements.

We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on page 11 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the Company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014.

Based on our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act, which relate to disclosures of directors' remuneration and transactions are not complied with by the Company. We have nothing to report in this regard.

We have nothing to report in respect of section 13 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, which require us to report to you if, in our opinion, the Company has not provided in the non-financial statement the information required by Section 5(2) to (7) of those Regulations, in respect of year ended 31 December 2021.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework that give a true and fair view, and for such internal control as they 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 the Parent Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Parent Company or to cease operations, or has 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 (Ireland) 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.

The objectives of our audit, in respect to fraud, are, to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses, and to respond appropriately to fraud or suspected fraud identified during the audit.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements and understood how the Group is complying with those frameworks by reviewing policy framework, holding discussions with the Group's general counsel, internal audit, amongst others.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Director of Risk, Director of Compliance and the Group Audit Committee Chairman. We also reviewed the Group's fraud-related policies and mandates of different governance forums assessing fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reviewing the correspondence exchanged with the Regulator.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf .

This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the board of Ulster Bank Ireland Designated Activity Company on 20 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The current period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or Parent Company and we remain independent of the Group and Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Parent Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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.

Eoin MacManus

for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm
Office: Dublin
Date: 17 February 2022

(1) The maintenance and integrity of the NWG and Ulster Bank Group web site is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Consolidated income statement for the financial year ended 31 December 2021

	Note	2021 €m	2020 [1] €m
Interest receivable		188	202
Interest payable		(67)	(59)
Net interest income	2	121	143
Fees and commissions receivable		91	96
Fees and commissions payable		(15)	(9)
Other operating income		58	22
Non-interest income	3	134	109
Total income		255	252
Staff costs		(140)	(150)
Premises and equipment		(20)	(16)
Other administrative expenses		(407)	(323)
Depreciation, impairment and amortisation		(1)	(14)
Operating expenses	4	(568)	(503)
Loss before impairment releases/(losses)		(313)	(251)
Impairment releases/(losses)	12	33	(157)
Operating loss before tax		(280)	(408)
Tax charge	7	(34)	(154)
Loss from continuing operations		(314)	(562)
Profit from discontinued operations, net of tax	9	312	131
Loss for the financial year		(2)	(431)
Attributable to:			
Ordinary shareholders		(2)	(431)

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 9.

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

	Note	2021 €m	2020 €m
Loss for the financial year		(2)	(431)
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes	5	(224)	81
Tax	7	28	(10)
		(196)	71
Items that do qualify for reclassification			
Fair value through OCI (FVOCI) financial assets	13	(12)	13
Cash flow hedges	11	(84)	43
		(96)	56
Other comprehensive (loss)/income after tax		(292)	127
Total comprehensive loss for the financial year		(294)	(304)
Attributable to:			
Ordinary shareholders		(294)	(304)

The accompanying notes form an integral part of these financial statements.

Balance sheets as at 31 December 2021

		Group		Bank	
		2021	2020	2021	2020
	Note	€m	€m	€m	€m
Assets					
Cash and balances at central banks	10	5,552	5,874	5,552	5,874
Derivatives	11	90	226	90	226
Loans to banks - amortised cost	10	97	195	47	33
Loans to customers - amortised cost	10	7,930	20,022	7,930	20,022
Amounts due from holding companies and fellow subsidiaries	10	808	1,517	859	1,570
Other financial assets	13	2,488	2,951	2,488	2,951
Investments in Group undertakings	14	-	-	1	5
Other assets	15	232	420	232	418
Assets of disposal groups	9	10,730	-	10,730	-
Total assets		27,927	31,205	27,929	31,099
Liabilities					
Bank deposits - amortised cost	10	307	3,092	307	3,092
Customer deposits - amortised cost	10	21,938	21,828	21,938	21,828
Other financial liabilities		-	270	-	-
Amounts due to holding companies and fellow subsidiaries	10	1,339	1,339	1,343	1,506
Derivatives	11	64	98	64	98
Subordinated liabilities	17	86	85	86	85
Other liabilities	18	316	328	313	328
Liabilities of disposal groups	9	6	-	6	-
Total liabilities		24,056	27,040	24,057	26,937
Owners' equity		3,871	4,165	3,872	4,162
Total liabilities and equity		27,927	31,205	27,929	31,099

The accompanying notes form an integral part of these financial statements. As detailed in Note 8 the Bank's profit after tax for the financial year ended 31 December 2021 was €2 million (2020 – €431 million loss).

The financial statements were approved by the Board of Directors on 17 February 2022 and signed on its behalf by:

Martin Murphy
Chairperson

Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer
and Deputy CEO

Colin Kelly
Company Secretary

Statements of changes in equity for the financial year ended 31 December 2021

	Group		Bank	
	2021 €m	2020 €m	2021 €m	2020 €m
Called up share capital - at 1 January and 31 December	3,379	3,379	3,379	3,379
Share premium - at 1 January and 31 December	857	857	857	857
FVOCI reserve - at 1 January	15	(2)	15	(2)
Unrealised (losses)/gains	(12)	13	(12)	13
Realised losses	-	4	-	4
At 31 December	3	15	3	15
Cash flow hedging reserve - at 1 January	84	41	84	41
Amount recognised in equity	(40)	61	(40)	61
Amount transferred from equity to earnings	(44)	(18)	(44)	(18)
At 31 December	-	84	-	84
Retained earnings - at 1 January	(170)	194	(173)	191
Remeasurement of retirement benefit schemes	(224)	81	(224)	81
Tax	28	(10)	28	(10)
Realised losses in financial year on FVOCI assets	-	(4)	-	(4)
(Loss)/profit attributable to ordinary shareholders				
- from continuing operations	(314)	(562)	(310)	(562)
- from discontinued operations	312	131	312	131
At 31 December	(368)	(170)	(367)	(173)
Owners' equity at 31 December	3,871	4,165	3,872	4,162

The accompanying notes form an integral part of these financial statements.

Cash flow statements for the financial year ended 31 December 2021

	Note	Group 2021 €m	Group 2020[1] €m	Bank 2021 €m	Bank 2020[1] €m
Cash flows from operating activities					
Operating loss before tax from continuing operations [2]		(280)	(408)	(276)	(408)
Operating profit before tax from discontinued operations		316	141	316	141
Depreciation, impairment and amortisation of property, plant and equipment		1	15	1	15
Impairment in investments in Group undertakings		-	-	4	-
Interest on subordinated liabilities and debt securities in issue		9	8	9	8
Defined benefit pension schemes		22	22	22	22
Impairment (releases)/losses		(99)	281	(100)	281
Elimination of foreign exchange differences		(12)	18	(12)	18
Provisions charges		40	13	40	13
Other non-cash items		(75)	52	(73)	52
Net cash flows from trading activities		(78)	142	(69)	142
Decrease in loans to customers		12,189	1,078	12,189	1,078
Decrease/(increase) in amounts due from holding companies and fellow subsidiaries		141	(143)	106	(130)
Increase in assets of disposal groups		(10,730)	-	(10,730)	-
(Increase)/decrease in other assets		(20)	13	(22)	13
Decrease/(increase) in derivative assets and liabilities		102	(44)	102	(44)
(Decrease)/increase in bank and customers deposits		(2,675)	1,229	(2,675)	1,229
Decrease in other financial liabilities		(270)	(280)	-	-
Decrease in amounts due to holding companies and fellow subsidiaries		(2)	(20)	(170)	(284)
Increase in liabilities of disposal groups		6	-	6	-
Decrease in other liabilities		(97)	(82)	(101)	(82)
Changes in operating assets and liabilities		(1,356)	1,751	(1,295)	1,780
Income taxes paid		-	-	-	-
Net cash flows from operating activities [2]		(1,434)	1,893	(1,364)	1,922
Cash flows from investing activities					
Sale and maturity of securities		566	1,088	566	1,088
Purchase of debt securities		(121)	(903)	(121)	(903)
Purchase of property, plant and equipment		(2)	(2)	(2)	(2)
Net cash flows from investing activities		443	183	443	183
Cash flows from financing activities					
Interest on debt securities in issue		(4)	(1)	(4)	(1)
Interest on subordinated liabilities		(5)	(5)	(5)	(5)
Net cash flows from financing activities		(9)	(6)	(9)	(6)
Effect of exchange rate changes on cash and cash equivalents		13	(19)	13	(19)
Net (decrease)/increase in cash and cash equivalents		(987)	2,051	(917)	2,080
Cash and cash equivalents 1 January	25	7,444	5,393	7,324	5,244
Cash and cash equivalents 31 December	25	6,457	7,444	6,407	7,324

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 9.
(2) Includes interest received of: Group €494 million (2020 - €505 million); Bank €496 million (2020 - €505 million) and interest paid of: Group €59 million (2020 - €43 million); Bank €57 million (2020 - €44 million).

The accompanying notes form an integral part of these financial statements.

Notes to the accounts

1. Accounting policies

a) Presentation of accounts

Following the legally binding agreements for the sale of significant portions of the Commercial and Personal loan books, the future scale and focus of the Group's operations will be materially altered on completion of these transactions. Successful completion of the Proposed Sales remains subject to a number of risks and uncertainties of which some are beyond the control of the Group. These include satisfying relevant conditions precedent, obtaining regulatory, CCPC and other approvals, potential legislative changes and other transaction execution risks and uncertainties. Accordingly, the Proposed Sales may not be completed on acceptable terms in the timelines envisaged or at all.

The directors have considered the Group's capital and liquidity position as set out in the Report of the directors on page 12 and the results of stressed liquidity scenarios and concluded that the Group has the ability to continue as a going concern for the foreseeable future. The Group continues to service existing customers across its full product range and continues to write certain new business to existing customers. However, there are material uncertainties as to the outcome and timing of the Proposed Sales which will impact the timing of future decisions in respect of the Group's business which may have a bearing on the going concern assumption. Notwithstanding these material uncertainties the directors are of the opinion that it remains appropriate to prepare the accounts on a going concern basis.

The audited accounts, set out on pages 21 to 103, are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and adopted by the EU (together IFRS). The significant accounting policies and related judgments are set out in this note.

The Bank is incorporated as a designated activity company and registered in the Republic of Ireland (Registration number - 25766). The Bank's registered and head office is Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin 18, D18 N153. The Group and Bank's accounts are presented in accordance with the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015.

The accounts are presented in the functional currency, euro.

With the exception of certain financial instruments as described in accounting policies (k) and (q) the accounts are presented on a historical cost basis.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Bank and entities (including certain structured entities) that are controlled by the Bank. The Bank controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity. Power generally arises from holding a majority of voting rights.

On acquisition of a subsidiary, its identifiable assets, liabilities and contingent liabilities are included in the consolidated financial statements at their fair value. A subsidiary is included in the consolidated financial statements from the date it is controlled by the Bank until the date the Bank ceases to control it through a sale or a significant change in circumstances.

Changes in the Bank's interest in a subsidiary that do not result in the Bank ceasing to control that subsidiary are accounted for as equity transactions.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

Accounting changes effective 1 January 2021

The IASB amended IFRS 16 Leases through "COVID-19 amendments on lease modifications – Amendments to IFRS 16 – Leases". The effect of the amendment on the Group's accounts is immaterial.

b) Revenue recognition

Interest income and expense are recognised in the income statement using the effective interest rate method for all financial instruments measured at amortised cost, debt instruments classified as FVOCI, the effective part of any related accounting hedging instruments and finance lease income recognised at a constant periodic rate of return before tax on the net investment on the lease.

Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in 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.

c) Assets held for sale (disposal groups) and discontinued operations

An asset is classified as held for sale if the Group will recover its carrying amount principally through a sale transaction rather than through continuing use. A disposal group is a collection of assets and/or liabilities that are intended to be transferred in a single transaction. The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of the classification. Assets of disposal groups and liabilities of disposal groups are separately presented on the balance sheet.

Non-current assets held for sale or in disposal groups are measured at the lower of their carrying amount or fair value less costs to sell. Financial instruments within the scope of IFRS 9 that are held for sale or in disposal groups continue to be measured in accordance with that standard. Comparatives are not re-presented.

Discontinued operations represent components of the Group that either have been disposed of or are classified as held for sale. The post-tax results of discontinued operations are presented as a single amount in the income statement and are therefore excluded from the results of continuing operations. Comparatives are re-presented.

1. Accounting policies (continued)

d) 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 the Group. Employees may receive variable compensation by cash, by debt instruments issued by the Group or by NatWest Group plc shares. The NatWest Group operates a number of share-based compensation schemes under which it awards NatWest Group plc shares and share options to its employees. Such awards are generally 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 vesting period, taking account of forfeiture and clawback criteria.

Contributions to defined contribution pension schemes (schemes where the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions) are recognised in the income statement as employee service costs accrue.

For defined benefit schemes (schemes that define the benefit an employee will receive on retirement, 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 in 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) are recognised in other comprehensive income in full in the period in which they arise.

The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to the Group in the form of refunds from the plan or reduced contributions to it.

The Group will recognise a liability where a minimum funding requirement exists for any of its defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined by IAS 19. The Group only includes contributions that are substantively or contractually agreed and do not include discretionary features, including dividend-linked contributions.

e) Intangible assets

Intangible assets (identifiable non-monetary assets without physical substance) are stated at cost less accumulated amortisation and impairment losses. Amortisation (a method to spread the cost of such assets over time to the income statement) is charged to the income statement over the assets' estimated useful economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation, impairment and amortisation. These estimated useful economic lives are:

Computer software	3 to 12 years
Other acquired intangibles	5 to 10 years

f) Property, plant and equipment

Items of property, plant and equipment 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 the income statement 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 the Group's 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.

g) Impairment of non-financial assets and property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that its non-financial assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates 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 non-financial 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.

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. The recoverable amount of an asset is the higher of its fair value less cost to sell and 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 taken into account in estimating future cash flows.

1. Accounting policies (continued)

h) Leases

As lessor

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee

On entering a new lease contract, the Group recognises a right of use asset and a lease liability to pay future rentals.

The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

i) Provisions and contingent liabilities

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

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

The Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting its contractual obligations that exceed the expected economic benefits.

When the Group intends to vacate a leasehold property, or right of use asset, the asset is tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs, such as rates.

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

j) Tax

Tax comprising current tax and deferred tax, is shown in the income statement except tax on items recognised outside of the income statement which is recognised in other comprehensive income. Any tax related to equity instruments is shown 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.

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

Accounting for taxes is judgemental and carries a degree of uncertainty because the tax law is subject to interpretation, which might be questioned by the relevant tax authority. The Group recognises the most likely current and deferred tax liability or asset assessed for uncertainty using consistent judgements 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.

k) Financial instruments

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

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

- amortised cost;
- fair value through other comprehensive income (FVOCI);
- mandatory fair value through profit or loss (MFVTPL); and
- designated at fair value through profit or loss (DFV).

1. Accounting policies (continued)

Financial liabilities are classified into the following measurement categories:

- amortised cost;
- held for trading; and
- designated at fair value through profit or loss.

Classification by business model reflects how the Group manages its financial assets to generate cash flows.

A business model assessment determines if 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 of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio.

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

Financial assets which are managed under a 'held to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Certain financial assets may be DFV upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, MFVTPL is the default classification and measurement category for financial assets.

Equity shares default to fair value through profit or loss unless specifically elected as at FVOCI.

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

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

l) Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of financial assets measured at amortised cost or at fair value through other comprehensive income, issued financial guarantees and loan commitments (other than those classified as held for trading) are 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, 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. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change and ECL are adjusted from 12 month to lifetime expectations.

Judgement is exercised as follows:

- Models – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios – mainly in Invoice Financing and Lombard, use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmarks for probability of default (PDs), exposure at default (EADs) and loss given default (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.
- Post-model adjustments (PMAs) – these may be applied where management consider they are required to ensure an adequate level of overall ECL provision, for example where modelled outcomes may not take account of distortions such as COVID-19 government support schemes. All PMAs are subject to formal approval through provisioning governance.

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 the Group's interest in equity shares following the exchange is such that the Group controls an entity, that entity is consolidated.

Impaired financial assets are written off when the Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan. For financial assets that are individually assessed for impairment, the timing of the write off is determined on a case by case basis. Such financial assets are reviewed regularly and write off is prompted by bankruptcy, insolvency, re-negotiation and similar events.

1. Accounting policies (continued)

The typical time frames from initial impairment to write off for the Group's collectively assessed portfolios are:
- Retail mortgages: Write off generally occurs once a property in possession has been sold and there is a residual balance remaining outstanding which has been deemed irrecoverable.
- Credit cards: the irrecoverable amount is written off after 12 months; three years later 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; generally within five years.
- Business loans: generally written off within five years.

Provision is made for expected credit losses on loan commitments.

m) Financial guarantee contracts
Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract, measured in accordance with accounting policy (k).

Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

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

A financial liability is removed from the balance sheet when the obligation is paid, cancelled or expires.

o) Securitisation of residential mortgages
In accordance with the requirements of IFRS 10, the Group consolidates securitisation entities in which it does not hold voting rights but where it does retain the majority of the residual ownership risks and rewards. The securitisation transactions transfer the beneficial interest in mortgages initially originated by the Bank or First Active Limited to the relevant securitisation entity. The Bank retains the risks and rewards of ownership of the mortgages through ownership of junior debt securities issued by the Special Purpose Entities (SPEs) and the provision of subordinated loans to the SPEs. The mortgages are therefore not derecognised from the balance sheet of the Bank.

The Bank recognises its positions with the securitisation SPEs, including senior and junior debt security assets, subordinated loan assets and liabilities in respect of cash flows on underlying mortgages, on a net reporting basis as Amounts due from/to holding companies and fellow subsidiaries.

As the securitisation entities are included in the Group's financial position under IFRS 10, all transactions and balances between the Bank and securitisation entities are fully eliminated on consolidation in the Group financial statements.

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

q) Derivatives and hedging
Derivatives are reported on the balance sheet at fair value.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge and derivatives that are managed together with financial instruments designated at fair value are included in Other operating income.

Hedge accounting
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; details of the risk that is being hedged; and the way in which effectiveness will be assessed at inception for the duration of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Group revokes the designation of a hedge relationship.

The Group enters into two types of hedge relationship:

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.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. 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.

Cash flow hedge - the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and the ineffective portion in the income statement. When the forecast transaction results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to income statement in the same periods in which the hedged forecast cash flows affect the income statement. Otherwise the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; if the forecast transaction is no longer expected to occur; or if hedge designation is revoked.

1. Accounting policies (continued)

On the discontinuation of hedge accounting (except where a forecast transaction is no longer expected to occur), 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 profit or loss.

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.

r) Investments in Group undertakings

The Bank's investments in its subsidiaries are stated at cost less any impairment losses.

s) Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IFRS requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

The phased withdrawal announcements and, to a lesser extent, the COVID-19 pandemic affected estimation uncertainty during 2021. Key financial judgments and estimates are based on management's latest plans and forecasts. Measurement of expected credit losses are highly sensitive to reasonably possible changes in anticipated conditions.

Changes in judgements and assumptions could result in a material adjustment to those estimates in the next reporting periods.

Consideration of these sources of estimation uncertainty has been set out in the notes referenced in the table below (as applicable).

Critical accounting policy	Note
Pensions	5
Assets held for sale (disposal groups) and discontinued operations	9
Fair value: Financial instruments	10
Loan impairment provisions	12
Provisions for liabilities and charges	18

Future accounting developments

International Financial Reporting Standards

Effective 1 January 2022

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

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

Effective 1 January 2023

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

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

2. Net interest income

Continuing operations	Group 2021 €m	2020 €m
Interest receivable on assets:		
Loans to customers - amortised cost	154	184
Interest receivable on liabilities:		
Bank deposits - amortised cost	17	12
Customer deposits - amortised cost	17	6
Total interest receivable	188	202
Interest payable on liabilities:		
Customer deposits - amortised cost	(13)	(15)
Other liabilities	(1)	(2)
Subordinated liabilities	(5)	(5)
Amounts due to holding company and fellow subsidiaries	(6)	(5)
Interest payable on assets:		
Cash and balances at central banks	(27)	(18)
Other financial assets	(15)	(14)
Total interest payable	(67)	(59)
Net interest income	121	143

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.

3. Non-interest income

Continuing operations	Group 2021 €m	2020 €m
Fees and commissions receivable		
- Payment services	62	64
- Credit and debit card fees	22	25
- Lending (credit facilities)	4	1
- Trade finance	-	2
- Investment management	2	2
- Other	1	2
Total	91	96
Fees and commissions payable	(15)	(9)
Net fees and commissions	76	87
Other operating income:		
Economic hedged and designated hedged ineffectiveness		
- Foreign exchange	5	(7)
- Interest rate	13	18
Other income	40	11
	58	22
Non-interest income	134	109

4. Operating expenses

	Group	
	2021	2020
Continuing operations	€m	€m
Wages, salaries and other staff costs	96	105
Temporary and contractor costs	7	6
Social security costs	11	11
Pension costs		
- defined benefit schemes (Note 5)	22	22
- defined contribution schemes	4	2
Restructure costs	-	4
Staff costs	140	150
Premises and equipment	20	16
Depreciation, impairment and amortisation (Note 16)	1	14
Other administrative expenses	407	323
Administrative expenses	428	353
Operating expenses	568	503

In accordance with Section 317(2) of the Companies Act 2014, the table below details staff costs on an incurred basis, incorporating costs of both continuing and discontinued operations.

	Group and Bank	
	2021	2020
	€m	€m
Wages, salaries and other staff costs	145	152
Temporary and contractor costs	12	15
Social security costs	17	17
Pension costs		
- defined benefit schemes (Note 5)	22	22
- defined contribution schemes	5	5
Restructure costs	-	4
	201	215

The average number of persons employed by the Group and Bank during the year in continuing operations, excluding temporary staff, was 1,280 (2020 – 1,551). The average number of persons employed by the Group and Bank during the year in discontinued operations, excluding temporary staff, was 714 (2020 - 708). The average number of temporary employees during 2021 was 120 (2020 - 168).

The number of persons employed at 31 December, excluding temporary staff, was as follows:

	Group and Bank	
	2021	2020
	Number	Number
Continuing operations	1,220	1,463
Discontinued operations	715	713
	1,935	2,176

Amounts paid to the auditors for the statutory audit and other services are set out below:

	Group	
	2021	2020
	€k	€k
Fees payable for:		
- the audit of the Bank's individual and Group accounts	1,799	1,909
- the audit of the Bank's subsidiaries	67	88
- audit-related assurance services	10	10
Total audit and audit related assurance service fees	1,876	2,007

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services. The figures in the auditor’s remuneration table relate to fees payable to the statutory auditor, exclusive of VAT.

5. Pensions

Defined contribution scheme
The Group makes contributions to the RBS Group Ireland Retirement Savings Plan, the costs of which are accounted for as defined contributions, which new employees are offered the opportunity to join.

Defined benefit schemes
The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

Name of schemes
Ulster Bank Pension Scheme (Republic of Ireland) ("main scheme")
First Active Pension Scheme ("FA scheme")
Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan ("Lombard scheme")

The Group's main scheme operates under Irish trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, scheme rules and Irish legislation (principally the Pensions Act 1990).

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members. These have been closed to new entrants since 2010, although current members continue to build up additional pension benefits, generally subject to 2% maximum annual salary inflation, while they remain employed by the Group.

The corporate trustee of the main scheme is Ulster Bank Pension Trustees (RI) Limited ("UBPTRIL"), a wholly owned subsidiary of the Bank.

The board of UBPTRIL comprises two trustee directors nominated by the unions and seven appointed by the Group. Under Irish legislation a defined benefit pension scheme is required to build up and maintain enough funds to pay members their pension entitlements should the scheme be wound up.

Investment strategy
The assets of the schemes are invested in a diversified portfolio as shown below.

The schemes employ both physical and derivative instruments to achieve a desired asset class exposure and to reduce the schemes' interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation.

	2021			2020		
Major classes of plan assets as a percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	11	1	12	11	1	12
Index linked bonds	1	-	1	1	-	1
Government bonds	3	-	3	6	-	6
Corporate and other bonds	33	2	35	29	3	32
Hedge funds	-	2	2	-	4	4
Real estate	-	7	7	-	2	2
Derivatives	3	7	10	-	26	26
Cash and other assets	-	30	30	-	17	17
	51	49	100	47	53	100

5. Pensions (continued)

Changes in value of net pension asset	Group and Bank Fair value of plan assets €m	Present value of defined benefit obligations €m	Asset ceiling/ minimum funding [(1)] €m	Net pension surplus €m
At 1 January 2020	1,865	(1,640)	-	225
Income statement	28	(50)	-	(22)
Statement of comprehensive income	201	(120)	-	81
Contributions by employer	24	-	-	24
Contributions by plan participants	2	(2)	-	-
Benefits paid	(69)	69	-	-
At 1 January 2021	2,051	(1,743)	-	308
Income statement	26	(48)	-	(22)
Net interest cost	26	(22)	-	4
Current service cost	-	(24)	-	(24)
Expenses	-	(2)	-	(2)
Statement of comprehensive income	(29)	(28)	(167)	(224)
Return on plan assets above recognised interest income	(29)	-	-	(29)
Experience gains and losses	-	(5)	-	(5)
Effect of changes in actuarial financial assumptions	-	2	-	2
Effect of changes in actuarial demographic assumptions	-	(25)	-	(25)
Asset ceiling/minimum funding adjustments	-	-	(167)	(167)
Contributions by employer [(2)]	48	-	-	48
Contributions by plan participants	1	(1)	-	-
Benefits paid	(60)	60	-	-
At 31 December 2021	2,037	(1,760)	(167)	110

(1) In recognising the net surplus or deficit of a pension scheme, the funded status of the scheme is adjusted to reflect any schemes with a surplus that the Group may not be able to access. This is relevant for the main scheme, where the recognition of the surplus has been restricted in the financial year due to the anticipated impact of the phased withdrawal.
(2) The Group expects to contribute €20 million to its defined benefit pension schemes in 2022.

Amounts recognised on the balance sheet	All schemes 2021 €m	2020 €m
Fund assets at fair value	2,037	2,051
Present value of fund liabilities	(1,760)	(1,743)
Funded status	277	308
Asset ceiling/minimum funding	(167)	-
Retirement benefit asset	110	308

Net pension surplus recognised on the balance sheet	Group and Bank 2021 €m	2020 €m
Net assets of schemes in surplus (other assets)	110	309
Net liabilities of schemes in deficit (other liabilities)	-	(1)
	110	308

Amounts recognised in the income statement	Group and Bank 2021 €m	2020 €m
Operating expenses	22	22

5. Pensions (continued)

Funding and contributions by the Group

In the Republic of Ireland, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the Bank, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities 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.

The latest funding valuation of the main scheme was as at 31 December 2018, and was agreed in September 2019. Following the special contribution of €100 million paid in December 2018, no further deficit contributions were required following the completion of the funding valuation.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest Euro swap yields plus 0.7% per annum, and mortality assumptions, which result in life expectancies of 18.0/19.4 years for males/females who are currently age 70 and 24.5/26.2 years from age 63 as at the valuation date.

Deficit contributions under the funding plan for the FA scheme, agreed following the 31 December 2018 funding valuation, were due to cease in January 2021. Following the phased withdrawal announcement, it was agreed that these would continue until 30 June 2021, with a further one off contribution of €15m paid in November 2021. No further deficit contributions are due.

For both schemes, contingent asset arrangements remain in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

The latest funding valuation for the Lombard scheme was as at 1 April 2019, and was agreed in December 2019. Deficit contributions under the Lombard scheme's funding plan, which was agreed in 2016 and expected to run to 2025, were accelerated with €9.9m paid in December 2021. No further deficit contributions are due.

Critical accounting policy: Pensions

The assets of defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated.

The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate Euro-denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve.

Accounting assumptions

Placing a value on the Group's defined benefit pension schemes' liabilities requires the Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations will depend 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.

A year-end valuation of the Group's pension schemes was prepared as at 31 December 2021 by independent actuaries, using the following assumptions:

	Principal IAS 19 actuarial assumptions	
	2021	2020
	%	%
Discount rate	1.55	1.25
Inflation assumption (CPI)	2.05	1.30
Rate of increase in salaries	1.65	1.20
Rate of increase in deferred pensions	2.05	1.45
Rate of increase in pensions in payment	0.00-2.10	0.00-1.45
Proportion of pension converted to a cash lump sum at retirement	12.00	12.00
Longevity:	years	years
Current pensioners, aged 70 years		
Males	18.2	18.1
Females	19.7	19.5
Future pensioners, currently aged 63 years		
Males	24.7	24.6
Females	26.4	26.3

The post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme.

Discount rate

The IAS 19 valuation uses a single discount rate by reference to the yield on a basket of 'high quality' euro-denominated corporate bonds.

Significant judgement 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. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed.

5. Pensions (continued)

The table below sets out the sensitivities of the pension cost for the financial year and the present value of defined benefit obligations at the balance sheet dates if the key assumptions used were changed independently. In practice, the variables are somewhat correlated and do not move completely in isolation.

	Group and Bank			
	(Decrease)/increase in pension cost for the year		(Decrease)/increase in obligation at 31 December	
	2021 €m	2020 €m	2021 €m	2020 €m
0.25% increase in the discount rate	(4)	(4)	(93)	(93)
0.25% increase in inflation	-	1	44	31
Longevity increase of one year	1	1	57	56
0.25% additional rate of increase in pensions in payment	-	-	17	19
0.25% additional rate of increase in deferred pensions	-	-	40	22
0.25% additional rate of increase in salaries	1	1	2	19

The defined benefit obligations are attributable to the different classes of scheme members in the following proportions:

Membership category	2021 %	2020 %
Active	32.0	30.4
Deferred	33.2	35.7
Pensioners and dependants	34.8	33.9
	100.0	100.0

The weighted average duration of the Group's defined benefit obligations at 31 December 2021 is 21 years (2020 - 22 years).

The experience history of the schemes is shown below:

	Group and Bank				
History of defined benefit schemes	2021 €m	2020 €m	2019 €m	2018 €m	2017 €m
Fair value of plan assets	2,037	2,051	1,865	1,693	1,623
Present value of defined benefit obligations	(1,760)	(1,743)	(1,640)	(1,529)	(1,572)
Net surplus	277	308	225	164	51
Experience (losses)/gains on plan liabilities	(5)	12	8	11	18
Experience (losses)/gains on plan assets	(29)	201	240	(47)	48
Actual return on plan assets	(3)	231	276	(11)	78
Actual return on plan assets	(0.1%)	12.4%	16.3%	(0.7%)	5.8%

6. Emoluments of directors

Continuing operations	2021 €	2020 €
Emoluments for the provision of directors' services	2,065,197	1,960,117
Contributions and allowances in respect of pension schemes	107,567	107,567
Emoluments relating to long-term incentive schemes	267,942	113,558
Total emoluments received	2,440,706	2,181,242

The amounts required to be disclosed under the Companies Act 2014 are:

- Retirement benefits were accruing to one director under defined contribution schemes as at 31 December 2021 (2020 - one). No retirement benefits were accruing to directors under defined benefit schemes as at 31 December 2021 or 31 December 2020.
- No share options were exercised during the financial year that resulted in gains to directors (2020 - none).
- Performance related bonuses are awarded to executive directors on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.
- During the financial year there were no emoluments in respect of compensation payments for loss of office (2020 - nil).
- During the financial year the highest paid director received emoluments of €1,043,019 (2020 - €969,461).
- The executive directors may also participate in the NatWest executive share option and Sharesave schemes.
- There were no amounts paid or payable to third parties during the financial year or the preceding financial year in respect of making available the services of any person as a director of the Bank or any of its subsidiaries or otherwise in connection with the management of the Group's affairs.

7. Tax

Continuing operations	2021 €m	2020 €m
Corporation tax at 12.5% (2020 - 12.5%)		
Over provision in respect of prior periods	-	-
	-	-
Deferred tax		
(Charge)/credit for the financial year	(3)	1
Under provision for prior financial years	(1)	-
Decrease in deferred tax asset in respect of previously recognised losses	(30)	(155)
Tax charge for the financial year	(34)	(154)

The actual tax charge differs from the expected tax credit computed by applying the standard rate of Irish Corporation Tax of 12.5% (2020 - 12.5%) as follows:

Continuing operations	2021 €m	2020 €m
Expected tax credit	35	51
Temporary differences	10	10
Non-deductible items	(7)	(3)
Deferred tax not recognised on current year losses	(41)	(57)
Adjustments to tax charge in respect of prior financial years	(1)	-
Decrease in deferred tax asset in respect of previously recognised losses	(30)	(155)
Actual tax charge for the financial year	(34)	(154)

Deferred tax

Net deferred tax asset comprised:

	Group and Bank			
	Pension €m	Accelerated capital allowances €m	Tax losses €m	Total €m
At 1 January 2020	(28)	(1)	213	184
Credit/(charge) to income statement [1]				
- from continuing operations	-	1	(155)	(154)
- from discontinued operations	-	-	(10)	(10)
Charge to other comprehensive income	(10)	-	-	(10)
At 1 January 2021	(38)	-	48	10
Charge to income statement				
- from continuing operations	(4)	-	(30)	(34)
- from discontinued operations	-	-	(4)	(4)
Credit to other comprehensive income	28	-	-	28
At 31 December 2021	(14)	-	14	-

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 9.

Unrecognised deferred tax

Deferred tax assets of €1,245 million (2020 - €1,209 million) have not been recognised in respect of tax losses carried forward of €9,960 million (2020 - €9,674 million). Under Republic of Ireland tax rules, tax losses can be carried forward indefinitely.

8. Profit/loss dealt with in the financial statements of the Bank

In accordance with the exemption contained within Section 304 of the Companies Act 2014 the primary financial statements of the Bank do not include an income statement or statement of comprehensive income. The Bank's profit after tax for the financial year ended 31 December 2021 was €2 million (2020 – €431 million loss).

9. Discontinued operations and assets and liabilities of disposal groups

On 28 June 2021 the Bank announced that it had signed a legally binding agreement with AIB for the sale of the majority of the Group's performing commercial loan book. The sale, subject to CCPC approval, is expected to be completed in a series of transactions during 2022 and Q1 2023.

On 17 December 2021 the Bank announced that it had signed a legally binding agreement with PTSB for the sale of a material part of the Group's Personal Banking business (including performing non-tracker mortgages, performing micro-SME loans and a subset of the Bank's branch locations) and the Lombard Asset Finance business (including the Lombard digital platform). It is expected that, subject to CCPC approval, the sale of non-tracker mortgages, branch locations and the Lombard Asset Finance business will be completed in 2022, and the sale of the micro-SME loans will be completed in 2023.

It is expected that colleagues who work wholly or mainly to support those parts of the Commercial and Personal Banking businesses that have been agreed to be sold will transfer under TUPE regulations to AIB and PTSB.

Those assets expected to be sold to AIB and PTSB in 2022 that meet the requirements of IFRS 5 are classified on the Group and Bank balance sheets as 'Assets of disposal groups' at 31 December 2021. Comparatives are not re-presented, in accordance with the standard.

The financial results of the associated business activities that meet the requirements of IFRS 5 are classified in the consolidated income statement as discontinued operations. In accordance with IFRS 5 comparative results have been re-presented from those previously published to reflect this change in classification.

Critical accounting policy: assets held for sale (disposal groups) and discontinued operations

Following the legally binding agreements to sell significant parts of the Group’s Commercial and Personal businesses, the Group has determined that €10.7 billion of the assets and liabilities under these arrangements meet the criteria for classification as assets held for sale or disposal groups. This reflects our judgment that the transfer of these assets and liabilities is highly probable within 12 months. Successful completion of the transactions outlined above remains subject to a number of risks and uncertainties, some of which are beyond the control of the Group. These include satisfying relevant conditions precedent, obtaining CCPC and other approvals, and other transaction execution risks and uncertainties. The timelines for satisfying conditions precedent and obtaining required approvals is also subject to a degree of uncertainty.

(a) Profit from discontinued operations, net of tax

	Group	
	2021	2020
	€m	€m
Interest receivable	302	307
Non-interest income	11	17
Total income	313	324
Operating expenses	(63)	(59)
Profit before impairment releases/(losses)	250	265
Impairment releases/(losses)	66	(124)
Operating profit before tax	316	141
Tax charge	(4)	(10)
Profit from discontinued operations, net of tax	312	131

(b) Assets and liabilities of disposal groups

	Group and Bank
	2021
	€m
Assets of disposal groups	
Loans to customers - amortised cost	10,715
Derivatives	6
Other assets	9
	10,730
Liabilities of disposal groups	
Other liabilities	6
	6

(c) Cash flows attributable to discontinued operations

	Group	
	2021	2020
	€m	€m
Net cash flows from operating activities	744	(440)

10. Financial instruments – classification

The following tables analyse the Group's financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	Group				
2021	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	5,552	-	5,552
Derivatives	90	-	-	-	90
Loans to banks - amortised cost(1)	-	-	97	-	97
Loans to customers - amortised cost(2)	-	-	7,930	-	7,930
Amounts due from holding companies and fellow subsidiaries	-	-	808	-	808
Other financial assets	-	2,488	-	-	2,488
Other assets	-	-	-	232	232
Assets of disposal groups	-	-	-	10,730	10,730
	90	2,488	14,387	10,962	27,927

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Bank deposits - amortised cost	-	307	-	307
Customer deposits - amortised cost	-	21,938	-	21,938
Amounts due to holding companies and fellow subsidiaries	-	1,339	-	1,339
Derivatives	64	-	-	64
Subordinated liabilities	-	86	-	86
Other liabilities(3)	-	38	278	316
Liabilities of disposal groups	-	-	6	6
	64	23,708	284	24,056

	Group				
2020	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	5,874	-	5,874
Derivatives	226	-	-	-	226
Loans to banks - amortised cost(1)	-	-	195	-	195
Loans to customers - amortised cost(2)	-	-	20,022	-	20,022
Amounts due from holding companies and fellow subsidiaries	-	-	1,517	-	1,517
Other financial assets	-	2,951	-	-	2,951
Other assets	-	-	-	420	420
	226	2,951	27,608	420	31,205

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Bank deposits - amortised cost	-	3,092	-	3,092
Customer deposits - amortised cost	-	21,828	-	21,828
Other financial liabilities	-	270	-	270
Amounts due to holding companies and fellow subsidiaries	-	1,339	-	1,339
Derivatives	98	-	-	98
Subordinated liabilities	-	85	-	85
Other liabilities(3)	-	47	281	328
	98	26,661	281	27,040

(1) Includes items in the course of collection from other banks of €16 million (2020 - €19 million).
(2) The Group has pledged residential mortgages as security for liabilities. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. Included within loans to customers is €1,481 million at 31 December 2021 and €9,111 million at 31 December 2020.
(3) Includes lease liabilities held at amortised cost of €38 million (2020 - €47 million).
(4) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreement that are not set off in accordance with IAS 32.

10. Financial instruments – classification (continued)

The following tables analyse the Bank's financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

	Bank				
2021	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	5,552	-	5,552
Derivatives	90	-	-	-	90
Loans to banks - amortised cost[1]	-	-	47	-	47
Loans to customers - amortised cost[2]	-	-	7,930	-	7,930
Amounts due from holding companies and fellow subsidiaries	51	-	808	-	859
Other financial assets [3]	-	2,488	-	-	2,488
Investments in Group undertakings	-	-	-	1	1
Other assets	-	-	-	232	232
Assets of disposal groups	-	-	-	10,730	10,730
	141	2,488	14,337	10,963	27,929

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Bank deposits - amortised cost	-	307	-	307
Customer deposits - amortised cost	-	21,938	-	21,938
Amounts due to holding companies and fellow subsidiaries	-	1,343	-	1,343
Derivatives	64	-	-	64
Subordinated liabilities	-	86	-	86
Other liabilities[4]	-	38	275	313
Liabilities of disposal groups	-	-	6	6
	64	23,712	281	24,057

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

10. Financial instruments – classification (continued)

	Bank				
2020	MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	5,874	-	5,874
Derivatives	226	-	-	-	226
Loans to banks - amortised cost(1)	-	-	33	-	33
Loans to customers - amortised cost(2)	-	-	20,022	-	20,022
Amounts due from holding companies and fellow subsidiaries	46	-	1,524	-	1,570
Other financial assets(3)	-	2,951	-	-	2,951
Investments in Group undertakings	-	-	-	5	5
Other assets	-	-	-	418	418
	272	2,951	27,453	423	31,099

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Bank deposits - amortised cost	-	3,092	-	3,092
Customer deposits - amortised cost	-	21,828	-	21,828
Amounts due to holding companies and fellow subsidiaries	-	1,506	-	1,506
Derivatives	98	-	-	98
Subordinated liabilities	-	85	-	85
Other liabilities(4)	-	47	281	328
	98	26,558	281	26,937

(1) Includes items in the course of collection from other banks of €16 million (2020 - €19 million).
(2) The Bank has pledged residential mortgages as security for liabilities. Under IFRS 9, these mortgages qualify for full recognition on the balance sheet and are included in loans to customers. Included within loans to customers is €1,481 million at 31 December 2021 and €9,111 million at 31 December 2020.
(3) Of the debt securities balance included in other financial assets €20 million (2020 - €20 million) was pledged as collateral to the Ulster Bank Pension Scheme and €17 million (2020 - €17 million) was pledged as collateral to the trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.
(4) Includes lease liabilities held at amortised cost of €38 million (2020 - €47 million).
(5) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32.

Amounts due from/to holding companies and fellow subsidiaries comprise:

	Group		Bank	
	2021 €m	2020 €m	2021 €m	2020 €m
Amounts due from holding companies and fellow subsidiaries				
Loans to banks - amortised cost	808	1,517	808	1,517
Loans to customers - amortised cost	-	-	-	7
Loans to customers - MFVTPL	-	-	51	46
	808	1,517	859	1,570
Amounts due to holding companies and fellow subsidiaries				
Bank deposits - amortised cost	180	188	180	188
Customer deposits - amortised cost	28	11	32	178
Debt securities in issue	601	610	601	610
Subordinated liabilities	530	530	530	530
	1,339	1,339	1,343	1,506

Amounts due from holding companies and fellow subsidiaries that are MFVTPL are considered Level 3.

	Bank	
	2021 €m	2020 €m
At 1 January	46	48
Net originations and settlements	5	(2)
At 31 December	51	46

10. Financial instruments (continued)

Interest rate benchmark reform

The Group's IBOR program delivered the conversion of the vast majority of the IBOR exposures to Risk Free Rates in advance of the cessation date. This encompasses loans, deposits, capital instruments and derivatives, which have been converted using fallback provisions, switch provisions or as part of market-wide conversion events in the case of derivatives subject to clearing. These instruments will convert at the first repricing date post cessation.

The total amount of exposure for Group and Bank at 31 December 2021 subject to above conversion provisions is €51 million of assets and €2 million of liabilities.

Critical accounting policy: Fair value - financial instruments

In accordance with accounting policies (k) and (q) financial instruments classified at fair value through profit or loss and financial assets classified as 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 use when pricing the asset or liability.

The 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.

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.

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 judgement 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. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including collateralised loan obligations (CLO), most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and loan commitments and most over-the-counter (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 cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable model inputs.

The following tables show the external financial instruments carried at fair value by fair value hierarchy. There were no material movements in the external level 3 portfolio for either period.

	Group and Bank							
	2021				2020			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Other financial assets (Note 13)								
- Debt securities	1,203	1,285	-	2,488	1,518	1,433	-	2,951
Derivatives	-	90	-	90	-	226	-	226
Total	1,203	1,375	-	2,578	1,518	1,659	-	3,177
Liabilities								
Derivatives	-	64	-	64	-	98	-	98
Total	-	64	-	64	-	98	-	98

10. Financial instruments – valuation of financial instruments carried at fair value (continued)

The Group places reliance on the oversight of the Ring Fence Bank Valuation Committee on the Independent Price Verification (IPV) process.

Valuation techniques

The fair value of instruments are derived 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 (for example, interest rate caps and floors) through to more complex derivatives (for example, balance guarantee swaps).

For modelled products the fair value is derived using the model and the appropriate model inputs or parameters, rather than from a cash price equivalent. Model inputs are taken either directly or indirectly from available data, where some inputs are also modelled.

Fair value classification of modelled instruments is either level 2 or level 3, depending on the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify a position. The modelled product is assigned to the lowest fair value hierarchy level of any significant input used in that valuation.

Most derivative instruments, for example vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives, are classified as level 2. This is because they are vanilla products valued using standard market models and with observable inputs. Level 2 products range from vanilla to more complex products, where more complex products remain classified as level 2 due to the materiality of any unobservable inputs.

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the amounts and timing of 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 Euro Short-term Rate (€STR) and the Overnight Index Swap (OIS) rate, including the Sterling Overnight Interbank Average (SONIA) 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.

Prepayment rates - rates used to reflect how fast a pool of assets prepay. The fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. When valuing prepayable instruments, the value of this prepayment option is considered.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers, the value of the underlying collateral, or inferred from observable credit spreads.

Valuation control

The 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 IPV team.

IPV is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. These valuations are then reviewed by the IPV team, independent of those trading the financial instruments, in light of available pricing evidence.

Independent pricing data is collated from a range of sources. Each source is reviewed for quality and the independent data applied in the IPV processes using a formalised input quality hierarchy. Consensus services are one source of independent data and encompass interest rate, currency, credit, and bond markets, providing comprehensive coverage of vanilla products and a wide selection of exotic products.

Where measurement differences are identified through the IPV process these are grouped by the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds, an adjustment is made to bring the valuation to within the independently calculated fair value range.

IPV takes place at least monthly for all fair value financial instruments. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

10. Financial instruments – valuation of financial instruments carried at fair value (continued)

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 NatWest Group 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 UBIDAC Models 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

In general, the degree of expert judgement 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 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.

Fair value of financial instruments measured at amortised cost

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of cash and balances at central banks have been determined using procedures consistent with the requirements of level 2 valuation methodologies. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group			
	2021 Carrying value €m	2021 Fair value €m	2020 Carrying value €m	2020 Fair value €m
Financial assets				
Cash & balances at central banks	5,552	5,552	5,874	5,874
Loans to banks - amortised cost	96	96	195	195
Loans to customers - amortised cost	7,930	7,594	20,022	19,663
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	809	809	1,517	1,517
Financial liabilities				
Bank deposits - amortised cost	307	307	3,092	3,083
Customer deposits - amortised cost	21,938	21,938	21,828	21,828
Other financial liabilities	-	-	270	270
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	180	180	188	188
- Customer deposits	28	28	11	11
- Subordinated liabilities	530	530	530	530
- Debt securities in issue	601	601	610	610
Subordinated liabilities	86	100	85	97

10. Financial instruments – fair value of financial instruments measured at amortised cost (continued)

	Bank			
	2021 Carrying value €m	2021 Fair value €m	2020 Carrying value €m	2020 Fair value €m
Financial assets				
Cash and balances at central banks	5,552	5,552	5,874	5,874
Loans to banks - amortised cost	47	47	33	33
Loans to customers - amortised cost	7,930	7,594	20,022	19,663
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	808	808	1,517	1,517
- Loans to customers	-	-	7	7
Financial liabilities				
Bank deposits - amortised cost	307	307	3,092	3,083
Customer deposits - amortised cost	21,938	21,938	21,828	21,828
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	180	180	188	188
- Customer deposits	32	32	178	178
- Subordinated liabilities	530	530	530	524
- Debt securities in issue	601	601	610	610
Subordinated liabilities	86	100	85	97

The assumptions and methodologies underlying the determination of the fair values of financial instruments carried at amortised cost at the balance sheet date are as follows:

Short-term financial instruments
For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and customer demand deposits, carrying value is deemed a reasonable approximation to fair value.

Loans to banks and customers
In estimating the fair value of loans to banks and customers measured at amortised cost, the Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

The principal method used to estimate fair value in the Group is to discount expected cash flows at the current offer rate for the same or similar products. For certain portfolios where there are very few or no recent transactions bespoke approaches are utilised.

Bank and customer deposits
Fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities
Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

10. Financial instruments – maturity analysis

Maturity analysis
Remaining maturity
The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	Group					
	2021			2020		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	5,552	-	5,552	5,874	-	5,874
Derivatives	6	84	90	10	216	226
Loans to banks - amortised cost	97	-	97	195	-	195
Loans to customers - amortised cost	532	7,398	7,930	1,541	18,481	20,022
Amounts due from holding companies and fellow subsidiaries	808	-	808	1,517	-	1,517
Other financial assets	499	1,989	2,488	550	2,401	2,951
Liabilities						
Bank deposits - amortised cost	307	-	307	-	3,092	3,092
Customer deposits - amortised cost	21,866	72	21,938	21,648	180	21,828
Other financial liabilities	-	-	-	-	270	270
Lease liabilities	7	31	38	9	38	47
Amounts due to holding companies and fellow subsidiaries	735	604	1,339	199	1,140	1,339
Derivatives	-	64	64	14	84	98
Subordinated liabilities	-	86	86	-	85	85

	Bank					
	2021			2020		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	5,552	-	5,552	5,874	-	5,874
Derivatives	6	84	90	10	216	226
Loans to banks - amortised cost	47	-	47	33	-	33
Loans to customers - amortised cost	532	7,398	7,930	1,541	18,481	20,022
Amounts due from holding companies and fellow subsidiaries	859	-	859	1,570	-	1,570
Other financial assets	499	1,989	2,488	550	2,401	2,951
Liabilities						
Bank deposits - amortised cost	307	-	307	-	3,092	3,092
Customer deposits - amortised cost	21,866	72	21,938	21,648	180	21,828
Lease liabilities	7	31	38	9	38	47
Amounts due to holding companies and fellow subsidiaries	739	604	1,343	366	1,140	1,506
Derivatives	-	64	64	14	84	98
Subordinated liabilities	-	86	86	-	85	85

10. Financial instruments – maturity analysis (continued)

Liabilities by contractual cash flow maturity
The following tables show, by contractual maturity, the undiscounted cash flows payable from the balance sheet date, including future payments of interest. The balances in the tables do not agree directly to the Group or Bank balance sheets, as the tables include all cash outflows relating to principal and future coupon payments presented on an undiscounted basis.

	Group						
2021	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m	>20 years €m
Liabilities by contractual maturity							
Bank deposits - amortised cost	306	-	-	-	-	-	-
Customer deposits - amortised cost	20,850	1,018	71	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	207	535	8	601	-	-	-
Lease liabilities	2	5	12	9	7	3	-
Subordinated liabilities	2	4	10	10	19	-	86
	21,367	1,562	101	620	26	3	86
Guarantees and commitments notional amount							
Guarantees(1)	140	-	-	-	-	-	-
Commitments(2)	2,764	-	-	-	-	-	-
	2,904	-	-	-	-	-	-
2020							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	3,053	-	-	-	-
Customer deposits - amortised cost	20,661	986	162	19	-	-	-
Other financial liabilities	-	-	-	-	-	-	270
Amounts due to holding companies and fellow subsidiaries	199	-	530	610	-	-	-
Lease liabilities	3	6	13	12	9	4	-
Derivatives held for hedge accounting	-	1	1	2	-	-	-
Subordinated liabilities	-	6	10	10	25	-	85
	20,863	999	3,769	653	34	4	355
Guarantees and commitments notional amount							
Guarantees(1)	142	-	-	-	-	-	-
Commitments(2)	3,745	-	-	-	-	-	-
	3,887	-	-	-	-	-	-

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

10. Financial instruments – maturity analysis (continued)

	Bank						
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	>20 years €m
Liabilities by contractual maturity							
Bank deposits - amortised cost	306	-	-	-	-	-	-
Customer deposits - amortised cost	20,850	1,018	71	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	210	535	8	601	-	-	-
Lease liabilities	2	5	12	9	7	3	-
Subordinated liabilities	2	4	10	10	19	-	86
	21,370	1,562	101	620	26	3	86
Guarantees and commitments notional amount							
Guarantees(1)	140	-	-	-	-	-	-
Commitments(2)	2,764	-	-	-	-	-	-
	2,904	-	-	-	-	-	-
2020							
Liabilities by contractual maturity							
Bank deposits - amortised cost	-	-	3,053	-	-	-	-
Customer deposits - amortised cost	20,661	986	162	19	-	-	-
Amounts due to holding companies and fellow subsidiaries	367	-	530	610	-	-	-
Lease liabilities	3	6	13	12	9	4	-
Derivatives held for hedge accounting	-	1	1	2	-	-	-
Subordinated liabilities	-	6	10	10	25	-	85
	21,031	999	3,769	653	34	4	85
Guarantees and commitments notional amount							
Guarantees(1)	142	-	-	-	-	-	-
Commitments(2)	3,745	-	-	-	-	-	-
	3,887	-	-	-	-	-	-

(1) The Bank is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Bank expects most guarantees it provides to expire unused.
(2) The Bank 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 Bank does not expect all facilities to be drawn, and some may lapse before drawdown.

The tables above show the timing of cash outflows to settle financial liabilities. 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 financial year end.

11. Derivatives

The Group transacts derivatives to manage balance sheet foreign exchange, interest rate and credit risk.

The following table shows the notional amount and fair value of the Group and Bank's derivatives.

	Group and Bank					
	2021			2020		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Over-the-counter derivatives						
Exchange rate contracts	414	35	35	810	40	49
Interest rate contracts	13,918	55	29	14,496	186	49
	14,332	90	64	15,306	226	98
Amounts above include:						
Due from/to fellow subsidiaries	14,094	85	29	14,809	206	59

The Group applies hedge accounting to manage interest rate risk. The Group's interest rate hedging relates to the non-trading structural interest rate risk caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. The Group manages this risk within approved limits. Residual risk positions are hedged with derivatives, principally interest rate swaps.

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 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 the 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 items' fair value attributable to changes in the benchmark interest rate risk component of the hedged item. The risk components are identified using the risk management systems of the Group and encompass the majority of the hedged items fair value risk. For all cash flow hedging and fair value hedge relationships the Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the expected highly probable forecast interest cash flows / fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is assessed on a cumulative basis over a time period management determines to be appropriate. The Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured and recognised in the income statement as it arises.

Impact of phased withdrawal on hedge accounting

Following the signing of the legally binding agreement to sell the majority of the Group's performing commercial loan portfolio on 28 June 2021, the related EURIBOR-linked and ECB refinancing forecasted cash flows that were the hedged items in the Group' cash flow hedge relationships were no longer expected to occur. The hedge accounting relationships were de-designated and the cash flow hedge reclassified to profit and loss.

The signing of the legally binding agreement included fixed rate customer loans that were the hedged items in fair value hedge relationships; as a result hedge accounting was discontinued for these relationships.

11. Derivatives (continued)

Included in the tables are derivatives held for hedge accounting purposes as follows:

	Group and Bank							
	2021				2020			
	Notional amounts €m	Assets €m	Liabilities €m	Change in fair value used for hedge ineffectiveness[1] €m	Notional amounts €m	Assets €m	Liabilities €m	Change in fair value used for hedge ineffectiveness[1] €m
Fair value hedging								
Interest rate contracts	600	1	-	(7)	732	10	4	5
Cash flow hedging								
Interest rate contracts	-	-	-	(49)	3,280	87	-	49

(1) The change in fair value used for hedge ineffectiveness includes instruments that were derecognised in the year.

The following tables shows an analysis of the cash flow reserve:

	2021 €m	2020 €m
Cash flow reserve		
Interest rate risk	-	84
Amount recognised in equity during the year	(40)	61
Amount transferred from equity to net interest income	(8)	(14)
Amount transferred from equity to non-interest income	(36)	(4)
Total movement during the financial year	(84)	43

Hedge ineffectiveness recognised in other operating income comprised:

	2021 €m	2020 €m
Fair value hedging		
Losses on the hedged items attributable to the hedged risk	(7)	(8)
Gains on the hedging instruments	7	8
Fair value hedging ineffectiveness	-	-
Cash flow hedging		
Cash flow hedging ineffectiveness - interest rate risk	1	(3)

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge).
- 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).

12. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

	Group	
	2021 €m	2020 €m
Loans - amortised cost [1]		
Stage 1	6,617	16,007
Stage 2	1,015	3,676
Stage 3	937	1,376
Non-disposal group third party loans	8,569	21,059
Intra-NatWest Group [2]	819	1,517
Non-disposal group loans	9,388	22,576
Assets of disposal groups	10,812	-
Total	20,200	22,576
ECL provisions		
Stage 1	11	50
Stage 2	77	295
Stage 3	462	548
Non-disposal group loans	550	893
Assets of disposal groups	129	-
Total	679	893
ECL provision coverage [3,4]		
Stage 1 (%)	0.17	0.31
Stage 2 (%)	7.59	8.03
Stage 3 (%)	49.31	39.83
Non-disposal group loans	6.42	4.24
Assets of disposal groups	1.19	-
Total	3.50	4.24
ECL (credit)/charge [5]		
Stage 1	(82)	(41)
Stage 2	(38)	130
Stage 3	87	68
Continuing operations	(33)	157
Discontinued operations	(66)	124
Total	(99)	281
ECL loss rate (%)	(0.39)	1.58
Amounts written off	105	246
Risk profile of loans to customers - non-performing loans [6]		
Credit-impaired	937	1,376
Not credit-impaired	53	123
Credit-impaired disposal group loans	49	-
Not credit-impaired disposal group loans	18	-
Total	1,057	1,499

(1) Refer to Note 10 for balance sheet analysis of financial assets that are classified as AC and FVOCI, the starting point for IFRS 9 ECL framework assessment. The above table relates to gross loans only and excludes amounts that are outside the scope of the ECL framework, primarily related to charge cards where the underlying risk of loss is captured within the customer's linked current account and non-credit risk assets.
(2) Amounts due from holding companies and fellow subsidiaries (Intra-NatWest Group) are all considered as Stage 1.
(3) ECL provisions coverage is ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage and ECL loss rates are calculated on third party loans and related ECL provisions and charge respectively.
(5) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 9.
(6) Non-performing as per the European Banking Authority definition.

Credit risk enhancement and mitigation

For information on credit risk enhancement and mitigation held as security see Note 22, pages 78 and 79.

Critical accounting policy

The Group's loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (l) in Note 1 sets out how the expected loss approach is applied. At 31 December 2021, loan impairment provisions amounted to €679 million (2020: €893 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 discounted at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS 9 expected loss model depends on management's assessment of any potential deterioration in the credit worthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgements that are potentially significant to the estimate of impairment losses.

12. Loan impairment provisions (continued)

For further information and sensitivity analysis refer to the credit risk section of Note 22.

IFRS 9 ECL model design principles

Refer to the credit risk section of Note 22 for further details on ECL model design principles.

Approach for multiple economic scenarios (MES)

The base case scenario plays a greater part in the calculation of ECL than the approach to MES.

Post model adjustments (PMAs)

Post model adjustments may be applied where management consider they are required to ensure an adequate level of overall ECL provision, for example where modelled outcomes may not take account of distortions such as COVID-19 support schemes. All PMAs are subject to formal approval through provisioning governance.

13. Other financial assets

	Group and Bank		
	Debt securities		
2021	Central and local government €m	Other €m	Total €m
Fair value through other comprehensive income	1,203	1,285	2,488
2020			
Fair value through other comprehensive income	1,518	1,433	2,951

A net unrealised loss of €12 million (2020 - €13 million gain) was recorded during the financial year.

14. Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the financial year were as follows:

	Bank	
	2021 €m	2020 €m
At 1 January	5	5
Impairment	(4)	-
At 31 December	1	5

During the financial year, the Bank impaired its investment in Ulster Bank Holdings (ROI) Limited.

All of the Group undertakings, as detailed in Note 28, are consolidated in the Group's financial statements. All have an accounting reference date of 31 December.

15. Other assets

	Group		Bank	
	2021 €m	2020 €m	2021 €m	2020 €m
Prepayments	4	7	4	5
Accrued income	2	4	2	4
Retirement benefit assets (Note 5)	110	309	110	309
Deferred tax (Note 7)	-	10	-	10
Property, plant and equipment (Note 16)	75	81	75	81
Other assets	41	9	41	9
	232	420	232	418

16. Property, plant and equipment

2021	Freehold land and buildings €m	Leases of 50 years or less unexpired €m	Computer and other equipment €m	Right of use property €m	Total €m
	Group and Bank				
Cost or valuation:					
At 1 January	65	71	53	172	361
Additions	1	2	-	1	4
Disposals and write-off of fully depreciated assets	(9)	(20)	-	-	(29)
Transfer to disposal group	(10)	-	-	(8)	(18)
At 31 December	47	53	53	165	318
Accumulated depreciation, impairment and amortisation:					
At 1 January	32	52	42	154	280
Disposals and write-off of fully depreciated assets	(8)	(20)	-	-	(28)
Depreciation charge for the financial year					
- from continuing operations	-	4	1	4	9
- from discontinued operations	1	-	-	-	1
Impairment release for the financial year					
- from continuing operations	(7)	(1)	-	-	(8)
- from discontinued operations	(1)	-	-	-	(1)
Transfer to disposal group	(3)	-	-	(7)	(10)
At 31 December	14	35	43	151	243
Net book value at 31 December	33	18	10	14	75

2020					
Cost or valuation:					
At 1 January	65	70	52	176	363
Additions	-	1	1	3	5
Disposals and write-off of fully depreciated assets	-	-	-	(7)	(7)
At 31 December	65	71	53	172	361
Accumulated depreciation, impairment and amortisation:					
At 1 January	29	49	40	153	271
Disposals and write-off of fully depreciated assets	-	-	-	(6)	(6)
Depreciation charge for the financial year					
- from continuing operations	1	3	2	4	10
Impairment charge for the financial year					
- from continuing operations	1	-	-	3	4
- from discontinued operations	1	-	-	-	1
At 31 December	32	52	42	154	280
Net book value at 31 December	33	19	11	18	81

(1) Comparative results have been re-presented from those previously published to reclassify certain operations as discontinued operations as described in Note 9.

17. Subordinated liabilities

Undated loan capital	Group and Bank 2021 €m	2020 €m
€31 million 11.375% perpetual tier two capital	55	55
£11 million 11.75% perpetual tier two capital	29	28
£1.1 million perpetual floating rate tier two capital (6 month sterling LIBOR plus 2.55%)(1)	2	2
	86	85

Claims in respect of the Bank's loan capital are subordinate to the claims of other creditors. None of the loan capital is secured.

(1) In line with LIBOR market reform, the interest rate on this instrument will change to SONIA Compounded Index plus 2.8266% in 2022.
(2) The table above excludes amounts due to holding company and fellow subsidiaries of €530 million (2020 - €530 million).

18. Other liabilities

	Group 2021 €m	Group 2020 €m	Bank 2021 €m	Bank 2020 €m
Lease liabilities (Note 20)	38	47	38	47
Provisions for liabilities and charges	77	118	77	118
Accruals	80	25	77	25
Deferred income	4	7	4	7
Other liabilities	117	131	117	131
	316	328	313	328

The following amounts are included within provisions for liabilities and charges:

	Group and Bank						
	Tracker mortgage examination €m	Other customer remediation €m	Litigation €m	Property €m	Restructuring €m	Other €m	Total €m
At 1 January 2020	43	56	23	8	25	15	170
Reclassification	-	1	-	-	-	(1)	-
Charge/(credit) to income statement	23	(5)	(6)	(3)	3	1	13
Utilised in the financial year[1]	(15)	(32)	(5)	-	(10)	(3)	(65)
At 31 December 2020	51	20	12	5	18	12	118
Charge/(credit) to income statement	23	23	(1)	-	-	(5)	40
Utilised in the financial year[1]	(51)	(11)	(2)	(2)	(11)	(1)	(78)
Transfer to disposal group	-	-	-	-	-	(3)	(3)
At 31 December 2021	23	32	9	3	7	3	77

(1) Utilised in the financial year with respect to tracker mortgage examination and other customer remediation includes €10 million (2020 - €15 million) relating to staff costs.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Critical accounting policy: Provisions for liabilities

Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

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

Tracker mortgage examination

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 phase has concluded, although an appeals process is currently anticipated to run until the end of 2022.

At 31 December 2021 the Group has a provision of €23 million (2020 - €51 million). The Group expects that the majority of this provision will be utilised within 12 months.

Customers of the Bank have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank 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. No reliable estimate can be made at 31 December 2021.

Other customer remediation

The Group has identified further legacy business issues and these remediation programmes are ongoing. Any issues relating to the tracker mortgage examination are included in the tracker mortgage examination provision as outlined above. At 31 December 2021 the Group has a provision of €32 million (2020 - €20 million) based on management's best estimate of expected remediation and project costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Customer remediation across these issues has progressed in 2021. The Group expects the majority of this provision to be utilised within the next 12 months.

Property

The property provisions principally comprise provisions relating to property closures. The timing for such payments is uncertain.

Restructuring

The restructuring provisions principally comprise redundancy costs. The Group expects the majority of these provisions to be utilised within the next 12 months.

19. Share capital presented as equity

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2021 €m	2020 €m	2021 €m	2020 €m
Equity shares:				
Ordinary B shares of €1.27	1,612	1,612	2,223	2,223
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	22	22	34	33
Total share capital	3,379	3,379	4,657	4,656

	Allotted, called up and fully paid		Authorised	
	2021	2020	2021	2020
Number of shares	Millions	Millions	Millions	Millions
Equity shares:				
Ordinary B shares of €1.27	1,268	1,268	1,750	1,750
Ordinary B shares of €1	1,745	1,745	2,400	2,400
Ordinary A shares of £1	15	15	25	25
Total share capital	3,028	3,028	4,175	4,175

All share classes rank pari passu in all respects.

The Bank did not pay any interim dividends during the financial year (2020 - nil).

20. Leases

The Group is party to lease contracts as lessee to support its operations. The following table provides information in respect of those lease contracts as lessees.

Lessees

	Group and Bank	
	2021 €m	2020 €m
Amounts recognised in income statement		
Interest payable		
- from continuing operations	1	1
Depreciation and impairment (1)		
- from continuing operations	4	7

	Group and Bank	
	2021 €m	2020 €m
Amounts recognised on balance sheet		
Right of use assets included in property, plant and equipment (Note 16)	14	18
Lease liabilities included in other liabilities (Note 18)	(38)	(47)

(1) Includes impairment on right of use assets of nil (2020: €3 million).

The total cash outflows in respect of leases for the financial year ended 31 December 2021 was €9 million (2020: €10 million).

21. Collateral and securitisations

Securities repurchase agreements and lending transactions

The Group enters into securities repurchase agreements and securities lending transactions under which it receives or transfers cash or securities as collateral in accordance with normal practice. Generally, the agreements require additional collateral to be provided if the value of the securities fall below a predetermined level.

Under standard terms for repurchase transactions in the Republic of Ireland, the recipient of the collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

There were securities amounting to €307 million transferred under repurchase transactions on the balance sheet at 31 December 2021 (31 December 2020 - nil).

There were no securities received as collateral under reverse repurchase agreements at 31 December 2021 or at 31 December 2020.

Securitisations and other asset transfers

The Group undertakes securitisations to fund specific portfolios of assets. In a Group securitisation, interest in a pool of assets is transferred to an SPE which then issues liabilities to investors. SPEs are vehicles established for a specific, limited purpose, usually do not carry out a business or trade and typically have no employees.

It is primarily the extent of risks and rewards assumed that determines whether these entities are consolidated in the Group's financial statements.

Assets pledged as collateral

The Group pledges other collateral with its counterparties in respect of:

	Group		Bank	
	2021	2020	2021	2020
Group assets charged as security for liabilities	€m	€m	€m	€m
Loans to customers	1,481	9,111	1,481	9,111

The following table sets out the asset categories together with carrying amounts for those assets that have been pledged as collateral as security for liabilities and continue to be recognised on the balance sheet.

	Group and Bank	
	2021	2020
	€m	€m
Residential mortgages		
- securitisations	1,481	2,139
- central bank secured borrowing	-	6,972
	1,481	9,111

The residential mortgages pledged as security for liabilities issued by securitisations at 31 December 2020 relate to Ardmore Securities No. 1 Designated Activity Company and Dunmore Securities No. 1 Designated Activity Company. The liabilities issued by Ardmore Securities No. 1 Designated Activity Company were redeemed during the financial year and the balance at 31 December 2021 relates wholly to Dunmore Securities No. 1 Designated Activity Company.

At 31 December 2021, €20 million (2020 - €20 million) of UBIDAC bonds were pledged as collateral to Ulster Bank Pension Scheme and €17 million (2020 - €17 million) of UBIDAC bonds were pledged as collateral to the trustees of the First Active Pension Scheme under contingent asset arrangements put in place to cover the Risk Reserve requirements arising under the Minimum Funding Standard framework.

22. Risk management

Phased withdrawal

On 19 February 2021 NatWest Group announced its intention to begin a phased withdrawal from the Republic of Ireland after conducting a strategic review and concluding that the Group would not be in a position to achieve an acceptable level of sustainable returns over its planning horizon.

On 28 June 2021, as part of the phased withdrawal process, the Bank announced that it had signed a legally binding agreement with Allied Irish Banks p.l.c. for the sale of the majority of the Group's performing commercial loan book. The sale, subject to Competition and Consumer Protection Commission (CCPC) approval, is expected to be completed in a series of transactions during 2022 and Q1 2023.

On 17 December 2021 the Bank announced that it had signed a legally binding agreement with Permanent TSB Group Holdings plc (PTSB) for the sale of a material part of the Group's Personal Banking business (including performing non-tracker mortgages, performing micro-SME loans and a subset of the Bank's branch locations) and the Lombard Asset Finance business (including the Lombard digital platform). It is expected that, subject to CCPC, regulatory and PTSB shareholder approval, the sale of non-tracker mortgages, branch locations and the Lombard Asset Finance business will be completed in 2022, and the sale of micro-SME loans completed in 2023.

The Group has reviewed its risk management activities and frameworks to reflect the phased withdrawal, and the main changes are set out in the following sections of this note. The Group will continue to comply with all relevant legal and regulatory requirements during the phased withdrawal programme. Risk limits and control metrics will continue to be reviewed as the programme proceeds.

Update on COVID-19

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

Against the backdrop of a recovering economy, the credit risk profile remains heightened and there is an expectation that the impacts of the pandemic will continue to be seen in the performance of the Group's portfolios for some time.

While the direct impact on the Group's operational risk profile reduced, the continued evolution of the Group's ways of working, to include large-scale working from home, required significant operational risk focus, particularly in terms of business resilience.

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

Risk management framework

Introduction

The Group owns and operates a Risk Management Framework, which is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation.

The Group plans to continue to apply its existing approach to risk management during its planned exit from the Irish market and to continue to comply with all relevant laws and regulations. The framework ensures that the Group's key risks, which are detailed in this section, are appropriately controlled and managed. In addition, there is a process to identify and manage top risks, which are those which could have a significant negative impact on the Group's ability to meet its strategic objectives. A complementary process operates to identify emerging risks. Both top and emerging risks are reported to and discussed at the Board on a regular basis alongside reporting on the key risks.

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.

All Group colleagues share ownership of the way risk is managed, working together to make sure business activities and policies are consistent with risk appetite.

Culture

Risk culture is at the centre of both the risk management framework and risk management practice. The target culture across the Group is one in which risk is part of the way colleagues work and think. The target risk culture behaviours are aligned to our core values. They are embedded in our critical people capabilities and therefore form an effective basis for risk culture since these are used for performance management, recruitment and development.

Training

Enabling colleagues to have the capabilities and confidence to manage risk is core to the Group's learning strategy. The Group offers a wide range of training, both technical and behavioural, across the risk disciplines. This training can be mandatory, role-specific or for personal development. Mandatory learning for all colleagues is focused on keeping colleagues, customers and the 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

Our 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.

22. Risk management – Risk management framework (continued)

Three lines of defence
The 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. All roles below the CEO sit within one of the three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside of the three lines of defence principles.

First line of defence
The first line of defence incorporates most roles in the Group, including those in the customer-facing business units, and Technology and Services.

- The first line of defence is empowered to take risks within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.
- The first line of defence is responsible for managing its direct risks. With the support of specialist functions, such as Legal, Human Resources and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring and reporting risks.

Second line of defence
The second line of defence primarily comprises the Risk and Compliance functions 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 the Group engages in permissible and sustainable risk-taking activities.
- The second line of defence advises on, monitors, challenges, approves, escalates and reports on the risk-taking activities of the first line, ensuring that these are within the constraints of the risk management framework and policies as well as the risk appetite statements and measures set by the Board.
- Due to specific subject matter expertise there are some activities undertaken elsewhere (Corporate Governance, Finance, Legal and Human Resources) that are responsible for defining and overseeing Group-wide controls and policies.

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

- The third line of defence is responsible for providing independent and objective assurance to the Board and executive management on the adequacy and effectiveness of key internal controls, governance and the risk management in place to monitor, manage and mitigate the key risks to the Group in achieving its objectives.
- The third line of defence executes its duties freely and objectively in accordance with the Chartered Institute of Internal Auditors' Code of Ethics and International Standards.

Risk appetite
Risk appetite defines the level and types of risk that are acceptable, within risk capacity, in order to achieve strategic objectives and business plans. It links the goals and priorities to risk management in a way that guides and empowers colleagues to serve customers well, while working through a phased withdrawal from the market.

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

Risk appetite is maintained across the Group through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to colleagues.

Risk appetite statements, measures and limits are continually reviewed as business plans are updated, ensuring alignment between the strategy and risk appetite. The Board sets risk appetite for the most material risks to help ensure the Group is managing its risk profile within agreed boundaries as the Group works through the phased withdrawal. The Group's risk profile is frequently reviewed and monitored and management focus is concentrated on all material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

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

The Group policies directly support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

Identification and measurement
Identification and measurement within the risk management process comprise:

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

The financial and non-financial risks that the Group faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across the Group. The Risk Directory is subject to annual review and approval by the Board. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within the Group.

22. Risk management – Risk management framework (continued)

Mitigation
Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within the Group.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that are due to risk mitigation actions) are 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. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

Assurance
Targeted risk processes and controls, including controls within the scope of Section 404 of the Sarbanes-Oxley Act 2002, are subject to independent assurance.

This activity is carried out by independent testing teams within the first and second line of defence to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing business units, Internal Audit and the Group's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively.

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

The second line of defence assurance plan is reviewed and approved by Board Risk Committee on an annual basis, with quarterly reporting during the year. A third line of defence Internal Audit plan is reviewed and approved by the Audit Committee on an annual basis, with Internal Audit's opinion of material risk coverage presented quarterly.

Stress testing
Stress testing – capital management
Stress testing is a key risk management tool and a fundamental component of the 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 the 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 UBIDAC 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 income statement and balance sheet. – Impact assessment captures input across the 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 the 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 and agreed by senior committees, including the Executive Risk Committee, the Asset & Liability Committee, the Board Risk Committee and the Board.

Stress testing is used widely across the Group. The following diagram summarises key areas of focus.

22. Risk management – 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 the Group's financial strength and capital position.
- *Risk mitigation* – by identifying actions to mitigate risks, or those that could be taken, in the event of adverse changes to the business or economic environment. Key risk mitigating actions are documented in the Group's recovery plan.

Reverse stress testing is also carried out in order to identify circumstances that may lead to specific, defined outcomes such as business failure. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully.

Capital sufficiency – going concern forward-looking view

Going concern capital requirements are examined on a forward-looking basis – including as part of the annual budgeting process – by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states. These assessments include assumptions about regulatory and accounting factors (such as IFRS 9). They are linked to economic variables and impairments and seek to demonstrate that the 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 normal economic and adverse market conditions enables the Group to determine whether its projected business performance meets internal and regulatory capital requirements.

The examination of capital requirements under adverse economic and market conditions is assessed through stress testing. The results of stress tests are not only used widely across the Group but also by the regulators to set specific capital buffers. UBIDAC and NatWest Group take 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 the 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 regulators.

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the regulators to assess the Group's specific capital requirements through the Supervisory Review and Evaluation Process.

Governance

Capital management is subject to substantial review and governance. The Board approves the capital plans as well as the results of related stress tests.

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity risks are reviewed with performance reported to the Asset & Liability 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 the 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. 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 the 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. The 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.

The Group uses the most severe outcome of these 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 Group recovery plan explains how the Group would identify and respond to a financial stress event and restore its financial position so that it remains viable on an ongoing basis.

22. Risk management – Risk management framework (continued)

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 put in place include:

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

The plan is intended to enable the Group to maintain critical services and products it provides to its customers, maintain its core business lines and operate within risk appetite while restoring the 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 Regulator each year. Fire drill simulations of possible recovery events are used to test the effectiveness of the recovery plan. 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. The results and lessons learnt from the fire drills are used to enhance the 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.

The Group also completes a resolvability assessment that is submitted to the Single Resolution Board.

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

Stress testing – non-traded market risk

Non-traded exposures are reported to regulators on a quarterly basis. This provides the regulators with an overview of the 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 European Banking Authority stress exercises. The 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, 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.

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 multi-year planning horizon. The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by the 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.

Regulatory stress testing

In 2021 UBIDAC participated in the regulatory stress tests conducted by the European Banking Authority. The scenario was hypothetical in nature and does not represent a forecast of the Group's future business or profitability. The results of the regulatory stress tests are carefully assessed and form part of the wider risk management of the Group. The results also inform the outcome of the Supervisory Review and Evaluation Process that is carried out on an annual basis by the regulator.

Credit risk

Definition

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

Sources of risk

The principal sources of credit risk for the 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 the Group. The Group is also exposed to settlement risk through foreign exchange and payments activities.

Governance

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 the Group's businesses 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 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 Group business. These risk appetite measures consider 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.

22. Risk management– Credit risk (continued)

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 frameworks are supported by a suite of transaction 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

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.

A key aspect of credit risk stewardship is monitoring signs of customer stress and, when identified, applying appropriate debt management actions. The Group's credit stewardship practice reflects the specific credit risks associated with its phased withdrawal from the Irish market.

Asset quality

All credit grades map to an asset quality (AQ) scale, used for financial reporting. 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.

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

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios. 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 – the Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. The Group values residential property individually during the loan underwriting process, either by obtaining an appraisal by a suitably qualified appraiser or using a statistically valid model. In both cases, a sample of the valuation outputs are periodically reviewed by an independent qualified appraiser. The Group updates residential property values quarterly using the relevant residential property index namely:

Region	Index used
Republic of Ireland	Central Statistics Office Residential Property Price Index
UK (including Northern Ireland)	Office for National Statistics House Price Index

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

Commercial real estate valuations – the Group has an actively managed panel of chartered surveying firms that cover the spectrum of geography and property sectors in which the Group takes collateral. Suitable valuers for particular assets are typically contracted through a service agreement to ensure consistency of quality and advice. Valuations are generally commissioned when an asset is taken as security; a material increase in a facility is requested; or a default event is anticipated or has occurred. Assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value assets, but demands regular Red Book valuations for distressed 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, The 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 the Group and other lenders). The 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 individua.

Underwriting standards and portfolio performance are monitored on an ongoing basis to ensure they remain appropriate to support the Group's strategy in the current market environment.

22. Risk management - Credit risk (continued)

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 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.

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. Such credit decisions must be within the approval authority of the relevant business approver.

For all other transactions credit is only granted to customers following joint approval, one from the business and the other from the credit risk function. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Assessment and Approval 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 (PD) and loss given default (LGD) are reviewed and re-approved annually. The review process assesses borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; compliance with terms and conditions; and refinancing risk.

Problem debt management

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 the 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 the Group and requested to remedy the position. If the situation is not regularised then, where appropriate, the Collections team will become more fully involved and the customer will be supported by skilled debt management colleagues 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'. In the event that an affordable/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 an interest non-accrual status, in which case it is categorised as Stage 3.

The relationship may pass to a specialist support team prior to any transfer to recoveries, depending on the outcome of customer financial assessment.

Recoveries

The Recoveries team will issue a default notice to the customer and, if required, a formal demand. They also register 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, 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 categorised as Stage 3 impaired.

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 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.

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 and updated to consider impacts beyond those of COVID-19 and classification via the framework is now mandatory and must be refreshed annually. The framework extends to all Wholesale borrowing customers and supplements the Risk of Credit Loss framework.

22. Risk management - Credit risk (continued)

Risk of Credit Loss framework
The Risk of Credit Loss process focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk. There are two classifications which apply to non-defaulted customers within the framework – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. 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 the Group's current risk appetite prior to maturity.

Risk of Credit Loss customers are performing customers that have met the criteria for Heightened Monitoring and pose a risk of credit loss to the 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 the Restructuring team.

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 Committee. The committee members are experienced credit, business and restructuring specialists. The purpose of the committee is to review and challenge the strategies undertaken for customers that pose the largest risk of credit loss to the 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.

Other potential outcomes of the relationship review are to: remove the customer from the Risk of Credit Loss framework, offer additional lending and continue monitoring, transfer the relationship to Restructuring if appropriate, or exit the relationship.

The Risk of Credit Loss framework does not apply to problem debt management within the Business Direct unit. These customers are, where necessary, managed by specialist problem debt management teams, depending on the size of exposure or by the Business Direct recoveries team where a loan has been impaired.

Restructuring
For the Wholesale problem debt portfolio, customer relationships are mainly managed by the Restructuring team. Restructuring protects the Group's capital by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies and ideally restoring the customers to financial health. Restructuring will always aim to recover capital fairly and efficiently.

Where a solvent outcome is not possible, insolvency may be considered as a last resort. However, helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome. Managing a customer's journey in a transparent, orderly, and acceptable manner through the phased withdrawal from the Irish market is a key priority.

Specialists in Restructuring work with customers experiencing financial difficulties and showing signs of financial stress. Throughout Restructuring's involvement, the mainstream relationship manager will remain an integral part of the customer relationship, unless a repayment strategy is deemed appropriate. The objective is to find a mutually acceptable solution, including restructuring of existing facilities, repayment or refinancing to support our customers now and help them to prepare for the future.

Forbearance
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. Forbearance is always assessed on a case-by-case basis to ensure individual credit deterioration is understood and support is tailored to individual customer circumstances.

In the Personal portfolio, loans are reported as forborne until they meet the exit criteria set out by the European Banking Authority. 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. Exit criteria are not currently applied for Wholesale portfolios.

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

22. Risk management - Credit risk (continued)

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.

The incidence of the main types of Personal forbearance on the balance sheet as at 31 December, presented using the gross carrying value is analysed below. Definitions are based on those used within the CBI forbearance guidelines.

	2021 €m	2020 €m
Term extensions – capital repayment and interest only	91	164
Interest only conversions	41	49
Payment concessions/holidays	592	1,002
Capitalisation of arrears	384	577
Other	15	19
Total	1,123	1,811

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, the Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

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
The Group's IFRS 9 provisioning models, many of 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 assets 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.

IFRS 9 ECL model design principles

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 rating 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.
- Tenor – 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) with 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.

22. Risk management - Credit risk (continued)

PD estimates

Personal models

Personal PD models use the Exogenous, Maturity and Vintage (EMV) approach to model default rates. The EMV approach separates portfolio default risk trends into three components: vintage effects (quality of new business over time), maturity effects (changes in risk relating to time on book) and exogenous effects (changes in risk relating to changes in macro-economic conditions). The EMV methodology has been widely adopted across the industry because it enables forward-looking economic information to be systematically incorporated into PD estimates.

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.

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

LGD estimates

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

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. For the Group, a bespoke IFRS 9 mortgage LGD model is used, reflecting its specific regional market.

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.
- There is no EAD model for Personal loans. Instead, debt flow (i.e. combined PD x EAD) is modelled directly.

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.

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to the 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 (PMAs) were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All PMAs were subject to formal approval through provisioning governance, and were categorised as follows:

- Deferred model calibrations – ECL adjustments where PD model monitoring indicated that model performances may have been distorted by COVID-19 support schemes.
- Economic uncertainty – ECL adjustments primarily arising from uncertainties associated with multiple economic scenarios and credit outcomes as a result of the effect of COVID-19 and the consequences of government support schemes. In both cases, management judged that additional ECL was required until further credit performance data became available on the behavioural and loss consequences of COVID-19.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL was required to be amended.

PMAs will remain a key focus area of the Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends, particularly with more observable outcomes from the unwinding of COVID-19 support mechanisms.

22. Risk management - Credit risk (continued)

ECL post model adjustments

The table below shows ECL post model adjustments by segment

	2021		2020	
	Mortgages €m	Other €m	Mortgages €m	Other €m
Deferred model calibrations	-	2	-	2
Economic uncertainty	7	28	126	70
Other adjustments	185	-	29	-
Total	192	30	155	72
Of which:				
- Stage 1	4	-	17	-
- Stage 2	8	32	52	72
- Stage 3	180	(2)	86	-

The post model adjustments for economic uncertainty at 31 December 2021 include €14 million reflecting concerns that the unprecedented nature of COVID-19 could result in longer debt recovery periods and lower values than history suggested. It also included an adjustment of €11 million deferring the benefits of improvements in economic forecasts given ongoing uncertainty, as well as an adjustment of €10 million in the SME portfolio reflecting the elevated risk for that sector. Other judgemental overlays increased to €185 million, reflecting management opinion that continuing actions on the phased withdrawal will lead to higher and/or earlier realisation of losses.

Significant increase in credit risk (SICR)

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). The 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 the 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 to 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

In the mortgage portfolio the risk bandings are applied to exposures originated post 1 January 2012. For mortgage exposures originated prior to 2012 the threshold applied is 2.8 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 and wholesale exposures managed within the Risk of Credit Loss framework. Where a Personal customer was granted a payment holiday (also referred to as a payment deferral) in response to COVID-19, they were not automatically transferred into Stage 2. Any support provided beyond completion of the second payment holiday was considered forbearance.

– 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.

Provisioning for forbearance

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.

22. Risk management - Credit risk (continued)

The loan would continue to be reported as forborne until it meets the exit criteria set out by the European Banking Authority.

For ECL estimation, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment.

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

In the absence of any other forbearance or SICR triggers, customers granted COVID-19 related payment holidays were not considered forborne. However, any support provided beyond completion of a second payment holiday is considered forbearance.

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

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

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

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

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

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement 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 pre-payment 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 counterparty review schedules and will be set to the next review date.
  - A capped lifetime approach of up to 36 months is used on credit card balances.

Economic loss drivers

Introduction

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

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

Portfolio	Economic loss drivers
Retail mortgages	Unemployment rate, European Central Bank base rate, house price index

Economic scenarios

As at 31 December 2021, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected a range of outcomes for the path of COVID-19 as well as recovery, and the associated effects on labour and asset markets.

Base case – projected continued health of the recovery in the near term reflects the ongoing post-lockdown pickup in economic activity, the release of pent-up demand, supportive fiscal and monetary policy settings, a broadly favourable global backdrop, continued buoyancy in multi-national sectors including pharmaceuticals and technology, and the assumption of no further major tightening of public health restrictions. The pace of recovery is then projected to ease over the medium term to more sustainable rates of growth with house price inflation moderating, reflecting expected further improvement in supply, while unemployment returns to pre-pandemic levels.

Upside – this scenario features a stronger recovery, capturing a more favourable outlook for the domestic and world economies which mainly reflects a stronger near-term performance in 2022/23 amid much-reduced uncertainty post the pandemic. The result is a marked further strengthening in business and consumer confidence and an associated boost to activity, spending and labour and housing market conditions.

22. Risk management - Credit risk (continued)

Downside – the recovery is thrown off course by the combination of adverse virus developments requiring the re-introduction of restrictions amplified by the effects of a sharper, more sustained burst of domestic and global inflation pressures. Faster inflation erodes spending power and real economic activity and also triggers the need for central bank monetary policy tightening to address the resulting un-anchoring of inflation expectations. In time, recovery is re-established as the COVID-19 containment measures are eased and the policy tightening brings inflation back down which then allows for monetary policy to be eased once again.

Extreme downside – this scenario features a very sharp downturn based on a COVID-19 resurgence and highly severe outcomes for the Irish economy, reflecting the assumed crystallisation of several prominent downside risks spanning several key areas of vulnerability. These include a highly adverse COVID-19 impact occurring in early 2022, marked weakness in the international economic environment across Ireland's Key Trading Partners and adverse impacts of global tax reform on Ireland. The post-downturn recovery is incomplete with residual scarring remaining across output, unemployment and property price varies.

	2021				2020			
Republic of Ireland	Upside %	Base case %	Downside %	Extreme downside %	Upside %	Base case %	Downside %	Extreme downside %
GDP - CAGR	4.4	3.7	2.9	1.6	4.2	3.5	3.0	1.6
Unemployment rate(1) - average	4.2	5.2	6.8	9.3	5.6	7.5	9.3	11.2
House price inflation - total change	30.3	23.4	16.3	4.6	21.1	13.3	6.8	(7.0)
ECB Refi rate - average	0.8	0.1	0.2	-	0.1	-	-	-
World GDP - CAGR	3.5	3.2	2.6	0.6	3.5	3.4	2.9	2.8
Probability weight	30.0	45.0	20.0	5.0	20.0	40.0	30.0	10.0

(1) The five year period starts after Q3 2021 for 2021 and Q3 2020 for 2020.
(2) The unemployment rate in table above and following tables corresponds to the mid-point of the Irish Central Statistics Office lower and upper bound unemployment rate measures.

GDP - annual average growth	Upside %	Base case %	Downside %	Extreme downside %
2021	15.1	15.1	15.1	15.1
2022	8.9	6.8	2.9	(5)
2023	5.8	4.1	3.8	5.3
2024	3	3.1	3.3	3.1
2025	2.9	3.1	3.1	3.2
2026	2.8	2.7	2.7	3.1

Unemployment rate(1) - annual average	Upside %	Base case %	Downside %	Extreme downside %
2021	11.2	11.2	11.2	11.2
2022	4.5	5.5	8.8	13.7
2023	4.1	5.3	7.2	10.2
2024	4	5.1	6.3	8.4
2025	4	5	5.7	7.5
2026	4	5	5.5	7

House price inflation - annual average growth	Upside %	Base case %	Downside %	Extreme downside %
2021	12.9	12.9	12.9	12.9
2022	12.2	5.1	(3)	(18)
2023	3.4	4	2	(5)
2024	2.6	3.3	4.1	16.1
2025	3.4	3.4	5.9	6.8
2026	3.3	3	4.4	4.9

22. Risk management - Credit risk (continued)

Worst points

The worst points refer to the worst four-quarter rate of change for GDP and house price index and the worst quarterly figures for unemployment between 2021 and 2026.

	31 December 2021				31 December 2020			
	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	(0.7)	Q1 2022	(8.9)	Q2 2022	(5.5)	Q1 2021	(13.8)	Q1 2021
Unemployment rate	9.4	Q2 2022	15.1	Q2 2022	16.5	Q2 2020	18.1	Q4 2020
House price inflation	(0.1)	Q4 2022	(25.1)	Q2 2023	(13.3)	Q3 2021	(27)	Q4 2021

(1) For the unemployment rate, the figures show the peak levels. For the other parameters, the figures show falls relative to the starting period. The calculations are performed over five years, with the starting point at Q3 2021.

Probability weightings of scenarios

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

Prior to 2020, GDP paths for the scenarios were compared against a set of 1,000 model runs, following which a percentile in the distribution was established that most closely corresponded to the scenario. Instead, the Group has subjectively applied probability weights, reflecting expert views within the Group. The probability weight assignment was judged to present good coverage to the central scenarios and the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 30% weighting was applied to the upside scenario, a 45% weighting applied to the base case scenario, a 20% weighting applied to the downside scenario and a 5% weighting applied to the extreme downside scenario.

The Group assessed the downside risk posed by COVID-19 to be diminishing over the course of 2021, with the vaccination roll-out and positive economic data being observed since the gradual relaxing of lockdown restrictions. The Group therefore judged it was appropriate to apply a higher probability to upside-biased scenarios than as at 31 December 2020. However, compared to 31 December 2020, the base case has a higher weight reflecting reduction in uncertainty as the path of economy recovery became clearer.

Use of the scenarios in Personal lending

Personal lending follows a discrete scenario approach. The probability of default (PD) and loss given default (LGD) values for each discrete scenario are calculated using product specific econometric 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 credit cycle indices (CCIs). The CCIs represent, similar to the exogenous component in Personal, all relevant economic loss drivers for a region/industry segment aggregated into a single index value that describes the loss rate conditions in the respective segment relative to its long-run average. A CCI value of zero corresponds to loss rates at long-run average levels, a positive CCI value corresponds to loss rates below long run average levels and a negative CCI value corresponds to loss rates above long-run average levels.

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

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

The rationale for the Wholesale approach is the long-standing observation that loss rates in Wholesale portfolios tend to follow regular cycles. This allows us 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.

Measurement uncertainty and ECL sensitivity analysis

The recognition and measurement of ECL is complex and involves the use of significant judgement 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.

22. Risk management - Credit risk (continued)

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 as at 31 December 2021. Scenario impacts on significant increase in credit risk should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

These scenarios have been applied to the Group's most material portfolio, Personal mortgages, in the following analysis, with the simulation impacting both PDs and LGDs. Modelled post model adjustments present in the underlying ECL estimates are also sensitised in line with the modelled ECL movements, but those that were judgmental in nature, primarily those for economic uncertainty, were not (refer to the Governance and post model adjustments section). As expected, the scenarios create differing impacts on ECL 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.

The Group's core criterion to identify a significant increase in credit risk is founded on PD deterioration, as previously discussed. Under the simulations, PDs change and result in exposures moving between Stage 1 and Stage 2 contributing to the ECL impact.

31 December 2021	Actual	Upside Scenario	Downside Scenario	Extreme Downside Scenario
Stage 1 modelled exposure (€m)				
Mortgages	5,995	5,998	5,967	5,449
Stage 1 modelled ECL (€m)				
Mortgages	8	7	11	13
Stage 1 coverage (%)				
Mortgages	0.14%	0.11%	0.19%	0.23%
Stage 2 modelled exposure (€m)				
Mortgages	664	661	692	1,210
Stage 2 modelled ECL (€m)				
Mortgages	20	19	23	41
Stage 2 coverage (%)				
Mortgages	3.08%	2.82%	3.37%	3.41%
Stage 1 and Stage 2 modelled exposure (€m)				
Mortgages	6,659	6,659	6,659	6,659
Stage 1 and Stage 2 modelled ECL (€m)				
Mortgages	28	26	34	54
Stage 1 and Stage 2 coverage (%)				
Mortgages	0.43%	0.38%	0.52%	0.81%
Reconciliation to Stage 1 and Stage 2 ECL (€m)				
ECL on modelled exposures	28	26	34	54
ECL on non-modelled exposures	60	60	60	60

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2021 and therefore does not include variation in future undrawn exposure values.
(2) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2021. The simulations change the composition of Stage 1 and Stage 2 exposure but total exposure is unchanged under each scenario as the loan population is static.
(3) Refer to the Economic loss drivers section for details of economic scenarios.

22 Risk management- Credit risk (continued)

Measurement uncertainty and ECL adequacy

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

As government support schemes continue to conclude during 2022, the Group anticipates further credit deterioration in the portfolios. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet as at 31 December 2021.

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

- The ongoing trajectory of lockdown restriction relaxation within the Republic of Ireland and UK, and any future repeated lockdown requirements.
- The progress of the COVID-19 vaccination roll-out and its effectiveness against new variants.
- The efficacy of the various government support schemes in terms of their ability to defray customer defaults is yet to be proven, notably over an extended period.
- Higher unemployment if companies fail to retain jobs. The level of revenues lost by corporate clients and pace of recovery of those revenues may affect the Group's clients' ability to service their borrowing, especially in those sectors most exposed to the effects of COVID-19.

Banking activities

Introduction

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

Refer to Note 1, accounting policy (I) and Note 12 for policies and critical judgements relating to impairment loss determination.

Financial instruments within the scope of the IFRS 9 ECL framework

Refer to Note 10 for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	31 December 2021			31 December 2020		
	Gross	ECL	Net	Gross	ECL	Net
	€bn	€bn	€bn	€bn	€bn	€bn
Balance sheet total gross amortised cost and FVOCI	16.6			29.9		
In scope of IFRS 9 ECL framework	16.3			29.6		
% in scope	98%			99%		
Loans to customers - in scope - amortised cost	8.5	0.5	8.0	20.8	0.9	20.0
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	0.1	-	0.1	0.2	-	0.2
Total loans - in scope	8.6	0.5	8.1	21.0	0.9	20.2
Stage 1	6.7	-	6.7	16.0	-	16.0
Stage 2	1.0	0.1	0.9	3.6	0.3	3.4
Stage 3	0.9	0.4	0.5	1.4	0.6	0.8
Other financial assets - in scope - amortised cost	5.2	-	5.2	5.6	-	5.6
Other financial assets - in scope - FVOCI	2.5	-	2.5	3.0	-	3.0
Total other financial assets - in scope	7.7	-	7.7	8.6	-	8.6
Stage 1	7.7	-	7.7	8.5	-	8.5
Stage 2	-	-	-	0.1	-	0.1
Out of scope of IFRS 9 ECL framework	0.3	na	0.3	0.3	na	0.3

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets were assessed as having no ECL unless there was evidence that they were credit impaired.

Note that €10.8 billion of financial assets classified as amortised cost in assets of disposal groups are not included in the analysis above.

22 Risk management- Credit risk (continued)

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 23, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. For 2021, the out of scope balance was €nil (2020 – nil) and primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €1.5 billion (2020 – €4.2 billion), comprising stage 1 €1.4 billion (2020 – €3.4 billion); stage 2 €0.1 billion (2020 – €0.8 billion); and stage 3 nil (2020 – nil).

The total ECL in the remainder of the credit risk section of €0.5 billion includes ECL for both on and off balance sheet exposures for continuing operations.

Asset quality

Internal asset quality ratings have ranges for the probability of default. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an asset quality scale, used for external financial reporting, and a master grading scale used for internal management reporting across portfolios. The table that follows details the relationship between internal asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only.

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

The table below analyses the split of the disposal groups between Personal and Wholesale. Gross loans and ECL provisions are shown by stage and the value of the off-balance sheet exposures is provided. The remaining tables in the credit risk section 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
2021	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal	6,602	250	41	6,893	-	-	5	8	8	21
Wholesale	3,151	760	8	3,919	1,982	137	11	93	4	108
Total	9,753	1,010	49	10,812	1,982	137	16	101	12	129

Portfolio summary - sector analysis

The following tables detail financial assets and off-balance sheet exposures gross of ECL and related ECL provision, impairment and past due by sector, asset quality and geographical region for the financial year and the previous financial year.

22. Risk management – Credit risk (continued)

31 December 2021	Personal €m	Wholesale €m	Total €m
Loans by geography	7,595	974	8,569
- Republic of Ireland	7,595	852	8,447
- United Kingdom	-	39	39
- Other	-	83	83
Loans by asset quality	7,595	974	8,569
- AQ 2	7	-	7
- AQ 3	-	12	12
- AQ 4	4,662	115	4,777
- AQ 5	1,695	105	1,800
- AQ 6	111	161	272
- AQ 7	133	245	378
- AQ 8	65	109	174
- AQ 9	197	15	212
- AQ 10	725	212	937
Loans by stage	7,595	974	8,569
- Stage 1	6,146	471	6,617
- Stage 2	724	291	1,015
- Stage 3	725	212	937
Loans - past due analysis	7,595	974	8,569
- Not past due	6,924	831	7,755
- Past due 1-30 days	140	14	154
- Past due 31-89 days	110	6	116
- Past due 90-180 days	59	16	75
- Past due > 180 days	362	107	469
Loans - Stage 2	724	291	1,015
- Not past due	607	282	889
- Past due 1-30 days	62	7	69
- Past due 31-89 days	55	2	57
ECL provision (total)	392	158	550
ECL provisions by geography	392	158	550
- Republic of Ireland	392	142	534
- United Kingdom	-	15	15
- Other	-	1	1
ECL provisions by stage	392	158	550
- Stage 1	9	2	11
- Stage 2	25	52	77
- Stage 3	358	104	462
ECL Provision coverage (total) - ECL/loans	5.16	16.22	6.42
- Stage 1 (%)	0.15	0.42	0.17
- Stage 2 (%)	3.45	17.87	7.59
- Stage 3 (%)	49.38	49.06	49.31
ECL release - third party	(9)	(24)	(33)
ECL (release)/charge by geography	(9)	(24)	(33)
- Republic of Ireland	(9)	(28)	(37)
- United Kingdom	-	4	4
ECL loss rate (%)	(0.12)	(2.46)	(0.39)
Amounts written off	91	14	105
Other financial assets by asset quality	-	7,733	7,733
- AQ 1-4	-	7,733	7,733
Off balance sheet	501	1,030	1,531
Loan commitments	501	800	1,301
Financial guarantees	-	230	230
Off balance sheet by asset quality	501	1,030	1,531
- AQ 1-4	131	461	592
- AQ 5-8	360	529	889
- AQ 9	5	12	17
- AQ 10	5	28	33
Weighted average life - ECL measurement (years)	9	6	7
Weighted average life 12 months PDs			
- IFRS 9 (%)	1.41	4.06	1.67
- Basel (%)	1.19	3.85	1.45

At 31 December 2021 AQ10 includes €231 million of exposures which are not currently considered defaulted for capital calculation purposes but are included in Stage 3.

22. Risk management – Credit risk (continued)

31 December 2020	Personal €m	Wholesale €m	Total €m
Loans by geography	15,502	5,557	21,059
- Republic of Ireland	15,502	5,083	20,585
- United Kingdom	-	239	239
- Other	-	235	235
Loans by asset quality	15,502	5,557	21,059
- AQ 2	45	-	45
- AQ 3	-	182	182
- AQ 4	10,042	1,345	11,387
- AQ 5	3,343	1,674	5,017
- AQ 6	194	1,119	1,313
- AQ 7	181	592	773
- AQ 8	130	180	310
- AQ 9	383	273	656
- AQ 10	1,184	192	1,376
Loans by stage	15,502	5,557	21,059
- Stage 1	12,375	3,632	16,007
- Stage 2	1,943	1,733	3,676
- Stage 3	1,184	192	1,376
Loans - past due analysis	15,502	5,557	21,059
- Not past due	14,402	5,264	19,666
- Past due 1-30 days	240	87	327
- Past due 31-89 days	236	78	314
- Past due 90-180 days	93	6	99
- Past due > 180 days	531	122	653
Stage 2	1,943	1,733	3,676
- Not past due	1,670	1,629	3,299
- Past due 1-30 days	128	33	161
- Past due 31-89 days	145	71	216
ECL provision (total)	573	320	893
ECL provisions by geography	573	320	893
- Republic of Ireland	573	306	879
- United Kingdom	-	13	13
- Other	-	1	1
ECL provisions by stage	573	320	893
- Stage 1	31	19	50
- Stage 2	106	189	295
- Stage 3	436	112	548
ECL Provision coverage (total) - ECL/loans	3.70	5.76	4.24
- Stage 1 (%)	0.25	0.52	0.31
- Stage 2 (%)	5.46	10.91	8.03
- Stage 3 (%)	36.82	58.33	39.83
ECL charge - third party	111	46	157
ECL charge/(release) by geography	111	46	157
- Republic of Ireland	111	47	158
- United Kingdom	-	(1)	(1)
ECL loss rate (%)	1.28	3.67	1.58
Amounts written off	238	8	246
Other financial assets by asset quality	-	8,520	8,520
- AQ 1-4	-	8,520	8,520
Off balance sheet	710	3,502	4,212
Loan commitments	710	3,133	3,843
Financial guarantees	-	369	369
Off balance sheet by asset quality	710	3,502	4,212
- AQ 1-4	301	1,969	2,270
- AQ 5-8	403	1,479	1,882
- AQ 9	1	12	13
- AQ 10	5	42	47
Weighted average life - ECL measurement (years)	9	7	8
Weighted average life 12 months PDs			
- IFRS 9 (%)	2.05	3.58	2.47
- Basel (%)	1.13	3.33	1.72

At 31 December 2020 AQ10 included €429 million of exposures which were not considered defaulted for capital calculation purposes but were included in Stage 3.

22. Risk management – Credit risk (continued)

The table below shows an analysis of gross loans by stage, off balance sheet positions and ECL by stage for the Personal portfolios and key sectors of the Wholesale portfolios.

Comparatives for the prior financial year end are provided on page 77.

	Loans - amortised cost				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
31 December 2021	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal	6,146	724	725	7,595	501	-	9	25	358	392
Mortgages	5,965	658	713	7,336	93	-	9	20	349	378
Cards	70	13	1	84	318	-	-	2	1	3
Other Personal	111	53	11	175	90	-	-	3	8	11
Wholesale	471	291	212	974	800	230	2	52	104	158
Property	63	32	37	132	68	24	-	3	25	28
Financial institutions	88	-	-	88	64	11	-	-	-	-
Sovereigns	5	-	-	5	5	-	1	-	-	1
Corporate	315	259	175	749	663	195	1	49	79	129
Of which:										
Airlines and aerospace	1	-	-	1	9	5	-	-	-	-
Automotive	7	4	1	12	19	7	-	1	1	2
Education	2	1	4	7	2	-	-	-	2	2
Health	12	11	9	32	15	2	-	3	6	9
Land transport & logistics	8	1	1	10	74	5	-	-	1	1
Leisure	11	134	79	224	21	2	-	28	21	49
Oil and gas	-	-	-	-	3	-	-	-	-	-
Retail	65	14	14	93	73	38	-	2	9	11
Total	6,617	1,015	937	8,569	1,301	230	11	77	462	550

22. Risk management – Credit risk (continued)

	Loans - amortised cost				Off-balance sheet		ECL provisions			
31 December 2020	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Loan commitments €m	Contingent liabilities €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m
Personal	12,375	1,943	1,184	15,502	710	-	31	106	436	573
Mortgages	12,168	1,857	1,170	15,195	287	-	30	101	425	556
Cards	71	16	1	88	327	-	1	1	1	3
Other Personal	136	70	13	219	96	-	-	4	10	14
Wholesale	3,632	1,733	192	5,557	3,133	369	19	189	112	320
Property	1,072	275	41	1,388	516	27	4	19	30	53
Financial institutions	248	45	1	294	187	13	1	1	1	3
Sovereigns	34	-	-	34	6	-	2	-	-	2
Corporate	2,278	1,413	150	3,841	2,424	329	12	169	81	262
Of which:										
Airlines and aerospace	2	101	-	103	88	8	-	1	-	1
Automotive	51	57	10	118	73	17	1	6	1	8
Education	51	5	2	58	45	-	-	1	1	2
Health	291	118	8	417	54	2	2	22	6	30
Land transport & logistics	74	71	7	152	86	5	-	4	4	8
Leisure	119	531	29	679	131	2	1	78	17	96
Oil and gas	7	-	-	7	59	-	-	-	-	-
Retail	365	102	14	481	348	51	2	16	8	26
Total	16,007	3,676	1,376	21,059	3,843	369	50	295	548	893

22. Risk management – Credit risk (continued)

Credit risk enhancement and mitigation

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	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2021	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Cash and balances at central banks	5,247	1	5,246	-	-	-	-	-	-	5,246	-
Loans - amortised cost	8,569	546	8,023	475	40	7,265	8	7,313	440	710	35
Personal	7,595	391	7,204	367	-	6,953	-	6,953	359	251	8
Wholesale	974	155	819	108	40	312	8	360	81	459	27
Other financial assets	2,486	1	2,485	-	-	-	-	-	-	2,485	-
Total financial assets	16,302	548	15,754	475	40	7,265	8	7,313	440	8,441	35
Contingent liabilities and commitments											
Personal	501	1	500	5	-	-	-	-	-	500	5
Wholesale	1,030	1	1,029	28	15	53	6	74	3	955	25
Total off-balance sheet	1,531	2	1,529	33	15	53	6	74	3	1,455	30
Total exposure	17,833	550	17,283	508	55	7,318	14	7,387	443	9,896	65

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

22. Risk management – Credit risk (continued)

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	Property	Other	Total	Stage 3	Total	Stage 3
31 December 2020	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets											
Cash and balances at central banks	5,594	-	5,594	-	-	-	-	-	-	5,594	-
Loans - amortised cost	21,059	883	20,176	830	85	17,285	499	17,869	799	2,307	31
Personal	15,502	572	14,930	749	-	14,638	-	14,638	745	292	4
Wholesale	5,557	311	5,246	81	85	2,647	499	3,231	54	2,015	27
Other financial assets	2,926	1	2,925	-	-	-	-	-	-	2,925	-
Total financial assets	29,579	884	28,695	830	85	17,285	499	17,869	799	10,826	31
Contingent liabilities and commitments											
Personal	710	1	709	5	-	-	-	-	-	709	5
Wholesale	3,502	8	3,494	42	25	275	52	352	10	3,142	32
Total off-balance sheet	4,212	9	4,203	47	25	275	52	352	10	3,851	37
Total exposures	33,791	893	32,898	877	110	17,560	551	18,221	809	14,677	68

The Group holds collateral in respect of individual loans. This collateral includes mortgages over property (both personal and commercial). Property valuations are capped at the loan value.

22. Risk management – Credit risk (continued)

Personal portfolio

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions). Loan-to-value (LTV) ratios are split by stage, weighted average LTVs are separated into owner-occupied and buy-to-let categories.

	2021 €m	2020 €m
Mortgages	7,336	15,226
Owner occupied	6,621	14,228
Buy-to-let	715	998
Interest-only - variable	143	177
Interest-only - fixed	3	11
Mixed(1)	41	62
ECL provision	378	556
Other lending	259	307
Drawn exposure	259	307
ECL provision	14	17
Total Personal lending	7,595	15,533
Mortgage LTV ratios		
- Total portfolio	50%	59%
- Stage 1/performing	48%	57%
- Stage 2/performing	57%	65%
- Stage 3/non-performing	56%	67%
- Buy to let	52%	59%
- Stage 1	51%	55%
- Stage 2	56%	69%
- Stage 3	66%	74%
Gross new mortgage lending	48	1,014
Owner Occupied exposure	48	1,011
Weighted average LTV(2)	57%	74%
Buy-to-let	-	3
Weighted average LTV(2)	53%	54%
Interest-only - variable rate	-	-
Interest-only - fixed rate	-	-
Mixed(1)	-	-
Mortgage forbearance		
Forbearance flow	60	141
Forbearance stock	1,123	1,811
Current	732	1,190
1-3 months in arrears	69	117
>3 months in arrears	322	503
Stage 3 mortgages time in default		
<1 year	11%	6%
1-3 years	15%	18%
3-5 years	8%	23%
5-10 years	40%	36%
>10 years	26%	17%

(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) Weighted by current exposure gross of provisions.

22. Risk management – Credit risk (continued)

Personal portfolio

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band.

	2021												
	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage (1)			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Gross new lending €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	3,166	262	325	3,753	15	5	7	164	176	0.2	2.7	50.5	4.7
>50% and ≤70%	1,781	205	153	2,139	20	3	6	71	80	0.2	2.9	46.4	3.7
>70% and ≤80%	577	80	72	729	11	1	2	34	37	0.2	2.5	47.2	5.1
>80% and ≤90%	276	61	66	403	1	-	3	31	34	-	4.9	47.0	8.4
>90% and ≤100%	96	31	44	171	1	-	1	22	23	-	3.2	50.0	13.5
>100%	40	19	49	108	-	-	1	27	28	-	5.3	55.1	25.9
Total with LTVs	5,936	658	709	7,303	48	9	20	349	378	0.2	3.0	49.2	5.2
Other	29	-	4	33	-	-	-	-	-	-	-	-	-
Total	5,965	658	713	7,336	48	9	20	349	378	0.2	3.0	48.9	5.2

	2020												
	Drawn exposure - Total book				Of which:	ECL provisions				ECL provisions coverage (1)			
	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Gross new lending €m	Stage 1 €m	Stage 2 €m	Stage 3 €m	Total €m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
≤50%	4,626	561	394	5,581	87	11	27	117	155	0.2	4.8	29.7	2.8
>50% and ≤70%	3,844	504	256	4,604	216	9	26	74	109	0.2	5.2	28.9	2.4
>70% and ≤80%	1,747	259	127	2,133	385	4	14	44	62	0.2	5.4	34.6	2.9
>80% and ≤90%	1,351	212	117	1,680	320	3	12	44	59	0.2	5.7	37.6	3.5
>90% and ≤100%	414	161	97	672	1	1	10	44	55	0.2	6.2	45.4	8.2
>100%	204	168	184	556	5	1	14	101	116	0.5	8.3	54.9	20.9
Total	12,186	1,865	1,175	15,226	1,014	29	103	424	556	0.2	5.5	36.1	3.7

(1) ECL provisions coverage is ECL provision divided by drawn exposure

22. Risk management – Credit risk (continued)

Flow statements

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 in this section may therefore differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to 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 (income statement only) 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 (income statement only) 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 debt sale activity.
- The impact of any change in PMAs during the financial year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models.
- 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
Total	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2021	24,542	50	3,790	295	1,399	548	29,731	893
Currency translation and other adjustments	(31)	1	-	2	1	(36)	(30)	(33)
Transfers from Stage 1 to Stage 2	(979)	(4)	979	4	-	-	-	-
Transfers from Stage 2 to Stage 1	1,768	72	(1,768)	(72)	-	-	-	-
Transfers to Stage 3	(10)	-	(171)	(24)	181	24	-	-
Transfers from Stage 3	22	2	215	45	(237)	(47)	-	-
Net re-measurement of ECL on stage transfer	-	(68)	-	11	-	15	-	(42)
Changes in risk parameters (model inputs)	-	(13)	-	(33)	-	105	-	59
Other changes in net exposure	27	(2)	(308)	(16)	(157)	(10)	(438)	(28)
Other (income statement only)	-	1	-	-	-	(23)	-	(22)
Income statement (releases)/charges	-	(82)	-	(38)	-	87	-	(33)
Amounts written-off	-	-	(1)	(1)	(104)	(104)	(105)	(105)
Transfer to disposal groups	(8,854)	(27)	(1,682)	(134)	(126)	(23)	(10,662)	(184)
Unwinding of discount	-	-	-	-	-	(10)		(10)
At 31 December 2021	16,485	11	1,054	77	957	462	18,496	550
Net carrying amount	16,474		977		495		17,946	
At 1 January 2020	24,634	34	1,956	63	2,413	814	29,003	911
2020 movements	(92)	16	1,834	232	(1,014)	(266)	728	(18)
At 31 December 2020	24,542	50	3,790	295	1,399	548	29,731	893
Net carrying amount	24,492		3,495		851		28,838	

2020 movements included transfers from Stage 1 to Stage 2 of €5,923 million (ECL – €32 million), transfers from Stage 2 to Stage 1 of €3,750 million (ECL – €120 million), transfers into Stage 3 of €187 million (ECL – €17 million) and transfers from Stage 3 of €467 million (ECL – €51 million). Additional ECL of €116 million was recognised as a result of these cumulative transfers. Also included were financial assets written-off of €246 million.

22. Risk management – Credit risk (continued)

The following tables analyse the ECL flow for significant classes of assets in the Group.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Residential mortgages	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2021	12,155	30	1,872	101	1,181	425	15,208	556
Currency translation and other adjustments	-	-	-	-	-	(37)	-	(37)
Transfers from Stage 1 to Stage 2	(567)	(2)	567	2	-	-	-	-
Transfers from Stage 2 to Stage 1	1,357	63	(1,357)	(63)	-	-	-	-
Transfers to Stage 3	(9)	-	(76)	(8)	85	8	-	-
Transfers from Stage 3	22	2	199	38	(221)	(40)	-	-
Net re-measurement of ECL on stage transfer	-	(60)	-	(3)	-	12	-	(51)
Changes in risk parameters (model inputs)	-	(10)	-	(21)	-	97	-	66
Other changes in net exposure	(717)	(1)	(127)	(3)	(133)	(5)	(977)	(9)
Other (income statement only)	-	-	-	-	-	(14)	-	(14)
Income statement (releases)/charges	-	(71)	-	(27)	-	90	-	(8)
Amounts written-off	-	-	-	-	(86)	(86)	(86)	(86)
Transfer to disposal groups	(6,246)	(13)	(414)	(23)	(107)	(17)	(6,767)	(53)
Unwinding of discount	-	-	-	-	-	(8)	-	(8)
At 31 December 2021	5,995	9	664	20	719	349	7,378	378
Net carrying amount	5,986		644		370		7,000	
At 1 January 2020	12,463	13	1,274	35	2,204	683	15,941	731
2020 movements	(308)	17	598	66	(1,023)	(258)	(733)	(175)
At 31 December 2020	12,155	30	1,872	101	1,181	425	15,208	556
Net carrying amount	12,125		1,771		756		14,652	

2020 movements included transfers from Stage 1 to Stage 2 of €2,262 million (ECL – €7 million), transfers from Stage 2 to Stage 1 of €1,873 million (ECL – €53 million), transfers into Stage 3 of €81 million (ECL – €7 million) and transfers from Stage 3 of €409 million (ECL – €41 million). An increase in ECL of €14 million was recognised as a result of these cumulative transfers. Also included were amounts written-off of €232 million.

22. Risk management – Credit risk (continued)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2021	11,981	18	1,762	184	181	98	13,924	300
Currency translation and other adjustments	(31)	1	-	2	1	1	(30)	4
Transfers from Stage 1 to Stage 2	-	-	-	-	-	-	-	-
Transfers from Stage 2 to Stage 1	(279)	(1)	279	1	-	-	-	-
Transfers to Stage 3	291	5	(291)	(5)	-	-	-	-
Transfers from Stage 3	-	-	9	2	(9)	(2)	-	-
Net re-measurement of ECL on stage transfer	-	(4)	-	9	-	(5)	-	-
Changes in risk parameters (model inputs)	-	(2)	-	(7)	-	8	-	(1)
Other changes in net exposure	762	(1)	(141)	(11)	(20)	(5)	601	(17)
Other (income statement only)	-	-	-	1	-	(4)	-	(3)
Income statement (releases)/charges	-	(7)	-	(8)	-	(6)	-	(21)
Amounts written-off	-	-	-	-	(11)	(11)	(11)	(11)
Transfer to disposal groups	(2,608)	(14)	(1,267)	(112)	(20)	(6)	(3,895)	(132)
Unwinding of discount	-	-	-	-	-	(1)	-	(1)
At 31 December 2021	10,116	2	351	63	122	77	10,589	142
Net carrying amount	10,114		288		45		10,447	
At 1 January 2020	11,663	19	549	23	176	108	12,388	150
2020 movements	318	(1)	1,213	161	5	(10)	1,536	150
At 31 December 2020	11,981	18	1,762	184	181	98	13,924	300
Net carrying amount	11,963		1,578		83		13,624	

2020 movements included transfers from Stage 1 to Stage 2 of €3,475 million (ECL – €23 million), transfers from Stage 2 to Stage 1 of €1,763 million (ECL – €64 million), transfers into Stage 3 of €89 million (ECL – €8 million) and transfers from Stage 3 of €51 million (ECL – €4 million). Additional ECL of €85 million was recognised as a result of these cumulative transfers. Also included were amounts written-off of €7 million.

Related financial asset movements are one month in arrears relative to the balance sheet reporting dates, as these are the balances used to calculate the modelled ECL (i.e. reported financial assets at 1 January 2021 in the flow statements reflect 30 November 2020 positions, and 31 December 2021 reported figures reflect 30 November 2021 positions).

22. Risk management– Credit risk (continued)

Stage 2 decomposition – arrears status and contributing factors

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

	Residential mortgages		Credit cards		Other personal		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2021	€m	€m	€m	€m	€m	€m	€m	€m
Personal								
Currently In Arrears (>30DPD)	46	3	1	-	2	1	49	4
Currently Up-to-Date	612	17	12	2	51	2	675	21
- PD Deterioration	69	6	7	2	30	1	106	9
- Up-to-Date, PD Persistence	24	1	5	-	20	1	49	2
- Other Driver (Adverse credit, forbearance etc.)	519	10	-	-	1	-	520	10
Total Stage 2	658	20	13	2	53	3	724	25

	Residential mortgages		Credit cards		Other personal		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
31 December 2020	€m	€m	€m	€m	€m	€m	€m	€m
Personal								
Currently In Arrears (>30DPD)	121	12	-	-	3	-	124	12
Currently Up-to-Date	1,736	89	16	1	67	4	1,819	94
- PD Deterioration	738	47	9	1	44	3	791	51
- Up-to-Date, PD Persistence	52	2	6	-	22	1	80	3
- Other Driver (Adverse credit, forbearance etc.)	946	40	1	-	1	-	948	40
Total Stage 2	1,857	101	16	1	70	4	1,943	106

22. Risk management– Credit risk (continued)

Stage 2 decomposition – arrears status and contributing factors

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

31 December 2021	Property Loans €m	Property ECL €m	Corporate Loans €m	Corporate ECL €m	Financial Institutions Loans €m	Financial Institutions ECL €m	Total Loans €m	Total ECL €m
Wholesale								
Currently In Arrears (>30DPD)	-	-	1	-	-	-	1	-
Currently Up-to-Date	32	3	258	49	-	-	290	52
- PD Deterioration	3	-	72	15	-	-	75	15
- Up-to-Date, PD Persistence	1	-	14	-	-	-	15	-
- Other Driver (Adverse credit, forbearance etc.)	28	3	172	34	-	-	200	37
Total Stage 2	32	3	259	49	-	-	291	52

31 December 2020	Property Loans €m	Property ECL €m	Corporate Loans €m	Corporate ECL €m	Financial Institutions Loans €m	Financial Institutions ECL €m	Total Loans €m	Total ECL €m
Wholesale								
Currently In Arrears (>30DPD)	36	1	34	10	-	-	70	11
Currently Up-to-Date	239	18	1,379	159	45	1	1,663	178
- PD Deterioration	44	2	588	55	13	-	645	57
- Up-to-Date, PD Persistence	1	-	17	1	-	-	18	1
- Other Driver (Adverse credit, forbearance etc.)	194	16	774	103	32	1	1,000	120
Total Stage 2	275	19	1,413	169	45	1	1,733	189

22. Risk management (continued)

Capital, liquidity and funding risk

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

Definitions

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

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:
- Common Equity Tier 1 (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's 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.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes issued by UBIDAC to NatWest Holdings Limited 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 resolution authorities, the Bank of England or the Single Resolution Board, deem that the Group has failed or is likely to fail.

Liquidity

The Group maintains a prudent approach to the definition of liquidity resources. The 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, high quality government and agency bonds.
- Secondary liquid assets are eligible as collateral for central bank liquidity facilities and repurchase agreements. These assets include own-issued securitisations.

Funding

The Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance.

Capital management

Capital management is the process by which the Group ensures that it has 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.

22. Risk management - Capital, liquidity and funding risk (continued)

Capital planning is integrated into the Group's annual budgeting process and is assessed and updated at least monthly.

Produce capital plans	– Capital plans are produced for the Group over a multi-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 the Group 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.
Inform capital actions	– Capital planning informs potential capital actions including dividends and new issuance via internal Group 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, the 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 the Group uses to monitor and manage capital risk on a going and gone concern basis, including the risk of excessive leverage.

Liquidity risk management

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

The size of the liquidity portfolio is determined by referencing UBIDAC's liquidity risk appetite. The 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.

The Group holds locally managed portfolios that comply with local regulations that may differ from the PRA rules for NatWest Holdings.

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

The 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.

Impact of COVID-19

While the economic impacts of COVID-19 continue to be felt on the economy, many of the supports introduced by regulators have now become permanent or continue today. The permanent supports relate to items that were originally scheduled for introduction as part of the Banking Reform Package. Other reliefs are temporary and have been elected to be used by the Group or made available by our regulators. The temporary reliefs still availed of by the Group are:

- IFRS 9 transition – the Group has elected to avail of the transitional regulatory capital rules in respect of expected credit losses following the adoption of IFRS 9. The CRR COVID-19 amendments now permit a full CET1 addback for the movement in Stage 1 and Stage 2 ECL from 1 January 2020 for the next two years, before transitioning out by 2025. The IFRS 9 transitional arrangement impact on Group CET1 regulatory capital as at 31 December 2021 is €146 million.
- Capital buffers – many countries have announced reductions in their countercyclical capital buffer rates in response to COVID-19. The CBI announced a reduction of the rate from 1% to 0% effective from 1 April 2020. The CBI retained this reduction during 2021.

UBIDAC continues to closely monitor the capital, liquidity and funding impacts of COVID-19 however the Group has maintained a strong capital and funding position throughout the crisis. Prudent risk management will continue to be important as the ongoing economic effects of the pandemic unfold.

Key developments in 2021

In light of reaching agreements to sell the performing commercial loan portfolio and a significant portion of the performing personal banking portfolio, it was decided to reduce the excess liquidity position in the Group's balance sheet by repaying the TLTRO 3 borrowing from the ECB.

In consideration of the uncertainties associated with the phased withdrawal under base and stress scenarios, on 15 February 2022 the Group entered into a €9.5 billion contingent liquidity agreement with National Westminster Bank Plc. This replaced the €1 billion contingent liquidity agreement which was entered into in February 2021, prior to the announcement of the phased withdrawal decision.

The strong capital, liquidity and funding positions at year end will support the orderly reduction in assets and liabilities during the phased withdrawal programme. Progress will be closely monitored across the three lines of defence.

22. Risk management - Capital, liquidity and funding risk (continued)

Minimum requirements

Capital adequacy ratios

The Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the Bank is expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Pillar 2 requirement (1)	2.0%	2.6%	3.5%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (2)	0.0%	0.0%	0.0%
Other systemically important institution buffer(3)	0.5%	0.5%	0.5%
Total	9.5%	11.6%	14.5%

(1) Banks are permitted to use capital instruments that do not qualify as CET1 capital, for example AT1 or Tier 2 instruments, to meet the Pillar 2 requirements.
(2) The institution-specific countercyclical capital buffer requirement is determined by the CBI and is applicable to all Irish banks. In April 2020 the CBI reduced the requirement to zero as a response to the COVID-19 pandemic.
(3) The other systemically important institution buffer is calculated by the CBI and is based on a score accounting for a bank's size, interconnectedness, importance and complexity.

Contractual maturity

The table shows the residual maturity of third-party financial instruments, based on contractual date of maturity of the Group's banking activities. Trading activities comprising Mandatory fair value through profit or loss (MFVTPL) assets and held-for-trading (HFT) liabilities have been excluded from the maturity analysis due to their short-term nature and are shown in total in the table below.

Group	Other than MFVTPL and HFT											
2021	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions €m	Total €m
Cash and balances at central banks	5,552	-	-	-	5,552	-	-	-	5,552	-	-	5,552
Derivatives	-	-	-	-	-	-	-	-	-	90	-	90
Loans to banks	97	-	-	-	97	-	-	-	97	-	-	97
Loans to customers	343	167	192	379	1,081	1,377	1,180	4,841	8,479	-	(549)	7,930
Personal	164	108	160	311	743	1,154	1,016	4,680	7,593	-	-	7,593
Commercial	53	59	32	68	212	223	164	161	760	-	-	760
Financial institutions (excluding banks)	126	-	-	-	126	-	-	-	126	-	-	126
Other financial assets	51	84	242	122	499	1,561	428	-	2,488	-	-	2,488
Total financial assets	6,043	251	434	501	7,229	2,938	1,608	4,841	16,616	90	(549)	16,157
2020												
Total financial assets	6,719	554	634	1,136	9,043	5,094	4,290	11,499	29,926	226	(884)	29,268
Bank deposits	307	-	-	-	307	-	-	-	307	-	-	307
Customer deposits	20,594	255	584	433	21,866	72	-	-	21,938	-	-	21,938
Personal	9,793	118	160	215	10,286	11	-	-	10,297	-	-	10,297
Commercial	9,045	85	370	122	9,622	-	-	-	9,622	-	-	9,622
Financial institutions (excluding banks)	1,756	52	54	96	1,958	61	-	-	2,019	-	-	2,019
Derivatives	-	-	-	-	-	-	-	-	-	64	-	64
Subordinated liabilities	-	-	-	-	-	-	-	86	86	-	-	86
Lease liabilities	1	1	2	3	7	12	9	10	38	-	-	38
Total financial liabilities	20,902	256	586	436	22,180	84	9	96	22,369	64	-	22,433
2020												
Total financial liabilities	19,931	523	671	523	21,648	3,253	19	355	25,275	98	-	25,373

22. Risk management – Capital, liquidity and funding risk (continued)

Contractual maturity continued

Bank	Other than MFVTPL and HFT											
2021	Less than 1 month €m	1-3 months €m	3-6 months €m	6 months - 1 year €m	Subtotal €m	1-3 years €m	3-5 years €m	More than 5 years €m	Total excluding MFVTPL and HFT €m	MFVTPL and HFT €m	Customer ECL provisions €m	Total €m
Cash and balances at central banks	5,552	-	-	-	5,552	-	-	-	5,552	-	-	5,552
Derivatives	-	-	-	-	-	-	-	-	-	90	-	90
Loans to banks	47	-	-	-	47	-	-	-	47	-	-	47
Loans to customers	343	167	192	379	1,081	1,377	1,180	4,841	8,479	-	(549)	7,930
Personal	164	108	160	311	743	1,154	1,016	4,680	7,593	-	-	7,593
Commercial	53	59	32	68	212	223	164	161	760	-	-	760
Financial institutions (excluding banks)	126	-	-	-	126	-	-	-	126	-	-	126
Other financial assets	51	84	242	122	499	1,561	428	-	2,488	-	-	2,488
Total financial assets	5,993	251	434	501	7,179	2,938	1,608	4,841	16,566	90	(549)	16,107
2020												
Total financial assets	6,557	554	634	1,136	8,881	5,094	4,290	11,499	29,764	226	(884)	29,106
Bank deposits	307	-	-	-	307	-	-	-	307	-	-	307
Customer deposits	20,594	255	584	433	21,866	72	-	-	21,938	-	-	21,938
Personal	9,793	118	160	215	10,286	11	-	-	10,297	-	-	10,297
Commercial	9,045	85	370	122	9,622	-	-	-	9,622	-	-	9,622
Financial institutions (excluding banks)	1,756	52	54	96	1,958	61	-	-	2,019	-	-	2,019
Derivatives	-	-	-	-	-	-	-	-	-	64	-	64
Subordinated liabilities	-	-	-	-	-	-	-	86	86	-	-	86
Lease liabilities	1	1	2	3	7	12	9	10	38	-	-	38
Total financial liabilities	20,902	256	586	436	22,180	84	9	96	22,369	64	-	22,433
2020												
Total financial liabilities	19,931	523	671	523	21,648	3,253	19	85	25,005	98	-	25,103

Encumbrance

The 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.

The Group categorises its assets into two 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.
- Not currently encumbered. In this category, prior to the announcement of the phased withdrawal decision, the Group had in place an enablement programme which sought to identify assets capable of being encumbered and to identify the actions to facilitate such encumbrance whilst not affecting customer relationships or servicing.

22. Risk management (continued)

Non-traded market risk

Definition

Non-traded market risk is the risk to the value of assets or liabilities 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. The Group has no trading books and no exposure to traded market risk.

Sources of risk

The key sources of non-traded market risk are interest rate risk; credit spread risk; foreign exchange risk; and accounting volatility risk. Equity risk is not material. Each of these risk types are largely managed separately.

Governance, appetite and controls

General information on risk governance, appetite and controls in the Group is included in the Risk Management Framework section of this note.

Risk appetite

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

Its quantitative market risk appetite is expressed in terms of exposure limits for the non-trading activities that are consistent with business plans. Limits are considered for approval at Asset & Liability Committee and Board.

For each desk, a document known as dealing authority compiles details of all applicable limits and dealing restrictions.

The limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity limits including basis risk and earnings-at-risk (EaR) and Economic Value of Equity (EVE) limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that the Group remains within its risk appetite, triggers at the Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the front office and Market Risk.

Measurement

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 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.

Total VaR

The total VaR for the Group's dealing is presented in the table below:

	31 December 2021 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	1.7	3.2	1.3	2.1

	31 December 2020 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	2.0	3.8	1.2	2.3

Interest Rate VaR

The Interest Rate VaR limit is a sub limit of the Total VaR limit and is monitored daily.
Interest Rate VaR is presented in the table below:

	31 December 2021 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.6	1.9	0.1	1.0

	31 December 2020 €m	Maximum €m	Minimum €m	Average €m
Value-at-Risk	0.5	0.7	0.1	0.4

VaR metrics were temporarily elevated at points during 2021 due to the impacts of IBOR transition and the timing of certain hedging actions due to phased withdrawal considerations.

Key developments in 2021

The non-traded market risk implications from the phased withdrawal have been considered, resulting in some adjustments in interest rate profiles due to changing business assumptions. This has caused some changes to the volume and duration of structural hedging.

22. Risk management – 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.

To manage exposures within its risk appetite the 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. The Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

Structural hedging

The Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising equity and money transmission accounts. The 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 2021, the Group structural hedge had a notional of €7,035 million with an average life of approximately 1.35 years.

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 equity.

Foreign exchange risk

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

- Structural foreign exchange risk – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from Euro.
- Non-trading book foreign exchange risk – arises from customer transactions and profits and losses that are in a currency other than the functional currency of the transacting operation.
- Forecast earnings or costs in foreign currencies – the Group assesses its potential exposure to forecast foreign currency income and expenses. The Group hedges forward some forecast expenses.

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.

Pension risk

Definition

Pension risk is the risk to the Group caused by its contractual or other liabilities to, or with respect to, a pension scheme (whether established for its colleagues or those of a related company or otherwise). It is also the risk that the Group will make payments or other contributions to, or with respect to, a pension scheme because of a moral obligation or because the Group considers that it needs to do so for some other reason.

Sources of risk

The Group has exposure to pension risk through its defined benefit schemes. The Ulster Bank Pension Scheme (the main scheme) is the largest source of pension risk. Collectively the schemes have €2,037 million of assets and €1,760 million of liabilities as at 31 December 2021 (2020 – €2,051 million of assets and €1,743 million of liabilities).

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. The 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, the Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Key developments in 2021

There have been no material changes to the Group's exposure to pension risk during the year, and the positions of the main defined benefit schemes that the Group sponsors have remained strong. During 2021, the Group paid additional funding contributions to the First Active and Lombard Ireland pension schemes of €15 million and €10 million respectively. These payments supported further risk reduction through increased interest and inflation hedging.

The Group has agreed with each of the defined benefit scheme trustees a timeframe for discussions on the future support arrangements for the defined benefit schemes on completion of the phased withdrawal; with both the Group and trustees sharing the objective of having new support arrangements in place by the end of 2022.

Governance

The UBIDAC Pension Committee operates under the Assets & Liability Committee (ALCO), is chaired by the Chief Financial Officer and reports to ALCO. The Pension Committee considers and discusses financial strategy, risk management, balance sheet and remuneration & policy implications of the pension schemes operating in the Republic of Ireland (the UBIDAC Schemes).

22. Risk management – Pension risk (continued)

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

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

Monitoring and measurement
Pension risk is monitored by the Executive Risk Committee (ERC) and the Board Risk Committee by way of the monthly Risk Management Report and by the Asset & Liability Committee.

The 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 Central Bank of Ireland and the Bank of England.

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

Mitigation
Following risk mitigation measures taken by the trustees in recent years, the defined benefit schemes are now well protected against interest rate and inflation risks and are being run on a low risk basis with relatively small equity risk exposure. The schemes use both physical and derivative instruments to achieve a desired asset class exposure, including hedging movements in interest rates and inflation.

The potential impact of climate change is one of the factors considered in managing the assets of the main scheme. 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.

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

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms, and a rise in sea level. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. Transition risks may arise as borrowers adjust their business models towards a low-carbon economy. Changes in policy, technology and sentiment may prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets.

The Board is responsible for monitoring and overseeing climate-related risk within the Group's overall business strategy and risk appetite. In 2021 the Board approved the allocation of senior management function responsibility for identifying and managing financial risks from climate change to the UBIDAC Director of Risk.

Many longer-term climate risk impacts for the Group are substantially mitigated by the phased withdrawal decision and associated portfolio sales. For example, UBIDAC will not be a participant in the EBA 2022 climate stress test exercise. Nonetheless, the Group intends to maintain a focus on regulatory risk management and reporting guidelines related to climate risk during the withdrawal period. The Group has access to the expertise of the NatWest Group Climate Centre of Excellence which provides strategic horizon scanning, guidance and specialist climate expertise.

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. Theft, as well as the threat of cyber-attacks, are sources of operational risk, as is the impact of natural and man-made disasters. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

Key developments in 2021
- Oversight of the phased withdrawal planning was a key focus area.
- Operational risk appetite statements and measures were updated with an enhanced focus to provide better visibility of key risks across the Group.
- Continued focus on operational resilience to ensure planning, controls and operational activities remained robust and appropriate, with ongoing attention on the potential operational risks arising from changes in working practices.
- The security threat and the potential for cyber-attacks on the Group continues to be closely monitored.
- There was continued focus on reducing the risks associated with data use, particularly in terms of assuring data quality. This work is aligned to the Group data strategy, which is designed to identify and implement enhancements to the effective use of data across the Group.

Governance
A strong operational risk management function is vital to support the Group's ambitions to serve its customers better. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

The first line of defence is responsible for managing operational risks directly while the second line is responsible for proactive oversight and continuous monitoring of operational risk management across the Group. The second line is responsible for reporting and escalating key concerns to Executive Risk Committee and Board Risk Committee.

The Operational Risk Framework provides a holistic view of how operational risk is managed in the Group, to support the effective mitigation of exposure to operational risk, and of how this is overseen by the Board.

22. Risk management – Operational risk (continued)

The scope of the Operational Risk Framework extends across all business lines, internal units, internal control functions, branches, relevant subsidiaries and to any other NatWest Group or third-party entity that provides outsourced services to the Group.

Risk appetite
Operational risk appetite supports effective management of material operational risks. It expresses the level and types of operational risk the Group is willing to accept to achieve its strategic objectives and business plans.

Mitigation
The Control Environment Certification (CEC) process is a self-assessment by the UBIDAC CEO. 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 and progress on control environment improvements, are reported to Executive Risk Committee and Board Risk Committee.

Risks are mitigated by applying key preventative and detective controls, an integral step in the risk assessment methodology which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness. The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated.

Monitoring and measurement
Risk and control assessments are used to identify and assess material operational and conduct risks and key controls. All risks and controls are mapped to the 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.

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

Operational resilience
The Group manages and monitors operational resilience through its risk and control assessment methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services.

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

As part of the wider Internal Capital Adequacy Assessment Process an operational risk capital adequacy assessment is undertaken taking into account external and internal losses and scenario analysis impacts.

Model risk

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

Sources of risk
The 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.

Key developments in 2021
- Embedding and enhancement of the model risk frameworks.
- Application to revert to standardised for the purposes of Pillar 1 credit capital estimation.
- Simplification of the models landscape in the context of the phased withdrawal.

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, in the first line, 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.

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

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

22. Risk management – Model risk (continued)

Risk monitoring and measurement
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 the Group.

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

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

Key developments in 2021
- Reputational risk registers were introduced in order to monitor the most material reputational risks.
- Refinement of reputational risk monitoring focused on understanding the impact of the phased withdrawal announcement on the Group.
- Environmental, Social & Ethical risk factors continue to be considered within the reputational risk management approach, including those arising from exposure to carbon-intensive sectors and to support the transition to a lower carbon economy.

Governance
A reputational risk policy supports reputational risk management across the Group. The Reputational Risk Committee, which has delegated authority from the Executive Risk Committee, opines on cases, issues, sectors and themes that represent a material reputational risk, which have been escalated to it by the various parts of the Group. The Board Risk Committee oversees the identification and reporting of reputational risk. The NatWest Group Sustainable Banking Committee has a specific focus on environmental, social and ethical issues.

Risk appetite
The Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. The Group seeks to identify, measure and manage risk exposures arising from internal actions and external events. This is designed to ensure that stakeholder trust is retained. However, reputational risk is inherent in the 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 Reputational Risk Committee and escalated, where appropriate, to the NatWest Group Reputational Risk Committee, NatWest Group Board Risk Committee or the NatWest Group Sustainable Banking Committee.

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

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging risks process as well as through the NatWest Group and franchise-level risk registers.

Compliance & conduct risk
Definition
Regulatory Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of the failure to observe the letter and spirit of all applicable laws, codes, rules, regulations and standards of good market practice.

Conduct Risk is the risk that the conduct of UBIDAC and its colleagues towards customers leads to damage arising from inappropriate behaviour towards customers, or in the markets in which we operate, which leads to unfair or inappropriate customer outcomes.

Sources of risk
Compliance and conduct risks exist across all stages of the Group's relationships with its customers and its banking activities, including complaint handling, colleague training, post-sales processes and handling of confidential insider information. Both risks have been heightened during 2021 as a result of the phased withdrawal announcement. As a result the Group amended its Conduct risk appetite qualitative statement as follows:

'UBIDAC seeks to ensure that our actions and behaviours do not result in inappropriate customer outcomes, financial loss or reputational damage through robust risk practices and behaviours and a proportionate control environment. However, the bank consequently accepts that Conduct Risk may occur as a result of our strategy to complete a phased withdrawal from the Irish market but we will seek to minimise this risk to ensure customers receive fair outcomes.'

22. Risk management – Compliance and conduct risk (continued)

Key developments in 2021

- Preparation and execution of Annual Compliance Plan for 2021.
- Risk appetite statements and measures were reviewed following the announcement of the phased withdrawal of the Group from the market.
- Successful management of the removal and expiry of COVID-19 payment breaks for customers by issuing clear communication to customers, implementing enhanced supports for vulnerable customers and customers newly in arrears as a result of the pandemic.
- Implementation of the full CBI Consumer Protection Risk Assessment (CPRA) model into business as usual practice and reporting, taking into consideration the impact of the phased withdrawal.
- As a consequence of the withdrawal programme:
  - Embedded second line of defence Compliance and Conduct quorum members in all decision-making and strategic planning governance committees.
  - Second line of defence Compliance and Conduct opinions delivered for all strategic decisions focused on delivering compliance with regulation and good customer outcomes.
  - Provided key input into all customer communication activities related to the withdrawal programme.
- Oversight of major and significant mandatory change programmes.

Governance

The Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk and compliance management frameworks. Relevant compliance and conduct matters are escalated through Compliance and Conduct Risk Committee, 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 businesses and functions work within when pursuing their strategic objectives and business plans. Appropriate changes were implemented after the phased withdrawal decision was taken.

A range of controls ensure the businesses deliver good conduct and customer outcomes, delivered in accordance with legal and regulatory requirements. A suite of policies, addressing compliance and conduct risks, set appropriate standards across the Bank. Examples of these include the Complaints Management & Errors Management Policy, Product Lifecycle Policy, Regulatory Interactions & Developments Policy as well as policies relating to customers in vulnerable situations and managing conflicts of interest. Continuous monitoring and targeted assurance is carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and reporting to the senior executive committees and at Board level in accordance with the UBIDAC Internal Control, Risk Management and Compliance Risk Frameworks. The Bank's frameworks facilitate the consistent identification, monitoring, measurement and reporting 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 the strategic planning cycle and the phased withdrawal programme.

Mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across the Group in accordance with its frameworks. Examples of mitigation include consideration of customer needs in product withdrawal, complaints and errors management including analysis, mapping and monitoring against CBI 'Dear CEO' letters and Risk Mitigation Programmes (RMPs) as well as broader second line and third line assurance activity. Internal policies help support a strong customer focus across the Bank. Targeted independent assessments of compliance with applicable regulations are also carried out at a legal entity level.

Financial crime risk

Definition

Financial Crime Risk (FCR) is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, sanctions, fraud (internal and external), and tax evasion.

Sources of risk

FCR is the risk that the Group's customers, colleagues or third parties undertake or facilitate financial crime, or that the Group's products or services are used to facilitate such crime. FCR is an inherent risk across all lines of business.

Key developments in 2021

- The upgrade of the Transaction Monitoring system was completed in Q1 2021 and enabled data sourced via the Enterprise Data Warehouse to generate alerts of possible unusual activity, enhancing the Group's ability to mitigate potential financial crime risks and meet regulatory obligations.
- Oversight of financial crime control measures pertaining to UBIDAC's phased withdrawal and within the agreed asset sales.
- The Group was not impacted by the case brought against NatWest Bank Plc in the UK, leading to a guilty plea in October 2021 and subsequent £264.8 million fine in December 2021 for breaches of money laundering regulations between 2012 and 2016.

Governance

The Financial Crime Committee, which is chaired by the Financial Crime Accountable Executive, is the principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across the Group to the Compliance and Conduct Committee and the Board Risk Committee.

Risk appetite

The Group seeks to prevent and detect financial crime and fraud (internal and external) to protect the Bank, people, families and businesses. The Group consequently accepts that financial crime and fraud risk presents itself as a result of conducting business but does not tolerate breaches of financial crime or fraud legislation.

The Group manages its exposure to financial crime and fraud risk by ensuring it operates within approved risk appetite; manages external fraud losses impacting our customers through governance and controls: and that there is timely completion of control activity that monitors, detects and prevents financial crime and fraud.

22. Risk management – Financial crime risk (continued)

Monitoring and measurement

Financial crime risks are identified, measured, monitored and reported through continuous risk management and oversight and regular reporting to the Group's senior risk committees and the Board Risk Committee and Board. Quantitative and qualitative data is reviewed and assessed to check that financial crime risk is within risk appetite.

Mitigation

Through the Compliance Risk Framework, relevant financial crime policies, systems, processes and controls are used to mitigate financial crime risk. This includes the use of dedicated screening and monitoring 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 the 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.

23. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2021. Although the 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 the Group's expectation of future losses.

	Group and Bank	
	2021	2020
	€m	€m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	140	142
Other contingent liabilities	223	223
Standby facilities, credit lines and other commitments	2,778	3,745
	3,141	4,110

The balance at 31 December 2021 includes €1,806 million of contingent liabilities and commitments relating to certain assets classified as Assets of disposal groups.

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. The Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Group's normal credit approval processes.

Guarantees - the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the 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.

Regulatory enquiries and investigations - in the normal course of business the Bank and its subsidiaries co-operate with regulatory authorities in their enquiries or investigations into alleged or possible breaches of regulations.

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.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material losses will arise from these transactions.

Commitments to lend - under a loan commitment the Bank 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 the Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and revolving underwriting facilities, documentary credits and other short-term trade related transactions.

The Bank has given guarantees on the liabilities of the following subsidiary undertakings in accordance with the provision of Section 357 of the Companies Act 2014 and these entities will avail of the exemptions under Section 357 regarding the provisions of Sections 347 and 348:

The RBS Group Ireland Retirement Savings Trustee Limited
Ulster Bank Holdings (ROI) Limited
First Active Limited
Ulster Bank Pension Trustees (RI) Limited
Ulster Bank Dublin Trust Company Unlimited Company

23. Memorandum items (continued)

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 financial statements at the financial year end:

	Group and Bank	
	2021	2020
	€m	€m
Capital expenditure on other property, plant and equipment	1	1
Contracts to purchase goods or services	2	2
Total	3	3

Litigation, investigations and reviews

The Group is involved in litigation arising in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims. Material litigation, investigations and reviews involving the Group are described below. These matters could, individually or in aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Review and investigation of treatment of tracker mortgage customers

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 phase has concluded, although an appeals process is currently anticipated to run until the end of 2022. The Group has made provisions totalling €358 million, of which €335 million had been utilised by 31 December 2021.

Customers of the Bank have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank 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

The Group has identified further legacy business issues and these remediation programmes are ongoing. The Group has made provisions of €188 million for these programmes, of which €156 million had been utilised by 31 December 2021.

24. Analysis of changes in financing during the financial year

	Group and Bank					
	Share capital and share premium		Subordinated liabilities[1]		Debt securities in issue[1]	
	2021	2020	2021	2020	2021	2020
	€m	€m	€m	€m	€m	€m
At 1 January	4,236	4,236	615	616	610	598
Interest paid on subordinated liabilities and debt securities in issue	-	-	(5)	(5)	(4)	(1)
Net cash outflow from financing	-	-	(5)	(5)	(4)	(1)
Interest accrued on subordinated liabilities and debt securities in issue			5	5	4	4
Currency translation and other adjustments	-	-	1	(1)	(9)	9
At 31 December	4,236	4,236	616	615	601	610

(1) At 31 December 2021, subordinated liabilities of €530 million and Debt securities in issue of €601 million are included in amounts due to holding companies and fellow subsidiaries (Note 10).

25. Analysis of cash and cash equivalents

	Group		Bank	
	2021	2020	2021	2020
	€m	€m	€m	€m
At 1 January	7,444	5,393	7,324	5,244
Net cash (outflow)/inflow	(1,000)	2,070	(930)	2,099
Effect of exchange rate changes on cash and cash equivalents	13	(19)	13	(19)
At 31 December	6,457	7,444	6,407	7,324
Comprising:				
Cash and balances at central banks	5,552	5,874	5,552	5,874
Loans to banks - amortised cost[1]	905	1,570	855	1,450
	6,457	7,444	6,407	7,324

(1) Includes: Group €808 million (2020 - €1,375 million); Bank €808 million (2020 - €1,417 million) of amounts due from holding companies and fellow subsidiaries (Note 10).

26. Transactions with directors

Transactions, arrangements and agreements entered into by authorised institutions in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial period were as follows:

	Principal and interest				
Name of director	As at 1 January (or date of appointment if later) €	As at 31 December €	Maximum outstanding amount during the financial year €	Interest due but not yet paid €	Provision €
2020					
D O'Shea(1)	237,317	213,766	237,317	-	-

(1) Mortgage loans held at commercial interest rates. During 2020 €23,551 was repaid.

There were no loan balances as at 1 January 2021, as at 31 December 2021 or during 2021 in respect of any individual who served as a director of the Bank in the financial year.

Connected parties

Pursuant to the provisions of the Companies Act 2014 the amounts required to be disclosed are as follows:

- the aggregate amounts outstanding as at 31 December 2021 were €1,588,766 (2020 - €2,087,520);
- the aggregate maximum amounts outstanding during the period were €1,637,999 (2020 - €2,210,082);
- the number of relevant persons for or with whom relevant transactions as at 31 December 2021 were made by the institution was 2 (2020 - 4); and
- the maximum number of relevant persons for or with whom relevant transactions, arrangements and agreements that subsisted at any time during the period were made by the institution was 2 (2020 - 4).

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period (2020 - nil).

At 31 December 2021, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank’s total assets.

There were no amounts outstanding at 31 December 2021 (2020 - nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

27. Directors’ and secretary's interest in shares

At 31 December 2021, the directors and secretary did not have any interest in the shares or debentures of the ultimate holding company representing more than 1% of the nominal value of its issued share capital.

28. 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.

The following table details active related undertakings incorporated in the Republic of Ireland which are 100% owned by the Bank and fully consolidated for accounting purposes.

Entity name	Activity(1)
First Active Limited	OTH
The RBS Group Ireland Retirement Savings Trustee Limited	TR
Ulster Bank Holdings (ROI) Limited	OTH
Ulster Bank Pension Trustees (R.I.) Limited	TR
Ulster Bank Dublin Trust Company Unlimited Company	SC

The following table details related undertakings incorporated in the Republic of Ireland which are 100% owned by the Bank that are in liquidation but fully consolidated.

Entity name	Activity(1)
UB SIG (ROI) Limited	INV

The following table details related undertakings incorporated in the Republic of Ireland. These are securitisation companies in which the Bank does not hold any of the voting rights but the activities of which are conducted on behalf of the Bank and it retains the majority of the residual ownership risks and benefits related to their activities. Therefore, in accordance with the requirements of IFRS 10 the results of these securitisation companies are included in the Group's consolidated financial statements.

Entity name	Activity(1)	Group Interest %
Ardmore Securities No.1 Designated Activity Company	BF	-
Dunmore Securities No.1 Designated Activity Company	BF	-

(1) Activity - Banking and Financial institution (BF), Other/non-financial (OTH), Service Company (SC), Investment (shares or property) holding company (INV), Trustee (TR)

(a) Directors and key management
At 31 December 2021 the Bank had advanced no amounts to persons who served as directors during the financial period (2020 - €213,802 to 2 persons).

There were no transactions between the Bank and its directors, key management, their close families or companies which they control during the financial year (2020 - €550,000 loan at a commercial rate to 1 connected party).

Balances outstanding at the end of the year	Number of directors	Number of key management	Connected parties	Transactions €
Loans:				
- at a commercial rate	-	2	3	1,843,521
- at a preferential rate	-	-	1	654
Customer accounts:				
- Savings	4	6	11	1,471,764

The amounts above are presented in accordance with the requirements of IAS 24 and therefore differ in some respects from disclosures in Note 26 which is prepared in accordance with the requirements of the Companies Act 2014.

28. Related parties (continued)

(b) Related party transactions

Included in the Group and Bank's balance sheet are the following balances with related parties at the financial year end:

	Group		Bank	
	2021	2020	2021	2020
Assets	€m	€m	€m	€m
Loans:				
Other related parties, including fellow subsidiaries	810	1,519	861	1,573
Derivatives:				
Fellow subsidiaries	85	206	85	206
Total assets	895	1,725	946	1,779

	Group		Bank	
	2021	2020	2021	2020
Liabilities	€m	€m	€m	€m
Deposits:				
Key management	1	2	1	2
Other related parties, including fellow subsidiaries	208	199	212	366
	209	201	213	368
Debt securities in issue:				
Parent companies	601	610	601	610
Subordinated loans:				
Parent companies	530	530	530	530
Derivatives:				
Fellow subsidiaries	29	59	29	59
Total liabilities	1,369	1,400	1,373	1,567

The Group recognised a fee payable for the financial year of €nil due to a fellow NatWest Group subsidiary for the provision of key management personnel services (2020 - €130k).

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the financial year was as follows:

	Group	
	2021	2020
	€	€
Short-term benefits	5,357,599	4,276,690
Share-based benefits	786,335	1,052,817
Post-employment benefits	411,996	337,653
	6,555,930	5,667,160

29. Ultimate holding company

The Bank's ultimate holding company is NatWest Group plc which is incorporated in Great Britain and registered in Scotland and its immediate holding company is NatWest Holdings Limited which is incorporated in Great Britain and registered in England.

As at 31 December 2021, NatWest Group plc heads the largest group in which the Bank is consolidated. Copies of the consolidated accounts of NatWest Group plc or NatWest Holdings Limited may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

The UK Government, through HM Treasury, currently holds 52.96% of the issued ordinary share capital of the ultimate holding company and is therefore the Group's ultimate controlling party.

30. Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

31. Date of approval

The financial statements were approved by the Board of Directors on 17 February 2022.

32. Capital resources - unaudited

Capital regulation

The EU adopted the legislative package, known as CRD V and CRR II, which is directly applicable across firms in the EU and has been implemented by member states of the European Economic Area through national law. This is designed to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework.

The Bank Recovery and Resolution Directive (BRRD II) marks another step by European authorities in improving the stability of the financial system. The framework is intended to enable resolution authorities to resolve failing banks with a lower risk of triggering contagion to the broader financial system, while sharing the costs of resolution with bank shareholders and creditors. To achieve this objective, the BRRD includes explicit provisions for the 'bail-in' of senior creditors where necessary.

Capital management

The objectives of the Group's capital management and risk appetite framework are to at all times comply with the regulatory and internal capital requirements and to ensure that the Group has sufficient capital to cover the current and future risks inherent in its business and to support its future strategic delivery.

The Group achieves this through the ICAAP process. The ICAAP is an internal assessment of capital that the Group undertakes to ensure it is appropriately capitalised for its risk profile. The purpose of the ICAAP is to formalise the Group's approach to understanding its risk profile and the processes and systems it needs to have in place to assess, quantify and monitor these risks.

The primary objective of the ICAAP is to ensure the Group has adequate and appropriate capital to cover all material risks to which it is or may be exposed, at present or in the future. The Group has a risk management framework in place to ensure that the identification and evaluation of those risks is comprehensive.

In support of the ICAAP, the Group embeds risk management processes (material risk assessment, risk appetite, stress testing and capital planning), which are integrated into the wider risk management processes in the Group including ILAAP and recovery planning, ensuring effective management of the risk profile of the Group. Under CRD V regulators within the European Union monitor capital on a legal entity basis.

32. Capital resources - unaudited (continued)

Capital management

The capital resources for the Bank are set out below.

	Unaudited(1) 2021 €m	Unaudited(1) 2020 €m
Shareholders' equity (excluding non-controlling interests)	3,871	4,165
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	(96)	(272)
Cash flow hedge reserve	-	(84)
Deferred tax assets	(13)	(48)
Adjustments under IFRS9 transition arrangements	146	263
Other adjustments for regulatory purposes	(67)	(52)
	(30)	(193)
Common equity tier 1 capital(2)	3,841	3,972
Total tier 1 capital	3,841	3,972
Qualifying tier 2 capital		
Paid up capital instruments and subordinated loans	60	251
Grandfathered tier 2 capital instruments subject to phase out from T2	86	-
Excess of impairment provisions over expected losses	68	71
Total tier 2 capital	214	322
Total regulatory capital	4,055	4,294
Key capital ratios	%	%
Common equity tier 1	27.8	28.1
Tier 1	27.8	28.1
Total capital	29.4	30.4
Risk weighted assets by risk	€m	€m
Credit risk	12,621	12,894
Counterparty risk	135	130
Market risk	20	69
Operational risk	1,039	1,041
Total risk weighted assets	13,815	14,134

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2021 and 31 December 2020.

In the management of capital resources, the Group is governed by the UBIDAC and NatWest Group policies which are to maintain a strong capital base and maintain a prudent relationship between the capital base and the underlying risks of the business.

In carrying out these policies the Group has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.