

**Dated 15 March 2023**



**NatWest Markets Plc**

*(incorporated in Scotland with limited liability under the Companies Acts 1948 to 1980,  
registered number SC090312)*

**2023 Registration Document**

## TABLE OF CONTENTS

	<u>Page</u>
Introduction .....	1
Documents Incorporated by Reference.....	2
Important Information for Investors .....	3
Risk Factors .....	15
Selected Consolidated Financial Information and Other Data.....	49
Operating and Financial Review .....	52
Description of NWM Group.....	106
Selected Statistical Data and Other Information.....	122
Risk Management .....	133
Regulation and Supervision.....	194
Management and Shareholdings.....	202
Related Party Transactions .....	208

## INTRODUCTION

This document constitutes a registration document (**‘Registration Document’**) for the purposes of Article 6(3) of Regulation (EU) 2017/1129 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the **‘EUWA’**) and the regulations made under the EUWA, as amended or superseded (the **‘UK Prospectus Regulation’**), and has been prepared for the purpose of giving information with respect to NatWest Markets Plc which, according to the particular nature of the Issuer and the securities which it may offer to the public within the United Kingdom (the **‘UK’**) or apply to have admitted to trading on the London Stock Exchange’s regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

In this Registration Document, unless otherwise stated or the context otherwise requires, references to the **‘Issuer’** and to **‘NWM Plc’** are to NatWest Markets Plc and references to the **‘NWM Group’** are to NWM Plc and its subsidiaries.

The Issuer accepts responsibility for the information contained in this Registration Document. To the best of the knowledge of the Issuer, the information contained in this Registration Document is in accordance with the facts and the Registration Document makes no omission likely to affect the import of such information.

This Registration Document has been approved by the Financial Conduct Authority (the **‘FCA’**), as competent authority under the UK Prospectus Regulation. The FCA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer that is the subject of this Registration Document.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

This Registration Document should not be considered as a recommendation by the Issuer that any recipient of this Registration Document should purchase any securities of the Issuer. Each investor contemplating purchasing any securities of the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. This Registration Document does not constitute an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any securities of the Issuer.

The delivery of this Registration Document shall not in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Investors should carefully review and evaluate, *inter alia*, the most recent financial disclosure of the Issuer from time to time incorporated by reference herein when deciding whether or not to purchase any securities of the Issuer.

The distribution of this Registration Document and the offer or sale of any securities of the Issuer may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any securities of the Issuer come must inform themselves about, and observe, any such restrictions.

Any securities to be issued by the Issuer in connection with this Registration Document have not been and will not be registered under the United States Securities Act of 1933, as amended (the **‘Securities Act’**) or with any securities regulatory authority of any state or other jurisdiction of the United States (**‘US’**). Accordingly, any such securities may not be offered, sold, pledged or otherwise transferred within the US or to or for the account or benefit of US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state securities laws. There will be no public offering of Securities in the United States.

Any securities to be issued by the Issuer in connection with this Registration Document have not been approved or disapproved by the US Securities and Exchange Commission (**‘SEC’**), any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of any such securities or the accuracy or the adequacy of this Registration Document. Any representation to the contrary is a criminal offence in the United States.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Registration Document and have been approved by the FCA or filed with it, shall be deemed to be incorporated in, and to form part of, this Registration Document and this Registration Document should be read and construed in conjunction with such documents:

- (a) the Articles of Association of the Issuer;
- (b) the audited consolidated financial statements of NWM Group, together with the audit report thereon, for the year ended 31 December 2022, set forth in the section 'Financial Statements' on pages 86 to 172 and the section 'Risk and Capital Management' on pages 33 to 84 (only where the information is identified as 'audited') of the Issuer's annual report which was published via the regulated news service of the London Stock Exchange ('RNS') on 17 February 2023 (the '**2022 Financial Statements**'); and
- (c) the audited consolidated financial statements of NWM Group, together with the audit report thereon, for the year ended 31 December 2021, set forth in the section 'Financial Statements' on pages 94 to 178 and the section 'Risk and Capital Management' on pages 42 to 88 (only where the information is identified as 'audited') of the Issuer's annual report which was published via RNS on 18 February 2022 (the '**2021 Financial Statements**') and, together with the 2022 Financial Statements, the '**Financial Statements**').

Any statement contained in a document which is deemed to be incorporated by reference into this Registration Document shall be deemed to be modified or superseded for the purpose of this Registration Document to the extent that a statement contained herein, or in a later dated document incorporated by reference herein, modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Any information or other documents themselves incorporated by reference, either expressly or implicitly, in the documents incorporated by reference in this Registration Document shall not form part of this Registration Document, except where such information or other documents are specifically incorporated by reference into this Registration Document.

The Issuer will provide, without charge, to each person to whom a copy of this Registration Document has been delivered, upon the oral or written request of such person, a copy of any or all of the information which is incorporated herein by reference. Written or oral requests for such information should be directed to the Issuer at NatWest Markets Plc, 250 Bishopsgate, London, EC2M 4AA, United Kingdom.

A copy of any or all of the information which is incorporated by reference in this Registration Document can be obtained from the website of the Issuer at <https://investors.natwestgroup.com/regulatory-news/company-announcements> and from the London Stock Exchange's website at <https://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Except as set forth above, no information or documents included on the website of the Issuer are part of or shall be incorporated by reference into this Registration Document.

Where only certain parts of a document are incorporated by reference into this Registration Document, the non-incorporated parts are either not relevant to investors or are covered elsewhere in this Registration Document. Any information not listed in the above cross-reference list but included in the documents incorporated by reference is given for information purpose only.

## IMPORTANT INFORMATION FOR INVESTORS

### Special Notice Regarding Forward-Looking Statements

Certain sections in this Registration Document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘commit’, ‘believe’, ‘should’, ‘intend’, ‘will’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘may’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions. In particular, this Registration Document includes forward-looking targets and guidance relating to financial performance measures, such as income growth, operating expense, cost reductions, impairment loss rates, balance sheet reduction, including the reduction of RWAs, CET1 ratio (and key drivers of the CET1 ratio, including timing, impact and details), Pillar 2 and other regulatory buffer requirements and MREL and non-financial performance measures, such as climate and ESG-related performance ambitions, targets and metrics, including in relation to initiatives to transition to a net zero economy, Climate and Sustainable Funding and Financing (CSFF) and financed emissions. In addition, this document includes forward-looking statements relating, but not limited to: planned cost reductions, disposal losses and strategic costs; implementation of NatWest Group’s, NWM Group’s strategy and other strategic priorities (including in relation to investment programmes relating to digital transformation of their operations and services and inorganic opportunities); the timing and outcome of litigation and government and regulatory investigations; funding plans and credit risk profile; managing its capital position; liquidity ratio; portfolios; net interest margin; and drivers related thereto; lending and income growth, product share and growth in target segments; impairments and write-downs; restructuring and remediation costs and charges; NWM Group’s exposure to political risk, economic assumptions and risk, climate, environmental and sustainability risk, operational risk, conduct risk, financial crime risk, cyber, data and IT risk and credit rating risk and to various types of market risk, including interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience, including its Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

NWM Group cautions you that a large number of important factors could adversely affect NWM Group’s results or its ability to implement its strategy, cause it to fail to meet its targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements described in this document. These factors include, but are not limited to, those set forth in the section ‘*Risk Factors*’ in this Registration Document. The principal risks and uncertainties that could adversely affect NWM Group’s future results, its financial condition and/or prospects and cause them to be materially different from what is forecast or expected, include, but are not limited to:

- economic and political risk, including in respect of:
  - economic and political risks and uncertainties in the UK and global markets including as a result of high inflation and rising interest rates, supply chain disruption, and the Russian invasion of Ukraine;
  - changes in interest rates and foreign currency exchange rates;
  - uncertainty regarding the effects of Brexit; and
  - HM Treasury’s ownership of NatWest Group plc;
- strategic risk, including in respect of:
  - NatWest Group’s purpose-led strategy and NatWest Group’s recent creation of its Commercial & Institutional segment (of which NWM Group forms part);
- financial resilience risk, including in respect of:
  - NWM Group’s ability to meet targets;
  - prudential regulatory requirements for capital and MREL;
  - accessing the capital markets to meet its funding requirements;
  - funding and liquidity risk;
  - capital, liquidity or funding requirements of regulated subsidiaries;
  - changes in the credit ratings;
  - the competitive environment;
  - the requirements of regulatory stress tests;

- counterparty risk;
  - model risk;
  - sensitivity to accounting policies, judgements, assumptions and estimates;
  - changes in applicable accounting standards;
  - the Bank of England and PRA oversight; and
  - the application of UK statutory stabilisation or resolution powers and the adequacy of NatWest Group's resolution plans;
- climate and sustainability risk, including in respect of:
    - climate and sustainability-related risks which may adversely affect NWM Group;
    - the implementation of NatWest Group's and NWM Group's climate change strategy and climate change resilient systems, controls and procedures;
    - climate-related data and model risk;
    - the failure to adapt to emerging climate, environmental and sustainability risks and opportunities;
    - increasing levels of climate, environmental and sustainability related regulation and oversight;
    - climate, environmental and sustainability related litigation, enforcement proceedings and investigations; and
    - changes in ESG ratings;
  - operational and IT resilience risk, including in respect of:
    - operational risk (including reliance on third-party suppliers and outsourcing of certain activities);
    - cyberattacks;
    - the accuracy and effective use of data;
    - attracting, retaining and developing senior management and skilled personnel;
    - complex IT systems;
    - NWM Group's risk management framework; and
    - reputational risk; and
  - legal, regulatory and conduct risk, including in respect of:
    - the impact of substantial regulation and oversight;
    - the outcome of legal, regulatory and governmental actions and investigations;
    - the transition of LIBOR other IBOR rates to replacement risk-free rates; and
    - changes in tax legislation or failure to generate future taxable profits.

Additional factors that could cause NWM Group's actual business, results of operations or financial condition to differ from the forward-looking statements include, but are not limited to, the other factors that NWM Group has indicated in other parts of this Registration Document that could materially adversely affect its business and financial performance.

Should one or more of these factors or uncertainties materialise, or should any underlying assumptions prove to be incorrect, NWM Group's actual results of operations or financial position could differ materially from that described herein as anticipated, believed, estimated or expected. The Issuer urges investors to read the sections of this Registration Document entitled '*Risk Factors*,' '*Operating and Financial Review*,' '*Description of NWM Group*' and '*Regulation and Supervision*' for a more complete discussion of the factors that could affect NWM Group's future performance and the industry in which NWM Group operates.

The forward-looking statements contained in this Registration Document are based on current plans, expectations, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to NatWest Group's and NWM Group's strategy or operations, which may result in NWM Group being unable to achieve the current plans, expectations, estimates, targets, projections and other anticipated outcomes expressed or implied by such forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these

disclosures are only estimates and, as a result, actual future results, gains or losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements.

The forward-looking statements contained in this Registration Document speak only as at the date hereof, and the Issuer does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as may be required by law. All subsequent written and oral forward-looking statements attributable to the Issuer or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Registration Document.

Climate and ESG disclosures in this Registration Document use a greater number and level of judgements, assumptions and estimates, including with respect to the classification of climate and sustainable funding and financing activities, than its reporting of historical financial information. These judgements, assumptions and estimates are highly likely to change over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, its climate risk analysis and net zero strategy remain under development, and the data underlying its analysis and strategy remain subject to evolution over time. As a result, we expect that certain climate and ESG disclosures made in this Registration Document are likely to be amended, updated, recalculated or restated in the future.

## Certain Defined Terms

The following terms used in this Registration Document have the meanings assigned to them below:

‘2021 Financial Statements’ .....	the audited consolidated financial statements of NWM Group as at and for the year ended 31 December 2021 as well as the ‘Capital and Risk Management’ section (only where information is identified as ‘audited’).
‘2022 Financial Statements’ .....	the audited consolidated financial statements of NWM Group as at and for the year ended 31 December 2022 as well as the ‘Capital and Risk Management’ section (only where the information is identified as ‘audited’).
‘Alawwal Sale’ .....	has the meaning assigned thereto in section <i>‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’</i>
‘ALCO’ .....	assets & liabilities committee.
‘AML’ .....	anti-money laundering.
‘AQ’ .....	asset quality.
‘AT1’ .....	additional tier 1.
‘Authorities’ .....	the SRR, HM Treasury, the BoE and the PRA and FCA, collectively.
‘Bank,’ ‘Issuer,’ or ‘NWM Plc’ .....	NatWest Markets Plc.
‘bank entity’ .....	an individual regulated bank legal entity.
‘Banking Act’ .....	the Banking Act 2009, as amended.
‘Basel III’ .....	the Basel Committee on Banking Supervision’s regulatory capital framework.
‘BCBS’ .....	Basel Committee on Banking Supervision.
‘Board of Directors’ or ‘Board’ .....	the board of directors of the Issuer.
‘BoE’ .....	the Bank of England.
‘Brexit’ .....	the withdrawal of the UK from the European Union and the European Economic Area on 31 January 2021.
‘BRRD’ .....	the EU Bank Recovery and Resolution Directive.
‘BRRD II’ .....	the European Commission’s proposal for EU banking reform, which included amendments to the BRRD.
‘CAGR’ .....	compound annual growth rate.



‘CBES’ .....	the 2021 biennial exploratory scenario launched in June 2021.
‘CCFs’ .....	credit conversion factors.
‘CCIs’ .....	credit cycle indices.
‘CCyB’ .....	countercyclical capital buffer.
‘CDIO’ .....	Chief Digital and Information Officer.
‘CDOs’ .....	collateralised debt obligations.
‘CEC’ .....	control environment certification.
‘CET1’ .....	common equity tier 1.
‘Combined Saudi Bank’ .....	Alawwal and Saudi British Bank.
‘COO’ .....	Chief Operating Officer.
‘CRA Regulation’ .....	Regulation (EC) No. 1060/2009.
‘CRD’ .....	the Capital Requirements Directive (2013/36/EU).
‘CRD IV’ .....	the CRD and CRR, together.
‘CRD V’ .....	the Capital Requirements Directive V.
‘CREM’ .....	credit risk enhancement and mitigation.
‘Critical Benchmarks Act’ .....	Critical Benchmarks (References and Administrators’ Liability) Act 2021.
‘CRR’ .....	Regulation No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, as amended or replaced from time to time.
‘CRR 2’ .....	the Capital Requirements Regulation 2.
‘CSD’ .....	Capital Support Deed.
‘CSFF’ .....	Climate and Sustainable Funding and Financing.
‘DDOS’ .....	Distributed Denial of Service.
‘DNB’ .....	the De Nederlandsche Bank.
‘DoJ’ .....	the US Department of Justice.
‘D-SIB’ .....	Domestic Systemically Important Banks.
‘EAD’ .....	exposure at default.
‘EBA’ .....	the European Banking Authority.
‘ECL’ .....	expected credit loss.
‘EEA’ .....	the European Economic Area.

‘EEA transfer customers’ .....	has the meaning assigned thereto in the section ‘ <i>Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.</i> ’
‘EGBs’ .....	the European central banks.
‘Eligible Liabilities’ .....	a bank entity’s equity, capital instruments and liabilities.
‘EMEA’ .....	Europe, the Middle East and Africa.
‘EMIR’ .....	European Market Infrastructure Regulation.
‘ESG’ .....	the environmental, social and governance.
‘EU’ .....	the European Union.
‘EUA’ .....	European Union Allowances.
‘EUWA’ .....	the European Union (Withdrawal) Act 2018.
‘FCA’ .....	the United Kingdom Financial Conduct Authority.
‘FCRC’ .....	the Financial Crime Risk Committee.
‘FDIC’ .....	the Federal Deposit Insurance Corporation.
‘Federal Reserve’ .....	the Board of Governors of the Federal Reserve System.
‘Financial Institutions’ .....	commercial banks, insurance companies, pension funds, hedge funds and sovereign wealth funds.
‘Financial Statements’ .....	the 2021 Financial Statements and the 2022 Financial Statements, collectively.
‘Fitch’ .....	Fitch Ratings Ltd. or successors thereto.
‘FPC’ .....	the Financial Policy Committee.
‘FRTB’ .....	the Fundamental Review of the Trading Book Market.
‘FS Bill’ .....	the Financial Services Bill 2019-21 introduced by the UK Government in 2020.
‘FSB’ .....	the Financial Stability Board.
‘FSMA’ .....	the Financial Services and Markets Act 2000.
‘Funded Guarantee’ .....	has the meaning assigned thereto in section ‘ <i>Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.</i> ’
‘FVOCI’ .....	fair value through other comprehensive income.

‘FX’ .....	foreign exchange.
‘G-SII’ .....	non-EU global systemically important institution.
‘G10’ .....	Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.
‘GAAP’ .....	generally accepted accounting principles.
‘GDP’ .....	gross domestic product.
‘G-SIB’ .....	the Global Systemically Important Banks.
‘HQLA’ .....	high quality liquid assets.
‘IAS’ .....	International Accounting Standards.
‘IASB’ .....	the International Accounting Standards Board.
‘IBORs’ .....	interbank offer rates.
‘ICAAP’ .....	internal capital adequacy assessment process.
‘IFRS’ .....	International Financial Reporting Standards issued by the IASB (as adopted pursuant to Regulation (EC) No. 1606/2002 as it applies to the European Union).
‘IMM’ .....	Internal Model Method.
‘IPU’ .....	intermediate parent undertaking.
‘IRC’ .....	incremental risk charge.
‘IT’ .....	information technology.
‘LCR’ .....	liquidity coverage ratio.
‘LGD’ .....	loss given default.
‘LIBOR’ .....	London interbank offered rate.
‘Liquidated Companies’ .....	Ten companies, which were all in liquidation, that brought a civil proceeding against NatWest Market Plc before the High Court of Justice of England and Wales in 2015.
‘Member State’ .....	Member State of the EU.
‘MES’ .....	multiple economic scenarios.
‘MiFID II’ .....	Directive 2014/65/EU, as amended, as it forms part of domestic law of the UK by virtue of the EUWA.
‘MiFIR’ .....	Regulation (EU) No 600/2014, as amended, as it forms part of domestic law by virtue of the EUWA.
‘MLD5’ .....	the Fifth Money Laundering Directive.

‘ <b>Moody’s</b> ’ .....	Moody’s Investors Service Limited or successors thereto.
‘ <b>MREL</b> ’ .....	the minimum requirement for own funds and eligible liabilities.
‘ <b>MTNs</b> ’ .....	medium-term notes.
‘ <b>NatWest Group</b> ’ .....	NatWest Group plc together with its subsidiary and associated undertakings.
‘ <b>NatWest Holdings Group</b> ’ .....	NWH Ltd and its subsidiaries.
‘ <b>nm</b> ’ .....	not meaningful.
‘ <b>NPA</b> ’ .....	non-prosecution agreement.
‘ <b>NPS</b> ’ .....	Net Promotor Score.
‘ <b>NSFR</b> ’ .....	net stable funding ratio.
‘ <b>NTIRR</b> ’ .....	non-traded interest rate risk.
‘ <b>NV Transfer</b> ’ .....	has the meaning assigned thereto in the section <i>‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’</i>
‘ <b>NWB</b> ’ .....	National Westminster Bank Plc.
‘ <b>NWH Ltd</b> ’ .....	NatWest Holdings Limited.
‘ <b>NWM Group</b> ’ .....	the Issuer and its consolidated subsidiaries.
‘ <b>NWM N.V.</b> ’ .....	NatWest Markets N.V.
‘ <b>NWMSI</b> ’ .....	NatWest Markets Securities Inc.
‘ <b>OCA</b> ’ .....	Own credit adjustments.
‘ <b>P&amp;L</b> ’ .....	profit & loss.
‘ <b>PD</b> ’ .....	probability of default.
‘ <b>pounds sterling</b> ’, ‘ <b>£</b> ’ or ‘ <b>sterling</b> ’ .....	the currency of the United Kingdom.
‘ <b>PRA</b> ’ .....	the Prudential Regulation Authority.
‘ <b>RBS Plc</b> ’ .....	The Royal Bank of Scotland Plc.
‘ <b>RBSH</b> ’ .....	RBS Holdings N.V.
‘ <b>RBSI</b> ’ .....	RBS International Limited.
‘ <b>repo</b> ’ .....	repurchase agreement.
‘ <b>Revenue Share Agreements</b> ’ .....	has the meaning assigned thereto in the section <i>‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—</i>

	<i>Relationship with NatWest Group—Revenue Share Agreements.</i>
<b>‘Revenue Sharing Entities’</b> .....	has the meaning assigned thereto in the section <i>‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.’</i>
<b>‘RFB Entities’</b> .....	NWB, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC, collectively.
<b>‘RFRs’</b> .....	risk free rates.
<b>‘RMBS’</b> .....	US Residential Mortgage Backed Securities.
<b>‘RNIV’</b> .....	risks not in VaR.
<b>‘RNS’</b> .....	regulated news service of the London Stock Exchange.
<b>‘ROI’</b> .....	Republic of Ireland.
<b>‘RSAs’</b> .....	has the meaning assigned thereto in the section <i>‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’</i>
<b>‘RWAs’</b> .....	the risk weighted assets.
<b>‘S&amp;P’</b> .....	S&P Global Ratings UK Limited or successors thereto.
<b>‘SEC’</b> .....	the US Securities and Exchange Commission.
<b>‘Securities Act’</b> .....	the United States Securities Act of 1933, as amended.
<b>‘SICR’</b> .....	significant increase in credit risk.
<b>‘SIFI’</b> .....	systemically important financial institution.
<b>‘SMF’</b> .....	the Sterling Monetary Framework.
<b>‘SOC’</b> .....	the stressed outflow coverage.
<b>‘SRR’</b> .....	the special resolution regime.
<b>‘SVaR’</b> .....	Stressed value-at-risk.
<b>‘Tax Dispute’</b> .....	the appeal by NatWest Group plc of the tax assessment issued by HMRC in 2012 for approximately £86 million in relation to a VAT matter.
<b>‘TCA’</b> .....	the 2020 EU-UK Trade and Cooperation Agreement.
<b>‘TCFD’</b> .....	the Task Force on Climate-related Financial Disclosure.

‘TCR’ .....	the total capital requirements.
‘TLAC’ .....	the total loss-absorbing capacity.
‘Transfer Business’ .....	NatWest Group plc’s Western European corporate portfolio (principally consisting of term funding and revolving credit facilities).
‘Transfer Scheme’ .....	has the meaning assigned thereto in the section ‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’
‘UK’ .....	the United Kingdom.
‘UK BMR’ .....	UK Benchmarks Regulation.
‘UK CRA Regulation’ .....	Regulation (EU) No. 1060/2009 (as amended), as it forms part of domestic law of the UK by virtue of the EUWA.
‘UK Data Protection Framework’ .....	Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020.
‘UK Prospectus Regulation’ .....	Regulation (EU) 2017/1129, as it forms part of domestic law of the UK by virtue of the EUWA and the regulations made under the EUWA, as amended or superseded.
‘UKGI’ .....	UK Government Investments Limited.
‘US’ .....	the United States.
‘US dollar’ or ‘US\$’ .....	the currency of the United States.
‘USAO CT’ .....	the United States Attorney’s Office for the District of Connecticut.
‘VaR’ .....	value-at-risk.
‘VAT’ .....	value-added-tax.
‘Western European Transfers’ .....	the transfer of lending facilities from the ring-fenced subgroup of NatWest Group to NWM Group or to the ring-fenced subgroup of NatWest Group from NWM Group

## Statistical Data

The statistical data included in this Registration Document is not intended to, and does not, comply with subpart 1400 of Regulation S-K under the Securities Act applicable to offerings of securities by bank holding companies that are registered with the SEC.

## Market and Industry Information

This Registration Document contains information about the market share, market position and industry data for the operating areas of NWM Group and its reporting segments. Such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from such information, no facts have been omitted which would render the information provided herein inaccurate or misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Issuer has not independently verified and cannot give any assurance as to the accuracy of market data and industry forecasts contained in this Registration Document that were taken or derived from these industry publications.

## Presentation of Financial Information

### *General*

Except as discussed below, the historical financial information of NWM Group and the Issuer presented in this Registration Document has been derived from the Financial Statements. The 2022 Financial Statements and the 2021 Financial Statements are prepared in accordance with UK adopted International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union, include consolidated financial information of NWM Group as at and for the years ended 31 December 2022, 2021 and 2020 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2022 Financial Statements and the 2021 Financial Statements are incorporated by reference into this Registration Document. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.

Certain historical financial information of NWM Group, including as set forth in *'Selected Statistical Data and Other Information'* has been derived from NWM Group's regularly maintained accounting records, operating systems, accounting systems or other systems. Such historical financial information has not been audited.

Certain financial and other information set forth in this Registration Document has been rounded. Accordingly, in certain instances, the sum of the numbers in a column or row in a table may not conform exactly to the total figure given for that column or row. In addition, certain percentages presented in this Registration Document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

NWM Group's financial year ends on 31 December and references in this Registration Document to any specific financial year are to the 12-month period ended 31 December of such year.

Financial information previously published for any financial periods can differ from subsequently published financial information due to the retrospective implementation of subsequent changes in accounting policies and other retrospective adjustments made in accordance with IFRS.

NWM Group publishes its financial statements in pounds sterling ('£' or **'sterling'**). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the UK.

### *Note on recent changes to the scope of NWM Group's activities*

In 2022, NatWest Group announced the creation of the Commercial & Institutional (C&I) segment, which brought together the Commercial, NatWest Markets and RBS International customer businesses. The new segment is a step forward in NatWest Group becoming a simpler bank to deal with, bringing the best of NatWest Group's expertise to better support its customers' needs. The creation by NatWest Group of the Commercial & Institutional segment has enhanced the NWM Group's ability to work across NatWest Group to deliver on opportunities from referrals from other entities within the NatWest Group, including revenue growth.

To improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group's Transfer Business, may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ringfenced subgroup of NatWest

Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations. These changes are discussed below under *‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’*

### ***Non-GAAP Measures of Financial Performance***

The discussion of the results of operations of NWM Group and its reporting segments included in *‘Risk Factors,’ ‘Overview of Consolidated Financial Information and Other Data,’ ‘Operating and Financial Review’* and *‘Description of NWM Group’* is based on the Financial Statements. The Issuer prepares its financial statements in accordance with UK adopted IAS, IFRS as issued by the IASB and IFRS as adopted by the European Union, which constitutes a body of GAAP. This document contains a number of alternative performance measures or non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP financial measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These non-GAAP financial measures are not a substitute for, and should be read in conjunction with, reported IFRS financial measures.

NWM Group uses ‘funded assets’ as a non-GAAP financial measure in this Registration Document. This measure allows a review of balance sheet trends exclusive of the volatility associated with derivative fair values. Funded assets are represented by NWM Group’s total assets in accordance with the published IFRS balance sheet, less derivative assets.

NWM Group also presents a management view of operating expenses alongside the statutory measure. This analysis of operating expenses aims to remove more volatile items within litigation and conduct costs. A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the section *‘Operating and Financial Review - Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021.’*

NWM Group presents a management view of income by business, including separate itemisation of revenue share with other NatWest Group subsidiaries; own credit adjustments (**‘OCA’**); asset disposals/strategic risk reduction; income including shared revenue and before asset disposals and OCA; and income excluding asset disposals and OCA. Asset disposals/strategic risk reduction includes the costs of exiting positions, which include changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into as part of the optimisation of NWM Plc’s capital usage.



## RISK FACTORS

*Set out below are certain risk factors that, if they were to materialise, could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer and cause the Issuer's future results to be materially different from expected results, thereby potentially affecting the Issuer's ability to fulfil its obligations in respect of securities issued by it. Where such material adverse effects are identified below, they should not be read as mutually exclusive of one another and any such effects could materialise as a result of the risks identified. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties the Issuer's businesses face. The Issuer has described only those risks relating to its operations of which it is aware and that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware and any of these risks could have the effects set forth above. Investors should note that they bear the Issuer's solvency risk. The term Issuer, for the purpose of this section (but not others), also refers, where the context so permits, to any group company of the Issuer.*

*The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects and risks have been grouped by topic rather than presented by expected magnitude or probability. The risk factors set out below are the ones that the Issuer believes are the most significant risks facing NWM Group.*

*As of the date of this Registration Document, the ongoing impact of the COVID-19 pandemic, the Russian invasion of Ukraine, rising interest rates and inflationary pressures continue to add significant uncertainty to the Issuer's operating environment and may have the effect of magnifying the risks and uncertainties described in this section "Risk Factors".*

### **Economic and political risk**

***NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption, and the Russian invasion of Ukraine.***

NWM Group is affected by global economic and market conditions. Uncertain and volatile economic conditions can create a challenging operating environment for financial services companies such as NWM Group. The outlook for the global economy has many uncertainties including: falling economic activity, high inflation, rising interest rates, elevated energy prices and higher cost-of-living, supply chain disruption, changes to monetary and fiscal policy, and the impact of armed conflict (in particular the Russian invasion of Ukraine).

These conditions, including the current cost-of-living crisis, could be worsened by a number of factors including: instability in the global financial system, market volatility and change, fluctuations in the value of the pound sterling, new or extended economic sanctions, the ongoing effects of the COVID-19 pandemic, economic volatility in emerging markets, volatility in commodity prices or concerns regarding sovereign debt or sovereign credit ratings. Economic conditions may also be affected by the changing demographics in the markets that NWM Group serves, increasing social and other inequalities, or rapid changes to the economic environment due to the adoption of technology, automation and artificial intelligence, or due to climate change, environmental degradation, biodiversity loss and/or other sustainability risks.

NWM Group is also exposed to risks arising out of geopolitical events or political developments, such as exchange controls and other measures taken by sovereign governments that may hinder economic or financial activity levels. Unfavourable political, military or diplomatic events, increasing geopolitical tensions leading to armed conflict, protectionist policies or trade barriers, secession movements or the exit of other member states from the EU, changes to monetary and fiscal policy, new and widespread public health crises (including any epidemics or pandemics), state and privately sponsored cyber and terrorist acts or threats, and the responses to each of the above economic, political or other scenarios by various governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the indirect impact on regional or global trade and/or NWM Group's customers and counterparties.

The UK experienced significant political uncertainty in 2022 that may persist into the foreseeable future. This could lead to a loss of confidence in the UK, that could in turn, negatively impact companies operating in the UK. NatWest Group also faces political uncertainty in Scotland as a result of a possible second Scottish independence referendum. Independence may adversely affect NWM Group both in relation to NatWest Group entities

incorporated in Scotland and in other jurisdictions. Any changes to Scotland's relationship with the UK or the EU may adversely affect the environment in which NatWest Group and its subsidiaries operate and may require further changes to NatWest Group (including NWM Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NWM Group.

The COVID-19 pandemic prompted many changes that may prove to be permanent shifts in customer behaviour and economic activity, such as changes in spending patterns and significantly more people working in a more flexible manner. These changes may affect asset prices, the economic environment, and NatWest Group's customers' and counterparties' financial performance and needs. In response to the COVID-19 pandemic, central banks, governments, regulators, and legislatures in the UK and elsewhere offered unprecedented levels of support and various schemes to assist businesses and individuals, many of which have since been curtailed or withdrawn. However, risks remain as to whether these loans will be repaid.

The value of NWM Group's own and other securities may be materially affected by market risk, including as a result of market fluctuations. Market volatility, illiquid market conditions and disruptions in the credit markets may make it extremely difficult to value certain of NWM Group's own and other securities, particularly during periods of market displacement. This could cause a decline in the value of NWM Group's own and other securities, which may have a material adverse effect on NWM Group's results of operations in future periods or inaccurate carrying values for certain financial instruments. Similarly, NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM Group's net trading income or result in a trading loss.

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NWM Group's counterparty risk. NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to extreme market moves. However, market events have historically been difficult to predict, and NWM Group, its customers and its counterparties could realise significant losses if extreme market events were to occur.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Fluctuations in currency exchange rates may adversely affect NWM Group's results and financial condition.***

Decisions of central banks (including the Bank of England, the European Central Bank and the US Federal Reserve) and political or market events which are outside NWM Group's control, may lead to sharp and sudden fluctuations in currency exchange rates.

Although NWM Group is principally a UK focused banking group, it is subject to structural foreign exchange risk from capital deployed in NWM Group's foreign subsidiaries and branches. NWM Group also issues instruments in non-sterling currencies that assist in meeting NWM Group's MREL. NWM Group conducts banking activity in non-sterling currencies (for example, loans, deposits and dealing activity) which affect its revenue and also use service providers based outside of the United Kingdom for certain services and as a result certain operating expenses are sensitive to fluctuations in currency exchange rates.

NWM Group maintains policies and procedures designed to manage the impact of exposures to fluctuations in currency exchange rates. Nevertheless, changes in currency exchange rates, particularly in the sterling-US dollar and euro-sterling rates, may adversely affect, for example, the value of assets, liabilities (including the total amount of MREL-eligible instruments), income and expenses, RWAs and hence have a material adverse effect on NWM Group's future results, financial condition and/or prospects and outlook of NWM Group.

***Changes in interest rates have affected, and will continue to affect, NWM Group's business and results.***

NWM Group's performance is affected by changes in interest rates. Benchmark overnight interest rates, such as the UK base rate, increased in 2022 and are expected to continue to rise in the short-term accompanied by quantitative tightening. However, forward rates at 31 December 2022 suggested interest rates may fall again in the medium-term.

Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates, such as those experienced during the COVID-19 pandemic, are generally expected to be less favourable for banks. For NWM Group, persistently low interest rates may, for example, reduce the yield on its equity structural hedge.

Volatility in interest rates may also result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NWM Group. For example, unexpected movements in spreads between key benchmark rates such as sovereign and swap rates in turn affect liquidity portfolio valuations. Sharp unexpected rises in rates may also have negative impacts on some asset and derivative valuations, for example. Finally, changes in interest rates and inflation may adversely affect the income from NWM Group's dealing activity. Any of the above could have a material adverse effect on NWM Group's future results, financial condition and outlook.

Movements in interest rates also influence and reflect the macro-economic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans and other indicators that may indirectly affect NWM Group, and may adversely affect its future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may adversely affect NWM Group and its operating environment.***

The UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and the 2020 EU-UK Trade and Cooperation Agreement ('TCA') ended the transition period on 31 December 2020. The TCA was accompanied by a Joint Declaration on financial services, which sets out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding ('MoU'), which remains unsigned. Certain aspects of the services provided by NatWest Group are therefore subject to obtaining local licences or are subject to individual equivalence decisions (temporary or otherwise) by relevant regulators. The EU's equivalence regime does not cover most lending and deposit taking, and determinations in respect of non-EU countries have not, to date, covered the provision of most financial investment services. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with short notice. In late 2021 the European Commission proposed legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing 'banking services' in the EU. If these proposals become law all 'banking services' will be licensable activities in each EU member state and member states will not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide 'banking services' in the EU. Uncertainty remains as to whether 'banking services' will also include investment products. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may have a negative impact on customer engagement and/or may significantly negatively impact the operating model and business operations of NWM Group.

NatWest Group continues to evaluate its post Brexit EU operating model, making adaptations as necessary. NatWest Group also continues to assess where NatWest Group companies can obtain bilateral regulatory permissions to facilitate intragroup transactions and/or to permit business to continue from its UK entities, transferring what cannot be continued to be rendered from the UK to an EEA subsidiary or branch, where permitted or commercially reasonable to do so. Where these regulatory permissions are temporary or are withdrawn, a different approach may need to be taken or may result in a change in operating model or some business being ceased. Not all NatWest Group entities have applied for bilateral regulatory permissions and instead conduct EEA business through an EEA licensed subsidiary or branch. Certain permissions are required in order to maintain the ability to clear euro payments. Other permissions, including the ability to have two intermediate EU parent undertakings, may need to be obtained, and structural changes may need to be made, to allow NWM Group to continue to serve EEA customers from both the ring-fenced and non-ring-fenced banking entities. Any failure to obtain such permissions or make such structural changes, in a timely manner, or at all, could adversely affect NWM Group and the EEA customers it serves. As described in '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*', NWM Group expects that NatWest Group's Transfer Business may be: (i)

transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. Furthermore, transferring business to an EEA based subsidiary is a complex exercise and involves legal, regulatory and execution risks, and could result in a loss of business and/or customers or higher than anticipated costs. The changes to NatWest Group's and NWM Group's operating model have been costly and failure to receive the requested regulatory permissions and/or further changes to its business operations, product offering and customer engagement could result in further costs and/or regulatory sanction. Any of the above could, in turn, negatively impact NWM Group.

The long-term effects of Brexit and the uncertainty regarding NWM Group's EU operating model may adversely affect NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU. The long-term effects of Brexit may also be exacerbated by wider UK and global macro-economic trends and events.

Uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law. For example, bank regulation in the UK may diverge from European bank regulation if the Financial Services and Markets Bill ('FSM') is enacted into law. The UK government has also proposed legislation to introduce automatic 'sunset' clauses for retained EU law by the end of 2023 (the Retained EU Law (Revocation and Reform) Bill 2022), which if enacted could potentially cause market disruption and require additional resources to manage the legal and regulatory consequences. NWM Group may not be able to respond to these changes effectively, in a timely manner, or at all. The actions taken by regulators in response to any new or revised bank regulation and other rules affecting financial services, may adversely affect NWM Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***HM Treasury (or UKGI on its behalf) could exercise a significant degree of influence over NatWest Group and NWM Group is controlled by NatWest Group.***

In its March 2021 Budget, the UK Government announced its intention to carry out a programme of sales of NatWest Group plc ordinary shares with the objective of selling all of its remaining shares in NatWest Group plc by 2026. NatWest Group plc has:(i) carried out directed buybacks of NatWest Group plc ordinary shares from UK Government Investments Limited ('UKGI') in March 2021 and in March 2022, (ii) carried out sales of NatWest Group plc shares by UKGI by accelerated bookbuild in May 2021, and (iii) made purchases under NatWest Group plc's directed and on-market buyback programmes announced in July 2021 and in March 2022. As at 17 January 2023, the UK Government held 44.98% of the ordinary share capital with voting rights of NatWest Group plc. NatWest Group may participate in similar directed or on-market buybacks in the near- and medium-term future. The precise timing and extent of further UKGI's sell-downs is uncertain, which could result in a prolonged period of price volatility for NatWest Group plc's ordinary shares and other securities.

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWM Group) will continue to have its own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's largest single shareholder, HM Treasury and UKGI (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over NatWest Group (including NWM Group) including: the election of directors and appointment of senior management, NatWest Group's (including NWM Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's operations. HM Treasury or UKGI's approach depends on government policy, which could change. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as NatWest Groups plc's largest single shareholder could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy, which may in turn adversely affect NatWest Group (including NWM Group). The exertion of such influence over NatWest Group could in turn adversely affect the governance or business strategy of NWM Group.

In addition, NWM Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWM Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc (as an equity holder and as NWM Group's parent) and the interests of the C&I business segment may

differ from the interests of NWM Group or of potential investors in NWM Group's securities. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.*'

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

### **Strategic risk**

***NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.***

In February 2020, NatWest Group announced its strategy to focus on becoming a purpose-led business designed to champion potential, and to help individuals, families and businesses to thrive. As part of NatWest Group's strategy, NWM Group's own strategy has evolved to focus on serving NatWest Group's corporate and institutional customer base, first via the 'NWM Refocusing' programme (which required simplification of its operating model and technological platform as well as reducing its cost base and capital requirements) and then via the creation of NatWest Group's C&I business segment (which combined NatWest Group's Commercial, NatWest Markets and RBS International businesses). NatWest Group plc has been reporting its results under the C&I operating segment structure since the quarter ended 30 March 2022, although NWM Plc continues to also report on a standalone legal entity basis. The C&I business segment is intended to allow closer operational and strategic alignment to support NatWest Group growth, with increased levels of services being provided between NatWest Group entities, with the potential increased risk of breach of the UK ring-fencing regime without effective or enhanced conflicts of interest policies. As a result of further focusing on NatWest Group's core C&I customers, NWM Group's prospects have become further dependent on the success and strategy of NatWest Group.

NWM Group's ability to serve its customers may be diminished by its changing business strategy and customer reactions to the changing nature of NWM Group's business model may be more adverse than expected. Previously anticipated revenue and profitability levels may not be achieved including in relation to: income from the Rates business, the ability to support customer transactions whilst meeting NWM Group capital targets, and changes to the availability of risk capital, in the timescales envisaged or at all. An adverse macro-economic environment, political and regulatory uncertainty, market volatility and change and/or strong market competition may require NWM Group to adjust aspects of its strategy or the timeframe for its implementation. It is anticipated that NWM Plc will continue to generate operating losses in the short-term and as a result its capital levels may decline.

NWM Group's strategy requires it to meet cost-reduction targets. A significant proportion of the cost savings are dependent on simplification of the IT systems and therefore may not be realised if IT capabilities are not delivered in line with assumptions. In addition, the scale of changes that have been concurrently implemented require the implementation and application of robust governance and controls frameworks and robust IT systems. There is a risk that NWM Group may not be successful in maintaining such governance and control frameworks and IT systems.

As part of NWM Group's strategy, NWM Group has set a number of financial, capital and operational targets and expectations, which are expected to require further reductions to its wider cost base. The financial, operational and capital targets and expectations envisaged by NWM's strategy may not be met or maintained in the timeframes expected or at all. In addition, targets and expectations for NWM Group are based on management plans, projections and models, and are subject to a number of key assumptions and judgements, any of which may prove to be inaccurate.

In addition, to improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group's Transfer Business may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations. As a result, NWM Group's future results, financial condition and/or prospects may be adversely affected.

NWM Group has implemented a shared services model and entered into revenue share agreements with some entities within NatWest Group's ring-fenced sub-group (including NWB and The Royal Bank of Scotland Plc). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. This reliance has recently increased as a result of NWM Group joining NatWest Group's C&I business segment. A failure of NWM Group to receive these services may result in operational risk. See, *'Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses.'* In addition, any change to the cost and/or scope of services provided by NatWest Group may impact NWM Group's competitive position and its ability to meet its other targets.

NWM's strategy entails legal, execution, operational and regulatory (including compliance with the UK ring-fencing regime), conflicts, IT system, culture, people, conduct, business and financial risks to NWM Group. As a result, NWM Group may not be able to successfully implement some or all aspects of its strategy or may not meet any or all of the related strategic targets or expectations. Each of the risks identified above, individually or collectively, could adversely affect NWM Group's products and services offering or office locations, competitive position, ability to meet targets and commitments, reputation with customers or business model and may result in higher-than-expected costs, all of which could adversely affect NWM Group and its ability to deliver its strategy. There is a risk that the intended benefits of NatWest Group's and NWM Group's strategies may not be realised in the timelines or in the manner currently contemplated, or at all. Various aspects of NWM Group's strategy may not be successful, may not be completed as planned, or at all, or could be phased or could progress in a manner other than currently expected. This could lead to additional management actions by NatWest Group (or NWM Group), regulatory action or reduced liquidity and/or funding opportunities. Any of the above may lead to NWM Group not being viable, competitive or profitable.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

#### ***Financial resilience risk***

***NWM Group may not meet the targets it communicates, generate returns or implement its strategy effectively.***

As part of NWM Group's strategy, NWM Group has set a number of financial, capital and operational targets including in respect of: balance sheet and cost-reduction measures, CET1 ratio targets (for NWM Plc and NWM N.V.), MREL targets, leverage ratio targets (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as ESG (including climate and sustainable funding and financing targets) and customer satisfaction targets.

NWM Group's ability to meet its targets, including its CET1 ratio target, and make discretionary capital distributions and to successfully fulfil its strategy is subject to various internal and external factors and risks. These include but are not limited to: UK and global macro-economic, political, market and regulatory uncertainties, operational risks and risks relating to NWM Group's business model and strategy (including risks associated with climate, ESG and other sustainability-related issues). See also, *'NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption, and the Russian invasion of Ukraine.'*

A number of factors, including macro-economic factors, may impact NWM Plc and NWM N.V.'s ability to maintain their current CET1 ratio targets, including impairments, the extent of organic capital generation or the reduction of RWA and the receipt and payment of dividends. NWM Plc may incur disposal losses as part of the process of exiting positions to reduce RWAs. Some of these losses may be recognised ahead of the actual disposals and the losses overall may be higher than currently anticipated.

NWM Group's ability to meet its planned reductions in annual costs may vary considerably from year to year. Furthermore, the focus on maintaining balance sheet and cost-reduction targets may result in limited investment in other areas which could affect NWM Group's long-term product offering or competitive position and its ability to meet its other targets, including those related to customer satisfaction.

In addition, challenging trading conditions may adversely affect NWM Group's business and its ability to achieve its targets and execute its strategy.

NWM Group's strategy may not be successfully executed, it may not meet its targets and expectations, and it may not be a viable, competitive or profitable banking business.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Plc and/or its regulated subsidiaries may not meet the prudential regulatory requirements for regulatory capital.***

NWM Group is required by regulators in the UK, the EU and other jurisdictions in which it undertakes regulated activities to maintain adequate financial resources. Adequate capital provides NWM Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core UK operations.

NWM Plc's and NWM N.V.'s target CET1 ratios are based on regulatory requirements, internal modelling and risk appetite (including under stress). As at 31 December 2022, NWM Plc's solo CET1 ratio was 17.2%. NWM Plc's current capital strategy is based on the management of RWAs and other capital management initiatives (including the reduction of RWAs and the periodic payment of dividends to NatWest Group plc, NWM Plc's parent company).

Other factors that could influence NWM Plc and NWM N.V.'s CET1 ratios include:

- a depletion of NWM Plc or NWM N.V.'s capital resources through reduced profits (which would in turn impact retained earnings) and may result from revenue attrition or increased liabilities, sustained periods of low interest rates, reduced asset values resulting in write-downs or reserve adjustments, impairments, changes in accounting policy, accounting charges or foreign exchange movements;
- a change in the quantum of NWM Plc's or NWM N.V.'s RWAs, stemming from exceeding target RWA levels, the NWM Refocusing, regulatory adjustments (for example, from additional market risk backtesting exceptions), foreign exchange movements or a failure in internal controls or procedures to accurately measure and report RWAs. An increase in RWAs would lead to a reduction in the CET1 ratio (and increase the amount of internal MREL for NWM Plc);
- changes in prudential regulatory requirements including the Total Capital Requirement for NWM Plc (as regulated by the Prudential Regulation Authority ('PRA')) or NWM N.V. (as regulated by the De Nederlandsche Bank ('DNB')), including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;
- further developments of prudential regulation (for example, finalisation of Basel 3 standards), which will impact various areas including the approach to calculating credit risk, market risk, leverage ratio, capital floors and operational risk RWAs, as well as continued regulatory uncertainty on the details thereto;
- further losses (including as a result of extreme one-off incidents such as cyberattack, fraud or conduct issues) would deplete capital resources and place downward pressure on the CET1 ratio; or
- the timing of planned liquidation, disposal and/or capital releases of capital optimisation activity or legacy entities owned by NWM Plc and NWM N.V.

See also *'NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.'*

Management actions taken under a stress scenario may affect, among other things, NWM Group's product offering, its credit ratings, its ability to operate its businesses and pursue its current strategies and strategic opportunities, any of which may negatively impact investor confidence and the value of NWM Group's securities. See also, *'NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options,'* and *'NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWM Group entities' Eligible Liabilities.'*

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.***

NatWest Markets Plc's funding plan currently anticipates that in 2023, it will issue £3-5 billion debt refinancing and funding requirements, based on its current and anticipated business activities. NWM Group therefore has significant anticipated funding requirements and is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers. This access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in NWM Group if it cannot finance its activities and risk of a ratings downgrade, which could be impeded by a number of internal or external factors, including, those summarised in these risk factors.

In addition, NWM Plc receives capital and funding from NatWest Group plc. NWM Plc has set target levels for different tiers of capital and for the internal minimum requirements for own funds and eligible liabilities ('MREL'), as percentages of its RWAs. The level of capital and funding required for NWM Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM Plc and this may vary over time.

NWM Plc's internal MREL comprises the regulatory value of capital instruments and loss-absorbing senior funding issued by NWM Plc to its parent, NatWest Group plc, in all cases with a residual maturity of at least one year. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point-of-entry. As a result, only NatWest Group plc is the only entity able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal capital and MREL targets and/or requirements of its operating entities, including NWM Plc. NWM Plc is therefore dependent not only on NatWest Group plc to fund its internal capital targets, but also on NatWest Group plc's ability to source appropriate funding. NWM Plc is also dependent on NatWest Group plc to continue to fund NWM Plc's internal MREL targets over time and its ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWM Plc is required to fund the internal capital requirements and MREL of its subsidiaries.

Any inability of NWM Group to adequately access the capital markets, to manage its balance sheet in line with assumptions in its funding plans, or to issue internal capital and MREL may adversely affect NWM Group, such that NWM Group may not constitute a viable banking business and/or NWM Plc or NWM N.V. may fail to meet their respective regulatory capital and/or MREL (at present, NWM N.V. does not have its own MREL).

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group may not be able to adequately access sources of liquidity and funding.***

NWM Group is required to access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2022, NWM Group held £6.7 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM Group's control. These factors include: loss of clients, loss of investor confidence (including in individual NWM Group entities or the UK banking sector or the banking sector as a whole), changes in interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*NWM Group has significant exposure to counterparty and borrower risk*'.

An inability to grow, roll-over, or any material decrease in, NWM Group's deposits, short-term wholesale funding and short-term liability financing could, particularly if accompanied by one of the other factors described above, materially affect NWM Group's ability to satisfy its liquidity needs.

NWM Group engages from time to time in 'fee based borrow' transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such 'fee based borrow' transactions are unwound



whilst used to support the financing of parts of NWM Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM Group would be unable to replace such financing on acceptable terms or at all, which could adversely affect its liquidity position and have a material adverse effect on NWM Group. In addition, because ‘fee base borrow’ transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM Group’s creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of or perceived lack of creditworthiness may adversely affect NWM Group.

Current UK and global macro-economic and political uncertainties and any significant market volatility and change, could affect NWM Group’s ability to access sources of liquidity and funding, which may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM plc and its subsidiaries could be required to adapt their funding plans or change their operations. For example, impairments or other losses as well as increases to capital deductions may result in a decrease to NWM Plc’s capital base, and/or that of its subsidiaries. If NatWest Group plc is unable to issue securities externally as planned, this may have a negative impact on NWM Plc’s current and forecasted MREL position, particularly if NatWest Group plc is unable to downstream capital and/or funding to NWM Plc. This could exacerbate funding and liquidity risk, which may adversely affect NWM Group.

As at 31 December 2022, NWM Group reported a liquidity coverage ratio of 253% . If its liquidity position were to come under stress and if NWM Group is unable to raise funds through deposits or wholesale funding sources on acceptable terms or at all, its liquidity position could be adversely affected. This would mean that NWM Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses. NWM Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding or payment commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM Group’s funding plans or its operations. In a time of reduced liquidity or market stress, NWM Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case may adversely affect NWM Group’s future results, financial condition and/or prospects.

NWM Group entities independently manage liquidity risk on a stand-alone basis, including through holding their own liquidity portfolios. They have restricted access to liquidity or funding from other NatWest Group entities. NWM Group entities’ management of their own liquidity portfolios and the structure of capital support are subject to operational and execution risk.

Continuing market volatility may impact capital and RWAs and NWM Group and its subsidiaries may be required to adapt their funding plans or change their operations in order to satisfy their respective capital and funding requirements, which may have a negative impact on NWM Group. Market volatility may also result in increases to leverage exposure.

Any of the above could have a material adverse effect on NWM Group’s business, results of operations and outlook.

***NWM Plc and/or its regulated subsidiaries may not manage their capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.***

Under the EU Bank Recovery and Resolution Directives I and II (‘BRRD’), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM Plc’s applicable capital or leverage, liquidity or funding requirements would trigger consideration of NWM Plc’s recovery plan, and in turn may prompt consideration of NatWest Group’s recovery plan. If, under stressed conditions, the liquidity, capital or leverage ratio were to decline, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWM Plc could undertake that may or may not be sufficient to restore adequate liquidity, capital and leverage ratios. Additional management options relating to existing capital issuances, asset or business disposals, capital payments and dividends from NWM Plc to its parent, could also be undertaken to support NWM Plc’s capital and leverage requirements.

NatWest Group may also address a shortage of capital in NWM Plc by providing parental support to NWM Plc. NatWest Group's (and NWM Plc's) regulator may also request that NWM Group carry out additional capital management actions. The Bank of England has identified single point-of-entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group. However, under certain conditions set forth in the BRRD, as the UK resolution authority, the Bank of England also has the power to execute the 'bail-in' of certain securities of NWM Group without further action at NatWest Group level.

Any capital management actions taken under a stress scenario may, in turn affect factors including: NWM Group's product offering, credit ratings, ability to operate its businesses and pursue its current strategies and strategic opportunities as well as negatively impacting investor confidence and the value of NWM Group's securities. See also, '*— NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWM Group entities' Eligible Liabilities.*' In addition, if NWM Plc or NWM N.V.'s liquidity position were to be adversely affected, this may require assets to be liquidated or may result in higher funding costs.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Any reduction in the credit rating and/or outlooks assigned to NatWest Group plc, any of its subsidiaries (including NWM Plc or NWM Group subsidiaries) or any of their respective debt securities could adversely affect the availability of funding for NWM Group, reduce NWM Group's liquidity position and increase the cost of funding.***

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entity credit ratings and outlooks. In September, Moody's upgraded the credit rating of NWM Plc from A2 (positive outlook) to A1 (stable outlook). NWM Group entity credit ratings and outlooks, could be negatively affected (directly or indirectly) by a number of factors that can change over time, including: credit rating agencies' assessment of NWM Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity; the level of political support for the industries and regions in which NWM Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political and economic conditions in NWM Group's key markets (including rising interest rates and higher inflation, supply chain disruptions and the outcome of any further Scottish independence referendum); any reduction of the UK's sovereign credit rating (currently on negative outlook by Moody's, S&P and Fitch) and market uncertainty. In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions. See also '*A reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group could have a negative impact on NatWest Group (including NWM Group)'s or NWM Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWM Group) or NWM Group.*'

Any reductions in the credit ratings of NatWest Group plc, NWM Plc or of certain other NatWest Group entities, including, in particular, downgrades below investment grade, or a deterioration in the capital markets' perception of NWM Group's financial resilience could significantly affect NWM Group's access to capital markets, reduce the size of its deposit base and trigger additional collateral or other requirements in its funding arrangements or the need to amend such arrangements, which could adversely affect NWM Group's (and, in particular, NWM Plc's) cost of funding and its access to capital markets which could limit the range of counterparties willing to enter into transactions with NWM Group (and, in particular, with NWM Plc). This may in turn adversely affect NWM Group's competitive position and threaten its prospects in the short to medium-term.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group operates in markets that are highly competitive, with increasing competitive pressures and technology disruption.***

The markets within which NWM Group operates are highly competitive, and NWM Group expects such competition to continue and intensify in response to various changes. These include: evolving customer behaviour, technological changes (including digital currencies and other instruments, stablecoins and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market, industry trends resulting in increased disaggregation or unbundling of financial services, the impact of regulatory actions and other factors. Innovations such as biometrics, artificial intelligence, automation, the cloud, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

Increasingly, many of the products and services offered by NWM Group are, and will become, more technology intensive, including through digitalisation, automation and the use of artificial intelligence. NWM Group's ability to develop or acquire such services (which also comply with applicable and evolving regulations) has become increasingly important to retaining and growing NWM Group's client businesses across its geographical footprint. There can be no certainty that NWM Group's innovation strategy (which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and partnerships with third party technology providers) will be successful or that it will allow NWM Group to continue to maintain or grow such services in the future.

Certain of NWM Group's current or future competitors may be more successful in implementing innovative technologies for delivering products or services to their clients. These competitors may be better able to attract and retain clients and key employees, may have more advanced IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM Group. Although NWM Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM Group's focus on cost savings targets. This may limit additional investment in areas such as financial innovation and could affect NWM Group's offering of innovative products or technologies for delivering products or services to clients and its competitive position. NWM Group may also fail to identify future opportunities or derive benefits from disruptive technologies in the context of rapid technological innovation, changing customer behaviour and growing regulatory demands. Furthermore, the development of innovative products depends on NWM Group's ability to produce underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NWM Group is unable to offer competitive, attractive and innovative products that are also profitable and timely, it will lose share, incur losses on some or all of its initiatives and lose opportunities for growth. In this context, NWM Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through automation and artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is defective, inadequate or is not fully integrated into NWM Group's current solutions. There can be no certainty that such initiatives will deliver the expected cost savings and investment in automated processes will likely also result in increased short-term costs for NWM Group.

In addition, NatWest Group's purpose-led strategy, as well as employee remuneration constraints, may also have an impact on NWM Group's ability to compete effectively and intensified competition from incumbents, challengers and new entrants could affect NWM Group's ability to maintain satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's (and NWM Group's) strategic initiatives. Furthermore, continued consolidation or technological or other developments in certain sectors of the financial services industry could result in NWM Group's remaining competitors gaining greater capital and other resources, including the ability to offer a broader range of products and services and geographic diversity, or the emergence of new competitors.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.***

NatWest Group is subject to annual stress tests by its regulator in the UK. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress,

then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence, all of which may adversely affect NatWest Group's (and NWM Group's) future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group has significant exposure to counterparty and borrower risk.***

Credit risk may arise from a variety of business activities, including, but not limited to: extending credit to clients through various lending commitments; entering into swap or other derivative contracts under which counterparties have obligations to make payments to NWM Group (including un-collateralised derivatives); providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans. See also, '*Risk and capital management — Credit Risk*'. Any negative developments in the activities listed above may negatively impact NWM Group's clients and credit exposures, which may, in turn, adversely affect NWM Group's profitability.

NWM N.V., a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM Group has exposure to many different industries, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base. Furthermore, these risks are likely to increase due to a potential transfer of NatWest Group's Transfer Business: (i) from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) to the ring-fenced subgroup of NatWest Group from NWM Group (see '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.*')

The credit quality of NWM Group's borrowers and other counterparties may be affected by the recent UK and global macro-economic and political uncertainties and a further deterioration in prevailing economic and market conditions (including a resurgence of the COVID-19 pandemic or other new health crises) and by changes in the legal and regulatory landscape in the UK and countries where NWM Group is exposed to credit risk. Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights over security, increasing credit risk.

NWM Group is exposed to the financial industry, including sovereign debt securities, banks, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets). Concerns about, or a default by, a financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty or borrower may lead to market-wide liquidity problems and losses for NWM Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM Group interacts on a daily basis. See also, '*NWM Group is reliant on access to the capital markets to meet its funding requirements, both directly through wholesale markets, and indirectly through its parent (NatWest Group) for the subscription to its internal capital and MREL. The inability to do so may adversely affect NWM Group.*'

As a result, adverse changes in borrower and counterparty credit risk may cause accelerated impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM Group and an inability to engage in routine funding transactions.

NWM Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWM Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, *'Risk and capital management – Credit risk'*. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgements used in the MES and ECL assessment at 31 December 2022 may not prove to be adequate resulting in incremental ECL provisions for NWM Group.

Due to NWM Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out activities of a similar nature to banks but not regulated like banks). NWM Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and ensure effective reporting and governance in respect of such exposure. If NWM Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect the future results, financial condition and/or prospects of NWM Group.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models.***

Given the complexity of NWM Group's business, strategy and capital requirements, NWM Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). Uncertainties relating to the COVID-19 pandemic have made reliance on analytical models and planning and forecasting for NWM Group more complex, and may result in uncertainty impacting the risk profile of NWM Group and/or that of the wider banking industry. In addition, NWM Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as fraud risk management (collectively, 'financial crime')). NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

As models analyse scenarios based on assumed inputs and a conceptual approach, model outputs therefore remain uncertain. Failure of models (including due to errors in model design) or new data inputs (including non-representative data sets), for example, to accurately reflect changes in the micro and macro-economic environment in which NWM Group operates (for example to account for high inflation), to capture risks and exposures at the subsidiary level, and to update for changes to NWM Group's current business model or operations, or for findings of deficiencies by NatWest Group (and in particular, NWM Group's) regulators (including as part of NatWest Group's mandated stress testing) may render some business lines uneconomic, result in increased capital requirements, may require management action or may subject NWM Group to regulatory sanction. NWM Group may also face adverse consequences as a result of actions based on models that are poorly developed, implemented or used, models that are based on inaccurate or compromised data or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group's financial statements are sensitive to underlying accounting policies, judgements, estimates and assumptions.***

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgements and assumptions take into account historical experience and other factors (including market practice and expectations of future events that are believed to be reasonable under the circumstances), actual results may differ due to the inherent uncertainty in making estimates, judgements and assumptions (particularly those involving the use of complex models). Further, accounting policy and financial statement reporting requirements are likely to increasingly require management to adjust existing judgements, estimates and assumptions for the effects of climate-related, sustainability and other matters that are inherently uncertain and for which there is little historical experience which may affect the comparability of NWM Group's future financial results with its historical results. Actual results may differ due to the inherent uncertainty in making climate-related and sustainability estimates, judgements and assumptions.

Accounting policies deemed critical to NWM Group's results and financial position, based upon materiality and significant judgements and estimates, involve a high degree of uncertainty and may have a material impact on its results. For 2022, these include loan impairments, fair value, deferred tax and conduct and litigation provisions. These are set out in the section '*Operating and Financial Review — Critical Accounting Policies and Key Accounting Estimates*'.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Changes in accounting standards may materially impact NWM Group's financial results.***

NWM Group prepares its consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in accordance with IFRS as issued by the International Accounting Standards Board. Changes in accounting standards or guidance by accounting bodies or in the timing of their implementation, whether immediate or foreseeable, could result in NWM Group having to recognise additional liabilities on its balance sheet, or in further write-downs or impairments to its assets and may also adversely affect the future results, financial condition and/or prospects of NWM Group.

NWM Group's trading assets amounted to £45.3 billion as at 31 December 2022. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWM Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM Group's internal valuation models require NWM Group to make assumptions, judgements and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. Any of these factors could require NWM Group to recognise fair value losses which may have a material adverse effect on NWM Group's income generation and financial position.

From time to time, the International Accounting Standards Board may issue new accounting standards or interpretations that could materially impact how NWM Group calculates, reports and discloses its financial results and financial condition, and which may affect NWM Group capital ratios, including the CET1 ratio. New accounting standards and interpretations that have been issued by the International Accounting Standards Board but which have not yet been adopted by NWM Group are discussed in '*Future accounting developments*'.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NatWest Group is subject to Bank of England and PRA oversight in respect of resolution, and NatWest Group could be adversely affected should the Bank of England in the future deem NatWest Group's preparations to be inadequate.***

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to

the PRA, and disclose a summary of this report. NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. In June 2022 the Bank of England communicated its assessment of NatWest Group's preparations and did not identify any shortcomings, deficiencies or substantive impediments although two areas were highlighted as requiring further enhancements. NatWest Group could be adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

If future Bank of England assessments identify a significant gap in NatWest Group's ability to achieve the resolvability outcomes or reveals that NatWest Group is not adequately prepared to be resolved, or did not have adequate plans in place to meet resolvability requirements, NatWest Group may be required to take action to enhance its preparations to be resolvable, resulting in additional costs and the dedication of additional resources. Such a scenario may have an impact on NatWest Group (and NWM Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, restrictions on NatWest Group's maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or maintaining a specified amount of MREL, consequently impacting NatWest Group's (and NWM Group's) strategic plans and may adversely affect its financial condition and/or reputation of NWM Group or lead to a loss of investor confidence.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NatWest Group (including NWM Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWM Group entities' Eligible Liabilities.***

HM Treasury, the Bank of England and the PRA and FCA (together, the 'Authorities') are granted substantial powers to resolve and stabilise UK-incorporated financial institutions. Five stabilisation options exist: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly-owned by the Bank of England; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities; and (v) temporary public ownership of the relevant entity. These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, there are modified insolvency and administration procedures for relevant entities, and the Authorities have the power to modify or override certain contractual arrangements in certain circumstances and amend the law for the purpose of enabling their powers to be used effectively and may promulgate provisions with retrospective applicability. Similar powers may also be exercised with respect to NWM N.V. in the Netherlands by the relevant Dutch regulatory authorities.

Under the UK Banking Act, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used; Holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

Uncertainty exists as to how the Authorities may exercise their powers including the determination of actions undertaken in relation to the ordinary shares and other securities issued by NatWest Group (including NWM Group), which may depend on factors outside of NWM Group's control. Moreover, the Banking Act provisions remain largely untested in practice, particularly in respect of resolutions of large financial institutions and groups.

If NatWest Group is at or is approaching the point of non-viability such that regulatory intervention is required, this could have a material adverse effect on NWM Group's business, results of operations and outlook.

## *Climate and sustainability-related risks*

### ***NWM Group and its customers, suppliers and counterparties face significant climate and sustainability-related risks, which may adversely affect NWM Group.***

Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks are expected to be widespread, exacerbating already existing financial vulnerabilities and may disrupt the proper functioning of financial markets and institutions, including NWM Group.

Financial and non-financial risks from climate change and sustainability related risks can arise through physical and transition risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims, litigation and conduct liability (referred to as 'liability risk'). See also, '*NWM Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

There are significant uncertainties as to the location, extent and timing of the manifestation of the physical risks of climate change, such as more severe and frequent extreme weather events (storms, flooding, subsidence, heat waves, droughts and wildfires), rising sea levels, nature and biodiversity loss, declining food yields, destruction of critical infrastructure, supply chain disruption and resource scarcity. Damage to NWM Group customers', suppliers' and counterparties' properties and operations could disrupt business, impair asset values and negatively impact the creditworthiness of customers leading to increased default rates, delinquencies, write-offs and impairment charges in NWM Group's portfolios. In addition, NWM Group premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs and adversely affect NWM Group's reputation, future results, financial condition and/or prospects.

In October 2021, the UK Government published its Net Zero Strategy which sets out how the UK will deliver on its commitment to reach net-zero emissions by 2050 (defined as the point at which greenhouse gas emissions from sources are equal to removals by sinks as set out in Article 4 of the 2015 Paris Agreement). An independent review of the government's approach to delivering its net zero target to ensure it is pro-business and pro-growth was published in January 2023. The timing, content and implementation of the specific policies and proposals remain uncertain and are subject to continuous changes and developments. The transition to a net-zero economy across all sectors of the economy and markets in which NWM Group operates will be required to meet the goals of the UN Framework Convention on Climate Change (1994), the 2015 Paris Agreement, the UK's Net Zero Strategy and the European Green Deal initiatives. The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve transition remain uncertain but are expected to be significant, subject to continuous changes and developments and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently. Some sectors such as property, energy (including the oil and gas industry), mobility (including land transport, aviation, and shipping industries and the related manufacturing and infrastructure industry) and food (including the agriculture industry) are expected to be particularly impacted. The timing and pace of the transition to a net-zero economy is also uncertain, will depend on many factors and uncertainties and may be near term, gradual and orderly, or delayed, rapid and disorderly, or a combination of these. There is also growing attention on the need for a 'just transition' and 'energy justice' – in recognition that the transition to net zero should not disproportionately affect the most disadvantaged members of society.

In addition, NWM Group and its customers, suppliers and counterparties may face economic, financial and non-financial risks arising from broader sustainability issues such as: (i) risks relating to degradation of the environment, such as air, water and land pollution, water stress, nature and biodiversity loss and deforestation which may include for instance loss and/or decline of the state of nature (including the state of biodiversity); (ii) social matter-related risks (including violent conflicts, geopolitical implications, impacts on indigenous people, migration, human rights, diversity, equality and inclusion, the living wage, fair taxation and value chains); and (iii) governance-related risks (including board diversity, ethics, executive compensation and management structure).

Financial institutions, including NWM Group, are directly and indirectly exposed to multiple types of environmental risks (including nature and biodiversity related risks) through their activities, including through the risk of default by clients. In addition to safeguards and interventions that focus on reducing negative impacts on the



environment (including nature and biodiversity), there is also a growing need to implement solutions that focus on increasing positive impacts on environment (including nature and biodiversity) through nature-based solutions. In 2021, NatWest Group (including NWM Group) classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWM Group) within its Risk Management Framework.

The Taskforce on Nature-Related Financial Disclosures (TNFD) is a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. NatWest Group (including NWM Group) is a member of the Informal Working Group 2020 of TNFD and is a Forum Member since 2021.

Measuring the environmental related financial impacts (including impacts on nature and biodiversity related financial impacts) as a result of funding and financing activities as well as reporting on these is an evolving and complex area for the financial services industry which requires collaborative approaches with partners, stakeholders, peers and public sector bodies to help measure and mitigate the negative impacts of the activities which NatWest Group (including NWM Group) finances on the environment (including nature and biodiversity), as well as supporting the growing sector of nature-based solutions and habitat restoration and biodiversity markets. NatWest Group (including NWM Group) is in the early stages of developing its approach to assess, manage and mitigate environmental risks and by using emerging industry guidance such as the TNFD beta framework, NatWest Group (including NWM Group) is seeking to further its understanding of how NatWest Group's (including NWM Group's) business activities impact nature, the dependencies NWM Group and its customers have on nature, and the risks and opportunities nature can generate.

There is also increased scrutiny from NWM Group's employees, investors, customers, counterparties (including its suppliers), communities, regulators and other stakeholders regarding how businesses address social issues, including tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management which may impact NWM Group's employees, suppliers, customers, and their business activities or the communities in which they operate.

These climate and sustainability-related risks may:

- adversely affect economic activity, asset pricing and valuations of financial instruments and, in turn, the wider financial system;
- impact economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- also affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to climate and sustainability-related risks;
- trigger further losses stemming directly or indirectly from legal claims (liability risks) and reputational damage as a result of the public, customers, counterparties, suppliers and/or investors associating NWM Group or its customers with adverse climate and sustainability-related issues;
- intersect with and add further complexity and challenge to contributing to achieving NatWest Group's purpose-led strategy including climate ambitions and targets;
- be drivers of several different risk categories simultaneously and may exacerbate existing risks, including credit risk, operational risk (including business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers), pension risk and conduct risk; and
- if combined, may have a greater adverse effect on NWM Group's reputation, future results, financial condition and/or prospects.

If NWM Group fails in a timely manner to identify and address climate and sustainability-related risks and opportunities and changing regulatory and market expectations, or to appropriately identify, measure, manage and mitigate climate and sustainability-related physical, transition and liability risks and opportunities that NWM Group,

its customers, counterparties and suppliers face, this may have a material adverse effect on NWM Group's business, results of operations and outlook.

***NatWest Group's climate change related strategy, ambitions, targets and transition plan entail significant execution and reputational risk and are unlikely to be achieved without significant and timely government policy, technology and customer behavioural changes.***

In February 2020, NatWest Group announced its ambition to become a leading bank in the UK helping to address the climate challenge. As part of the implementation of its climate ambitions, at NatWest Group's Annual General Meeting in April 2022, ordinary shareholders passed an advisory 'Say on Climate' resolution endorsing NatWest Group's previously announced strategy to address climate change including its ambitions to at least halve the climate impact of its financing activity by 2030, achieve alignment with the 2015 Paris Agreement and reach net zero by 2050 across its financed emissions, assets under management and operational value chain.

Furthermore, as part of its efforts to support the transition to a net-zero economy, NatWest Group has announced its plans to (i) stop lending and underwriting to companies with more than 15% of activities related to thermal and lignite coal, unless they had a Credible Transition Plan in line with the 2015 Paris Agreement in place by end of 2021; phase out of thermal and lignite coal for UK and non-UK customers who have UK coal production, coal-fired generation and coal-related infrastructure by 1 October 2024, with a full global phase out by 1 January 2030; (ii) to stop lending and underwriting to major oil and gas producers unless they had a Credible Transition Plan aligned with the 2015 Paris Agreement in place by the end of 2021; (iii) from February 2023 stop providing reserve based lending specifically for the purpose of financing oil and gas exploration, extraction and production for new customers, and, after the 31 December 2025 not to renew, refinance or extend existing reserve- based lending specifically for the purpose of financing oil and gas exploration, extraction and production; and (iv) stop providing reserve-based lending and borrowing base financing to upstream Oil and Gas companies specifically for the purpose of financing upstream assets located in Arctic or Antarctic Waters.

In December 2022, NatWest Group published its science based targets validated by Science Based Target Initiative (SBTi) for its own operational footprint and for 79% of its loans and investments (debt securities and equity shares) on its 2019 balance sheet, at sector level. NatWest Group has also announced and in the future it may also announce other climate ambitions and targets which support its overarching strategy to address climate change.

Making the changes necessary to contribute to achieving NatWest Group's strategy on addressing climate change, including achieving NatWest Group's climate ambitions and targets and executing its transition plan, may adversely affect NWM Group's business and operations and will require reductions to its financed emissions and to its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place. Increases in lending and financing activities may wholly or partially offset some or all these reductions, which may increase the extent of changes and reductions necessary. It is anticipated that achieving these reductions, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material and accelerated changes to NWM Group's business, operating model, its existing exposures and the products and services NWM Group provides to its customers (potentially on accelerated timescales) which may adversely affect NWM Group's ability to achieve its financial targets and generate sustainable returns.

NatWest Group (including NWM Group) also needs to ensure that its strategy and business model adapt to changing national and international standards, industry and scientific practices, regulatory requirements and market expectations regarding climate change, which remain under continuous development and are subject to different interpretations. There can be no assurance that these standards, practices, requirements and expectations will not be interpreted differently than what was the understanding of NatWest Group (including NWM Group) when defining its climate-related ambitions and targets or change in a manner that substantially increases the cost or effort for NatWest Group (including NWM Group) to achieve such ambitions and targets. In addition, NatWest Group's ambitions and targets may prove to be considerably more difficult or even impossible to achieve under such changing circumstances. This may be exacerbated if NatWest Group (including NWM Group) chooses or is required to accelerate its climate-related ambitions or targets as a result of (among other things) UK or international regulatory developments or stakeholder expectations.

NWM Group's ability to contribute to achieving NatWest Group's strategy to address climate change, including achieving its climate ambitions and targets, will depend to a large extent on many factors and uncertainties beyond

NatWest Group's (including NWM Group's) control. These include the extent and pace of climate change, including the timing and manifestation of physical and transition risks, the macro-economic environment, the timely implementation and integration of adequate government policies, the effectiveness of actions of governments, legislators, regulators, businesses, investors, customers and other stakeholders to mitigate the impact of climate and sustainability-related risks, changes in customer behaviour and demand, changes in the available technology for mitigation, the roll-out of low carbon infrastructure and the availability of accurate, verifiable, reliable, consistent and comparable data. See also, *'There are significant challenges in accessing reliable, verifiable and comparable climate and other sustainability-related data due to availability, quality and other limitations, which contribute to the substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions'*.

These external factors and other uncertainties will make it challenging for NatWest Group to meet its climate ambitions and targets and for NWM Group to contribute to them and there is a significant risk that all or some of these will not be achieved.

Any delay or failure by NWM Group to contribute to setting, making progress against or meeting NatWest Group's climate-related ambitions and targets may have a material adverse effect on NWM Group, its reputation, future results, financial condition and/or prospects and may increase the climate and sustainability-related risks NWM Group faces.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***There are significant limitations related to accessing reliable, verifiable and comparable climate and other sustainability-related data, including as a result of lack of standardisation, consistency and completeness which, alongside other factors, contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.***

Meaningful reporting of climate and sustainability-related risks and opportunities and their potential impacts and related metrics depends on access to accurate, reliable, consistent and comparable climate and sustainability-related data from counterparties or customers. Data may not be generally available or, if available, may not be accurate, verifiable, auditable, reliable, consistent, or comparable. Any failure of NWM Group to incorporate climate and/or sustainability-related factors into its counterparty and customer data sourcing and accompanying analytics, or to collect or develop accurate, verifiable, auditable, reliable, consistent and comparable counterparty and customer data, may adversely affect NWM Group's ability to prepare meaningful reporting of climate and sustainability-related risks and opportunities, and it may adversely affect NWM Group's regulatory compliance, reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions by financial institutions, including NWM Group, is necessarily based on aggregated information developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations, or assumptions. NWM Group's climate and sustainability-related disclosures use a greater number and level of assumptions and estimates than many of its financial disclosures. These assumptions and estimates are highly likely to change over time, and, when coupled with the longer timeframes used in these climate and sustainability-related disclosures, make any assessment of materiality inherently uncertain.

In particular, in the absence of actual emissions monitoring and measurement, emissions estimates are based on industry and other assumptions that may not be accurate for a given counterparty or customer. There may also be data gaps that are filled using proxy data, such as sectoral averages, again developed in different ways. As a result, NWM Group's climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NWM Group's data and methodologies continue to improve. These data quality challenges, gaps and limitations could have a material impact on NWM Group's ability to make effective business decisions about climate risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions and targets

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate-related risks. These include data quality gaps and limitations mentioned above, as well as the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In

addition, there is significant uncertainty about how climate change and the transition to a net-zero economy will unfold over the coming years and decades and how and when climate-related risks will manifest. These timeframes are considerably longer than NWM Group's historical strategic, financial, resilience and investment planning horizons.

As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes and impacts. Climate-related risks present significant methodological challenges due to their forward-looking nature, the lack and/or quality of historical testing capabilities, lack of standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example:

- climate scenarios are not predictions of what is likely to happen or what NatWest Group would like to happen, rather they explore the possible implications of different judgements and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- lack of specialist expertise in banks such that NWM Group needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- immaturity of modelling of and data on climate-related risks on financial assets which will evolve rapidly in the coming years;
- the number of variables and forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;
- the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;
- the assumptions will be continually evolving with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to emissions.

Accordingly, these risks and uncertainties coupled with significantly longer timeframes make the outputs of climate-related risk modelling, including emission reduction targets and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. Furthermore, there is a lack of scientific, industry and regulatory consensus regarding the appropriate metrics, methodologies, modelling and standardised reporting to enable the assessment of the location, acuteness, and severity of environmental risks (including nature and biodiversity-related risks) and the monitoring and mitigation of these risks in the economy and financial system.

Capabilities within NWM Group to appropriately assess, model, report and manage climate and sustainability-related risks and impacts and the suitability of the assumptions required to model and manage climate and sustainability-related risks appropriately are developing. The development of NWM Group's capabilities to assess, model, report and manage the impacts of climate change and broader environmental risk (including nature and biodiversity related risks) is in its early stages. Even when those capabilities are developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgements and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies, which may have a material adverse effect on NWM Group's regulatory compliance, reputation, future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***A failure to implement effective climate change resilient governance, procedures, systems and controls in compliance with legal and regulatory expectations to manage climate and sustainability-related risks and opportunities could adversely affect NWM Group's ability to manage those risks.***

The prudential regulation of climate-related risks is an important driver in how NWM Group develops its risk appetite for financing activities or engaging with counterparties. Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate-related and environmental risks under prudential rules.

In April 2019, the PRA published a supervisory statement ('SS 3/19') with particular focus on the management of financial risks from climate change with respect to governance, risk management, scenario analysis and disclosures. In response to the PRA's SS 3/19, following the submission of initial plans in October 2019, on 8 October 2020 NatWest Group provided the PRA with an update to its original plan, noting that the COVID-19 pandemic had disrupted some elements of its original plan and, as a result, the updated plan would require additional operating cycles reaching into 2022 and beyond to prove embedding. Throughout 2022, NatWest Group provided the PRA with updates on how it had addressed the commitments made in its October 2020 plan, noting the delivery of a first generation, largely qualitative in nature, approach to the supervisory requirements. In 2022, the PRA has also started actively supervising firms against their supervisory expectations, and it issued another 'Dear CEO letter' providing a summary of capabilities, which the PRA would expect firms to be able to demonstrate, setting out thematic observations on firms' levels of embeddedness, and providing examples of effective practices identified.

In June 2021, the Bank of England launched its 2021 Biennial Exploratory Scenario ('2021 CBES') to stress test the resilience of the current business models of the largest banks, insurers and the financial system to the physical and transition risks from climate change under three climate scenarios. NatWest Group delivered its first 2021 CBES submission to the PRA in October 2021 and its submission to the second phase of the 2021 CBES exercise in the first quarter of 2022. In May 2022, the PRA published the results of the 2021 CBES which has shown that UK banks, including NatWest Group (including NWM Group), need to do more to understand and manage their exposure to climate risks and that the lack of available data on corporates' current emissions and future transition plans is a collective issue affecting all participating firms. In July 2022, the participating banks in the 2021 CBES exercise were invited to discuss methodologies and challenges with regards to climate risk scenario analysis.

In October 2022, the Bank of England and the PRA held a conference to facilitate discussion on the complex issues associated with adjusting the capital framework to take account of climate-related financial risks with the aim of providing more guidance on its approach to climate and capital by the end of 2022. The Bank of England does not think capital frameworks should be used to address the causes of climate change. However, as set out in the PRA's Climate Change Adaptation Report 2021, and, as with any other risk, it does think the capital framework could be a useful tool within the broader regulatory frameworks to ensure that PRA-regulated firms are resilient to climate risks.

Any failure of NatWest Group (including NWM Group) to fully and timely embed climate-related risks into its risk management practices and framework to appropriately identify, measure, manage and mitigate the various climate-related physical and transition risks and apply the appropriate product governance in line with applicable legal and regulatory requirements and expectations, may adversely affect NWM Group's regulatory compliance, prudential capital requirements, liquidity position, reputation, future results, financial condition and/or prospects.

Climate and sustainability-related disclosures are a rapidly evolving area and increasingly expose NWM Group to risk in the face of legal and regulatory expectations, regulatory enforcement and class action risk. NatWest Group and its subsidiaries currently are and, in the future, will be subject to increasing entity-wide climate-related and other non-financial disclosure requirements, including pursuant to the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD'), the proposed SEC Climate Disclosure Rules and ISSB sustainability reporting requirements and under other regimes. As from February 2022, NatWest Group is required to provide enhanced climate-related disclosures consistent with the TCFD recommendations to comply with the FCA Policy Statement on 'Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations' (PS 20/17) which introduced new Listing Rules that require commercial companies with a UK premium listing – such as NatWest Group – to make climate-related disclosures, consistent with TCFD, on a

‘comply or explain’ basis. By its Policy Statement “Enhancing climate-related disclosures by standard listed companies” (PS 21/23), the FCA has confirmed its final policy position set forth in PS 20/17, extended the scope of issuers that are subject to the new Listing Rules and added guidance provisions on transition plan disclosure (for issuers in scope of both the PS 20/17 and the new PS 21/23 rules). NWM is currently not in scope of the FCA Policy Statement (PS 20/17) or Policy Statement (PS 21/23) and therefore, it is not required to publish climate-related disclosures consistent with the TCFD at the company level. As required by the FCA Policy Statement (PS 20/17) and Policy Statement (PS 21/23), NatWest Group publishes climate related disclosures that it believes are consistent with the TCFD for the consolidated group, including NWM Group.

In addition, as of 5 April 2022, NatWest Group is also required to prepare mandatory climate-related financial disclosures pursuant to The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. NWM Plc, being a subsidiary of NatWest Group, falls under the subsidiary exemption of The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. Therefore, NWM Plc to date is not required to produce any separate, standalone climate-related disclosures.

Furthermore, in October 2022, the FCA published a Consultation Paper on ‘Sustainability Disclosure Requirements (SDR) and investment labels’ (CP 22/20) which proposes that the FCA will require all regulated firms to ensure that from June 2023 the naming and marketing of financial products and services in the UK is clear, fair and not misleading, and consistent with the sustainability profile of the products or services, i.e. proportionate and not exaggerated.

Misrepresenting or over-emphasising the extent to which an investment, strategy or other type of product takes into account environmentally friendly, sustainable or ethical features and concerns, using misleading labels and language in relation to such products and/or omitting material information about NWM Group’s contribution to the climate crisis (including its direct or indirect contribution to greenhouse gas emissions), or other sustainability related issues could potentially result in complaints, regulatory intervention, claims and/or litigation and reputational damage.

Any failure of NWM Group to implement robust and effective climate and sustainability-related disclosure governance and to embed appropriate product governance policies, procedures and controls to make accurate public statements and claims about how environmentally friendly, sustainable or ethical NWM Group’s products and services are and to apply these in line with applicable legal and regulatory requirements and expectations, may have a material adverse effect on NWM Group’s regulatory compliance and reputation and could give rise to litigation.

Any of the above could have a material adverse effect on NWM Group’s business, results of operations and outlook.

***Increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight which are constantly evolving may adversely affect NWM Group.***

There is an increasing number of EU, UK and other regulatory and legislative initiatives to address issues around climate change (including promoting the transition to a net-zero economy), environment (including nature and biodiversity), human rights and other sustainability-related risks and opportunities. As a result, an increasing number of laws, regulations and legislative actions, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes, is likely to affect the financial sector and the wider economy.

Many of these initiatives are focused on developing standardised definitions and criteria for green and sustainable criteria of assets and liabilities, integrating climate change and sustainability into decision-making and customers’ access to green and sustainable financial products and services which may have a significant impact on the services provided by NWM Group and its subsidiaries, and its associated credit, market and financial risk profile. They could also impact NWM Group’s recognition of its climate and sustainable funding and financing activity and may adversely affect NWM Group’s ability to achieve its strategy and climate and sustainable funding and financing ambitions.

In addition, NWM Group’s EU and other non-UK subsidiaries and branches are and will continue to be subject to an increasing array of the EU/EEA and US climate and sustainability-related legal and regulatory requirements. These requirements (potentially including the EU Corporate Sustainability Due Diligence Directive or the EU Corporate Sustainability Reporting Directive) may be applicable to UK businesses such as NWM Group, or used as

the basis for UK laws and regulations (such as the UK Green Taxonomy and the FCA's Consultation Paper on 'Sustainability Disclosure Requirements (SDR) and investment labels' (CP 22/20)), or be regarded by investors and regulators as best practice standards whether or not they apply to UK businesses (such as the EU Green Bond Standard). Any divergence between UK, EU/EEA and US climate and sustainability-related legal and regulatory requirements and their interpretation may result in NWM Group, or any of its subsidiaries, not meeting regulatory requirements, investors' expectations, may increase the cost of doing business (including increased operating costs) and contentious regulatory and litigation risk) and may restrict access of NWM Group's UK business to the EU/EEA and US market.

NatWest Group (including NWM Group) is also participating in various voluntary carbon reporting and other standard setting initiatives for disclosing climate and sustainability-related information, many of which have differing objectives and methodologies and are at different stages of development in terms of how they apply to financial institutions.

Compliance with these developing and evolving climate and sustainability-related legal and regulatory requirements is likely to require NWM Group to implement significant changes to its business models, products and other governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, and entail additional change risk and increased compliance, regulatory sanctions and litigation (including settlements) costs. Failure to implement and comply with these legal and regulatory requirements or emerging best practice expectations may have a material adverse effect on NWM Group's regulatory compliance and may result in regulatory sanctions, reputational damage and investor disapproval each of which may have a material adverse effect on NWM Group's future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group may be subject to potential climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.***

Due to increasing new climate and sustainability-related jurisprudence, laws and regulations in the UK and other jurisdictions, growing demand from investors and customers for environmentally sustainable products and services, and regulatory scrutiny, financial institutions, including NWM Group, may through their business activities, face increasing litigation, conduct, enforcement and contract liability risks related to climate change, environmental degradation, human rights violations and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to: (i) failure to meet obligations, targets or commitments relating to, or to disclose accurately, or provide updates on material climate and/or sustainability-related risks, or otherwise provide fair, balanced and appropriate disclosure to investors, customers, counterparties and other stakeholders; (ii) conduct, mis-selling and customer protection claims, including claims which may relate to alleged insufficient product understanding, unsuitable product offering and /or reliance upon information provided by NWM Group or claims alleging unfair pricing of climate-related products, for example in relation to products where limited liquidity or reliable market data exists for benchmarking purposes or which may be impacted by future climate policy uncertainty or other factors; (iii) marketing that portrays products, securities, activities or policies as having positive climate, environmental or sustainable outcomes to an extent that may not be the case, or may not adequately be qualified and/or omits material information about NWM Group's contribution to the climate crisis and/or its direct / indirect contribution to greenhouse gas emissions or other sustainability-related issues; (iv) damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks; (v) alleged violations of officers', directors' and other fiduciaries' duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries; (vi) changes in the understanding of what constitutes positive climate, environmental or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations; (vii) any weaknesses or failures in specific systems or processes associated particularly with climate, environmental or sustainability linked products, and/or human rights due diligence, including any failure in the timely implementation, onboarding and/or updating of such systems or processes; or (viii) counterparties, collaborators, customers to whom NatWest Group (including NWM Group) provides services and third parties in NWM Group's value chain who act, or fail to

act, or undertake due diligence, or apply appropriate risk management and product governance in a manner that may adversely affect NatWest Group's (including NWM Group)'s reputation or sustainability credentials.

Furthermore, there is a risk that shareholders, campaign groups, customers and special interest groups could seek to take legal action against NWM Group for financing or contributing to climate change, environmental degradation and human rights violations and for not supporting the principles of 'just transition' (i.e. maximising the social benefits of the transition, mitigating the social risks of the transition, empowering those affected by the change, anticipating future shifts to address issues up front and mobilising investments from the public and private sectors).

There is a risk that as environmental and climate science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of environmental, climate and broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NWM Group. See also, *'NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.'*

These potential litigation, conduct, enforcement and contract liability risks may have a material adverse effect on NatWest Group's ability to achieve its strategy, including its climate ambition, and may have a material adverse effect on NWM Group's reputation, future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***A reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group could have a negative impact on NatWest Group's (including NWM Group) or NWM Group's reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group (including NWM Group) or NWM Group.***

ESG ratings from agencies and data providers which rate how NatWest Group (including NWM Group) or NWM Group manage environmental, social and governance risks are increasingly influencing investment decisions pertaining to NatWest Group's and/or their subsidiaries' securities or being used as a basis to label financial products and services as environmentally friendly or sustainable. ESG ratings are (i) unsolicited; (ii) subject to the assessment and interpretation by the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWM Group) or NWM Group by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWM Group's control (e.g. any change in rating methodology). In addition, NWM Group offers and sells products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency. ESG rating agencies, at this stage, are not subject to any specific regulatory or other regime or oversight (although there are proposals by regulators in different jurisdictions to regulate rating agencies and data providers). Regulators have expressed concern that harm may arise from potential conflicts of interest within ESG rating and review or opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. There is currently no market consensus on what precise attributes are required for a particular asset to be classified as 'ESG'. Any reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group, or a regulatory sanction or enforcement action involving an ESG rating agency used by a NatWest Group and/or NWM Group entity, could have a negative impact on NWM Group's reputation, could influence investors' risk appetite for NWM Group's and/or its subsidiaries' securities, particularly ESG securities, could increase the cost of issuing securities for NWM Group and/or its subsidiaries and could affect a customer's willingness to deal with NWM Group.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

#### ***Operational and IT resilience risk***

***Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM Group's businesses.***



Operational risk is the risk of loss or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks. NWM Group operates in a number of countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including for example, payment errors or financial crime and fraud), for which there is continued scrutiny by third parties on NWM Group's compliance with financial crime requirements; see '*NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.*' These risks are also present when NWM Group relies on critical service providers (suppliers) or vendors to provide services to it or its clients, as is increasingly the case as NWM Group outsources certain activities, including with respect to the implementation of technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's purpose-led strategy, and the organisational and operational changes involved, including NatWest Group's current cost-controlling measures, the NWM Refocusing, the creation of the C&I business segment of which NWM forms part, the progression towards working as One Bank across NatWest Group to serve customers and conditions affecting the financial services industry generally (including macro-economic and other geo-political developments) as well as the legal and regulatory uncertainty resulting therefrom. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may develop, or how NWM Group will evolve to best serve its customers. Any of the above may exacerbate operational risks including NWM Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group has materially increased its dependence on NWB and other NatWest Group entities for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. A failure by NWB or other NatWest Group entities to adequately supply these services may expose NWM Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely affect NWM Group's future results, financial condition and/or prospects.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM Group. Ineffective management of such risks may have a material adverse effect on NWM Group's future results, financial condition and/or prospects.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group is subject to increasingly sophisticated and frequent cyberattacks.***

NWM Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM Group) and against NatWest Group and NWM Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM Group relies. NWM Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2022, NWM Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive and significant threat to the financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWM Group's customers. NWM Group continues to invest significant resources in the development and evolution of cyber security controls that are designed to minimise the potential effect of such attacks. Hostile attempts are made by third parties to gain access to, introduce malware (including ransomware) into and exploit vulnerabilities of NWM Group's IT systems. NWM Group has information and cyber security controls in place to seek to minimise the impacts of any such attacks, which are subject to review on a continuing basis, but given the nature of the threat, there can be no assurance that such measures will prevent the potential negative impact of any such attacks from occurring. See also, '*NWM Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NWM Group.*'

Any failure in NWM Group's cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of data or systems or other sensitive information (including as a result of an outage) and may cause associated reputational damage. Any of these factors could increase costs (including costs relating to notification of, or compensation for clients and credit monitoring), result in regulatory investigations or sanctions being imposed or may affect NWM Group's ability to retain and attract clients. Regulators in the UK, US, Europe and Asia continue to recognise cybersecurity as an important systemic risk to the financial sector and have highlighted the need for financial institutions to improve their monitoring and control of, and resilience (particularly of critical services) to cyberattacks, and to provide timely reporting or notification of them, as appropriate. Cyberattacks on NWM Group's counterparties may also damage NWM Group's operations.

Additionally, third parties may also fraudulently attempt to induce employees, customers, third party providers or other users who have access to NWM Group's systems to disclose sensitive information in order to gain access to NWM Group's data or systems or that of NWM Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM Group's employees or third parties, including third party providers, or may result from technological failure. Any of the above could have a material adverse effect on NWM Group's reputation, business, results of operations and outlook.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue at a high level in relation to its overall resilience to withstand IT and IT-related disruption, either through a cyberattack or some other disruptive event. Such increased regulatory engagement, supervision and enforcement is uncertain in relation to the scope, cost, consequence and the pace of change, which may adversely affect NWM Group's future results, financial condition and/or prospects. Due to NWM Group's reliance on technology and the increasing sophistication, frequency and impact of cyberattacks, such attacks may have an adverse effect on NWM Group.

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework') and European Banking Authority ('EBA') Guidelines on ICT and Security Risk Management, NWM Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWM Group, its clients and its employees. In order to meet this requirement, NWM Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM Group interacts. A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group operations and strategy are highly dependent on the accuracy and effective use of data.***

NWM Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around data ethics usage and privacy across NWM Group. The availability and accessibility of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have or be able to access that data or the ineffective use or governance of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver products and services. This could also result in a failure to deliver NWM Group's strategy and could place NWM Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM Group's strategy. These data weaknesses and limitations, or the unethical or inappropriate use of data, and/or non-compliance with data protection laws could give rise to conduct and litigation risks and may increase the risk of operational challenges, losses, reputational damage or other adverse consequences due to inappropriate models, systems, processes, decisions or other actions.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group relies on attracting, retaining, developing and remunerating diverse senior management and skilled personnel (such as market trading specialists), and is required to maintain good employee relations.***

NWM Group's success depends on its ability to attract, retain, through creating an inclusive environment, and develop and remunerate highly skilled and qualified diverse personnel, including senior management, directors, market trading specialists and key employees, especially for technology and data focused roles, in a highly competitive market, in an era of strategic change and under internal cost-reduction pressures.

The inability to compensate employees competitively and/or any reduction of compensation, the perception that NWM Group may not be a viable or competitive business, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks in receipt of government support such as NatWest Group, negative economic developments or other factors, could have an adverse effect on NWM Group's ability to hire, retain and engage well qualified employees, especially at a senior level, which could adversely affect NWM Group's future results, financial condition and/or prospects.

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NWM Group's employee engagement and the formulation and execution of its strategy, and could also have a negative effect on its reputation with customers, investors and regulators. The NWM Refocusing has also reduced NWM Group's ability to engage in succession planning for critical roles given the recent reduction in headcount. This has placed increased risk on employee turnover within revenue generating areas.

Some of NWM Group's employees are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NWM Group in maintaining good employee relations. Any breakdown of these relationships may adversely affect NWM Group.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NWM Group.***

NWM Group's operations are highly dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations. The proper functioning of NatWest Group's (including NWM Group's) transactional and payment systems, financial crime, fraud systems and controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems (some of which are owned and operated by other entities in NatWest Group or third parties), is critical to NWM Group's operations.

Individually or collectively, any critical system failure, material loss of service availability or material breach of data security could cause significant damage to (i) important business services across NWM Group and (ii) NWM Group's ability to provide services to its clients, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect NWM Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers.

NWM Group outsources certain functions as it innovates and offers new digital solutions to its customers to meet the demand for online and mobile banking. Outsourcing, alongside hybrid working patterns of NWM Group employees, heighten the above risks.

NWM Group uses IT systems that enable remote working interface with third-party systems, and NWM Group could experience service denials or disruptions if such systems exceed capacity or if a third-party system fails or experiences any interruptions, all of which could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations.

In 2022, NWM Group continued to make considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). NWM Group also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, may have a material adverse effect on NWM Group's operations, its reputation and ability to retain or grow its client business or adversely affect its competitive position, thereby negatively impacting NWM Group. See also, '*NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.*'

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***A failure in NWM Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives.***

A failure in design, or adherence to, NatWest Group's risk management framework could adversely affect NWM Group, including its ability to achieve its strategic objectives. Risk management is an integral part of all of NWM Group's activities and integral to the delivery its long-term strategy. NatWest Group's Enterprise-Wide Risk Management Framework sets out NWM Group's approach for managing risk within NWM Group including in relation to risk governance and risk appetite. A failure to adhere to this framework, or any material weaknesses or deficiencies in the framework's controls and procedures, could adversely affect NWM Group's financial condition and strategic delivery including in relation to operating within agreed risk appetite statements and accurate reporting on risk exposures.

Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, manual processes and controls, inaccurate data, inadequate IT systems, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring (including trade surveillance) and failures of systems to properly process all relevant data, risks related to unanticipated behaviour or performance in algorithmic trading and management or insufficient challenges or assurance processes or a failure to timely complete risk remediation projects. Failure to manage risks effectively, or within regulatory expectations, could adversely affect NWM Group's reputation or its relationship with its regulators, clients, shareholders or other stakeholders.

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NWM Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyber-attacks or other criminal activity. NatWest Group (and NWM Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems. A number of NWM Group's financial crime controls are operated by NatWest Group on behalf of NWM Group.

NWM Group's operations are inherently exposed to conduct risks, which include business decisions, actions or reward mechanisms that are not responsive to or aligned with NWM Group's regulatory obligations, client needs or do not reflect NWM Group's customer-focused strategy, ineffective product management, unethical or inappropriate use of data, information asymmetry, implementation and utilisation of new technologies, outsourcing of customer service and product delivery, the possibility of mis-selling of financial products and mishandling of customer complaints. Some of these risks have materialised in the past and ineffective management and oversight of conduct risks may lead to further remediation and regulatory intervention or enforcement.

NWM Group's businesses are also exposed to risks from employee misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM Group. Remote working arrangements for NWM Group employees continues to place heavy reliance on the IT systems that enable remote working and may place additional pressure on NWM Group's ability to maintain effective internal controls and governance frameworks. Remote working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime.

NWM Group has been seeking to embed a strong risk culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in risk management, including the ongoing development of a NatWest Group risk management strategy in line with regulatory expectations. However, such efforts may not insulate NWM Group from future instances of misconduct and no assurance can be given that NWM Group's strategy and control framework will be effective. See also, *'NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's purpose-led strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change.'*

Any failure in NWM Group's risk management framework may have a material adverse effect on NWM Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group's operations are subject to inherent reputational risk.***

Reputational risk relates to stakeholder and public perceptions of NWM Group arising from an actual or perceived failure to meet stakeholder or the public's expectations, including with respect to NatWest Group's purpose-led strategy and related targets, NWM Group's strategy, the creation of the C&I business segment, the progression towards working as One Bank across the NatWest Group to serve customers, or due to any events, behaviour, action or inaction by NWM Group, its employees or those with whom NWM Group is associated. See also, *'NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.'*

This includes harm to its brand, which may be detrimental to NWM Group's business, including its ability to build or sustain business relationships with clients, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding.

Reputational risk may arise whenever there is, or there is perceived to be, a material lapse in standards of integrity, compliance, customer or operating efficiency and may adversely affect NWM Group's ability to attract and retain clients. In particular, NWM Group's ability to attract and retain clients may be adversely affected by factors including: negative public opinion resulting from the actual or perceived manner in which NWM Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWM Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support for NatWest Group plc, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

Modern technologies, in particular online social networks and other broadcast tools that facilitate communication with large audiences in short timeframes and with minimal costs, may also significantly increase and accelerate the impact of damaging information and allegations.

Although NWM Group has implemented a Reputational Risk Policy to monitor the identification, assessment and management of customers and clients, transactions, products and issues, which represent a reputational risk, NWM Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Legal, regulatory and conduct risk***

***NWM Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM Group.***

NWM Group is subject to extensive laws, regulations, guidelines, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates, which represents ongoing compliance and conduct risks. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks, particularly as EU/EEA and UK laws diverge as a result of Brexit. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), corporate governance requirements, restrictions on the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms (including enhanced data protection and IT resilience requirements), enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA, Asia and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Regulatory and competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital and other markets. Recent regulatory changes, proposed (such as US proposals to increase regulation around cybersecurity) or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse effect (some of which could be material) on NWM Group include, but are not limited to, the following:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the proposed UK Data Protection and Digital Information Bill and in India, the Digital Personal Data Protection Bill;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM Group's operations, such as the imposition of a financial transaction tax, introduction of global minimum tax rules, changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;

- increased regulatory focus on customer protection (such as the FCA’s Consumer Duty policy statement and final rules and guidance) in retail or other financial markets;
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NWM Group; and
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks’ regulatory reporting governance and controls, and regulatory scrutiny following the 2019 PRA ‘Dear CEO letter’ regarding PRA’s ongoing focus on: the integrity of regulatory reporting, which the PRA considers has equal standing with financial reporting; the PRA’s thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group; the publication of the PRA’s common findings from those reviews in September 2021; and NatWest Group’s programme of improvements to meet PRA expectations.

These and other recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models. Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM Group’s authorisations and licences, the products and services that NWM Group may offer, its reputation and the value of its assets, NWM Group’s operations or legal entity structure, and the manner in which NWM Group conducts its business. Material consequences could arise should NWM Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM Group’s ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory or conflicting laws, rules or regulations by key regulators or policymakers in different jurisdictions, or failure by NWM Group to comply with such laws, rules and regulations, may adversely affect NWM Group’s business, results of operations and outlook. In addition, uncertainty and insufficient international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect NWM Group’s ability to engage in effective business, capital and risk management planning.

Any of the above could have a material adverse effect on NWM Group’s business, results of operations and outlook.

***NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.***

NWM Group’s operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant civil actions (including those following on from regulatory sanction), as well as criminal, regulatory and governmental proceedings. NWM Group has resolved a number of legal and regulatory actions over the past several years but continues to be, and may in the future be, involved in such actions in the US, the UK, Europe and other jurisdictions.

NWM Group is currently, has recently been and will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, including in relation to the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery and various other issues. There is also an increasing risk of new class action claims being brought against NWM Group in the Competition Appeal Tribunal for breaches of competition law. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation.

NWM Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

The resolution of significant investigations include: NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations. For additional information relating to this and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see '*Description of NWM Group— Legal and Arbitration Proceedings*'.

The 2021 guilty plea, other recently resolved matters or adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third-party scrutiny and could have material collateral consequences for NWM Group's business and result in restrictions or limitations on NWM Group's operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM Group, particularly but not solely in the US, which may take a significant period of time and the results and implications of which are uncertain.

Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely affect NWM Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties may adversely affect NWM Group's reputation, future results, financial condition and/or prospects. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

Failure to comply with undertakings made by NWM Group to its regulators, or the conditions of probation resulting from the spoofing-related guilty plea, may result in additional measures or penalties being taken against NWM Group. In addition, any failure to administer conduct redress processes adequately, or to handle individual complaints fairly or appropriately, could result in further claims as well as the imposition of additional measures or limitations on NWM Group's operations, additional supervision by NWM Group's regulators, and loss of investor confidence.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***NWM Group may not effectively manage the transition of LIBOR and other IBOR rates to replacement risk-free rates.***

UK and international regulators are driving the transition from the use of interbank offer rates ('IBORs'), to replacement rates generally referred to as 'risk-free rates' ('RFRs'). As of 31 December 2021, LIBOR, as currently determined, has ceased for all tenors of GBP, JPY, CHF, EUR, and for the 1 week and 2-month tenors for USD. The remaining USD LIBOR tenors, as currently determined, are due to cease after 30 June 2023. The FCA has used its powers under the UK Benchmarks Regulation ('UK BMR') to require, for a limited period of time after 31 December 2021, the ongoing publication of the 1-, 3-, and 6-month GBP and JPY LIBOR tenors using a changed methodology (i.e., 'Art23A LIBOR' on a synthetic basis). The UK has passed the Critical Benchmarks (References and Administrators' Liability) Act 2021 ('Critical Benchmarks Act') which establishes a framework that allows the ongoing use of Art23A LIBOR under certain circumstances where contracts have not pro-actively transitioned onto the replacement rates. These concessions provided under UK BMR and the Critical Benchmarks Act are temporary. The FCA confirmed that Art23A will no longer be available from: (i) the end of 2022 for JPY, (ii) March 2023 for 1- and 6-month GBP LIBOR and (iii) March 2024 for 3-month GBP LIBOR. The transition away from these temporary concessions may expose NatWest Group, its customers and the financial services industry more widely to various risks, including: (i) the FCA further restricting use of Art23A LIBOR resulting in proactive transition of contracts; and (ii) mis-matches between positions in cleared derivatives and the exposures they are hedging where those exposures are permitted to make use of Art23A LIBOR. Although the formal cessation date for the remaining USD LIBOR tenors (as currently determined) is not until the end of June 2023, US and UK regulators have clarified that this is only to support the rundown of existing USD LIBOR exposures. No new contracts should reference these USD LIBOR tenors after 31 December 2021, other than in a very limited range of circumstances. NatWest Group will continue to have ongoing exposure to the remaining USD LIBOR tenors until cessation in June 2023.



Natwest Group has held significant exposures to various IBORs and has actively sought to transition away from these during 2021 and 2022, in accordance with regulatory expectations and milestones. Transition measures have included the pro-active development of new products using the replacement rates, restructuring existing LIBOR exposures to reference these replacement rates and embedding RFR transition language into relevant contracts. Central Counterparty Clearing houses (CCPs) conducted mass conversion exercises in December 2021 covering GBP, JPY, CHF and EUR LIBOR, transitioning derivatives to the relevant RFR, conversion exercises for USD are scheduled for May 2023, NWM entities, along with many of their major counterparties, have adhered to the ISDA IBOR fall-backs protocol which establishes a contractual process to transition from IBORs to RFRs for bilateral derivative products.

These transition efforts have involved extensive engagement with customers, industry working groups and regulators, to seek to deliver transition in a transparent and economically appropriate manner. These changes coincide with the recognition that market liquidity is lower than it has been and whilst it will be dependent on various factors including: the establishment of deep and liquid RFR markets, the establishment of clear and consistent market conventions for all replacement products, as well as counterparties' willingness to accept, and transition to, these conventions. Furthermore, certain IBOR obligations may not be able to be pro-actively changed which could, depending on any over-arching legislative transition frameworks, potentially result in fundamentally different economic outcomes than originally intended. The uncertainties around the manner of transition to RFRs, and the ongoing broader acceptance and use of RFRs across the market, expose NWM Group, its clients and the financial services industry more widely to risks.

Examples of these risks include: (i) legal (including litigation) risks relating to documentation for new and the majority of existing transactions (including, changes, lack of changes, unclear contractual provisions, and disputes in respect of these); (ii) financial risks from any changes in valuation of financial instruments linked to relevant IBORs, including cost of funds and relevant risk management related financial models; (iii) changes to benchmark rates could impact pricing, interest rate or settlement mechanisms for certain instruments; (iv) operational risks linked to the adaptation of IT systems, trade reporting infrastructure and operational processes, as well as ensuring compliance with restrictions on new USD LIBOR usage after December 2021; (v) conduct risks arising from communication of the potential impact on customers, engagement with customers during and after the transition period, or non-acceptance by customers of replacement rates; and (vi) different legislative provisions in different jurisdictions, for example, unlike certain US states and the EU, the UK has not provided a clear and robust safe harbour to protect against litigation and potential liability arising out of the switch to 'synthetic LIBOR'.

Notwithstanding all efforts to date, until the transition away from LIBOR onto replacement rates has been fully completed and there is greater experience of how RFRs are adopted across different products and customer groups, there is some uncertainty as to the impact of the transition, or the potential costs of implementing any relevant remedial action including in the event that the transition is not completed in a timely manner, or at all. The implementation of any replacement RFRs may be impossible or impracticable under the existing terms of certain financial instruments and may have an adverse effect on their value, or return and therefore on NWM Group's future results.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

***Changes in tax legislation or failure to generate future taxable profits may impact the recoverability of certain deferred tax assets recognised by NWM Group.***

In accordance with the accounting policies set out in the section '*Operating and Financial Review — Critical Accounting Policies and Key Accounting Estimates*', NWM Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses.

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £46 million as at 31 December 2022. Changes to the treatment of certain deferred tax assets may impact NWM Group's capital position. In addition, NWM Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that

may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

Any of the above could have a material adverse effect on NWM Group's business, results of operations and outlook.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The consolidated income statement and balance sheet data presented below have been derived from the Financial Statements. The 2022 Financial Statements and 2021 Financial Statements are prepared in accordance with UK adopted IAS, IFRS as issued by the IASB and IFRS as adopted by the European Union. The Financial Statements include consolidated financial information of NWM Group as at and for the years ended 31 December 2022, 2021 and 2020 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2022 Financial Statements and the 2021 Financial Statements are incorporated by reference into this Registration Document.

The information below should be read together with the Financial Statements incorporated by reference into this Registration Document and the sections ‘*Important Information for Investors—Presentation of Financial Information*,’ ‘*Important Information for Investors—Non-GAAP Measures of Financial Performance*’ and ‘*Operating and Financial Review*.’

### Consolidated Income Statement Data

	For the years ended 31 December		
	2022	2021	2020
	£m		
Interest receivable.....	745	343	531
Interest payable.....	(654)	(335)	(591)
<b>Net interest income</b> .....	<b>91</b>	<b>8</b>	<b>(60)</b>
Fees and commissions receivable.....	349	262	386
Fees and commissions payable.....	(158)	(104)	(287)
Income from trading activities.....	389	263	1,088
Other operating income.....	18	(28)	31
<b>Non-interest income</b> .....	<b>598</b>	<b>393</b>	<b>1,218</b>
<b>Total income</b> .....	<b>689</b>	<b>401</b>	<b>1,158</b>
Staff costs.....	(400)	(498)	(670)
Premises and equipment.....	(60)	(110)	(107)
Other administrative expenses.....	(652)	(522)	(629)
Depreciation and amortisation.....	(16)	(20)	(25)
<b>Operating expenses</b> .....	<b>(1,128)</b>	<b>(1,150)</b>	<b>(1,431)</b>
Loss before impairment (losses)/releases.....	(439)	(749)	(273)
Impairment (losses)/releases.....	(8)	35	(42)
<b>Operating loss before tax</b> .....	<b>(447)</b>	<b>(714)</b>	<b>(315)</b>
Tax credit/(charge).....	183	223	(12)
<b>Loss for the year</b> .....	<b>(264)</b>	<b>(491)</b>	<b>(327)</b>

### Balance Sheet Data

	NWM Group			NWM Plc		
	As at 31 December			As at 31 December		
	2022	2021	2020	2022	2021	2020
	£m			£m		
<b>Assets</b>						
Cash and balances at central banks.....	17,007	16,645	15,771	13,467	12,294	11,736
Trading assets(1).....	45,291	59,101	68,689	27,301	41,222	52,169
Derivatives.....	100,154	105,550	165,619	96,258	103,042	164,104
Settlement balances.....	2,558	2,139	2,296	1,686	795	1,084
Loans to banks – amortised cost.....	1,146	962	1,003	815	712	701

Loans to customers – amortised cost.....	10,171	7,471	8,444	9,154	6,810	7,477
Amounts due from holding company and fellow subsidiaries .....	740	1,479	1,587	6,665	6,723	7,606
Other financial assets.....	11,870	8,786	9,041	10,377	7,743	8,043
Investments in group undertakings.....	—	—	—	2,626	2,481	2,600
Other assets(2).....	832	878	688	712	732	562
<b>Total assets .....</b>	<b>189,769</b>	<b>203,011</b>	<b>273,138</b>	<b>169,061</b>	<b>182,554</b>	<b>256,082</b>
<b>Liabilities</b>						
Bank deposits .....	3,069	1,808	1,808	2,936	1,808	1,762
Customer deposits .....	3,614	2,268	2,618	2,665	1,510	1,469
Amounts due to holding company and fellow subsidiaries .....	6,217	6,126	8,134	12,867	10,978	16,189
Settlement balances .....	2,010	2,068	2,248	1,133	1,028	604
Trading liabilities(1).....	52,792	64,482	72,252	33,225	47,119	56,916
Derivatives.....	93,585	98,497	157,332	90,754	95,096	153,754
Other financial liabilities .....	21,103	19,255	18,170	18,396	16,877	15,370
Other liabilities(2) .....	816	1,055	1,234	567	789	866
<b>Total liabilities.....</b>	<b>183,206</b>	<b>195,559</b>	<b>263,796</b>	<b>162,543</b>	<b>175,205</b>	<b>246,930</b>
Owners' equity .....	6,565	7,455	9,388	6,518	7,349	9,152
Non-controlling interests .....	(2)	(3)	(46)	—	—	—
<b>Total equity.....</b>	<b>6,563</b>	<b>7,452</b>	<b>9,342</b>	<b>6,518</b>	<b>7,349</b>	<b>9,152</b>
<b>Total liabilities and equity .....</b>	<b>189,769</b>	<b>203,011</b>	<b>273,138</b>	<b>169,061</b>	<b>182,554</b>	<b>256,082</b>

- (1) For a further analysis of the 'Trading assets' and 'Trading liabilities' see 'Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021—Balance Sheet' and 'Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2021 and 2020—Balance Sheet.'
- (2) For a further analysis of the line items 'Other assets' and 'Other liabilities' see 'Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021—Balance Sheet' and 'Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2021 and 2020—Balance Sheet.'

## Other Data

Key metrics and ratios(1)	As of the year ended 31 December		
	2022	2021	2020
LCR (%) (2)(3)	253	205	268
Liquidity portfolio (£bn) (4)	18.6	16.1	19.4
Stressed coverage ratio (%) (2)(5)	199	146	207
Total wholesale funding (£bn) (6)	23.5	21.1	20.6
Total funding including repo (£bn)	77.0	68.8	75.9
Common Equity Tier (CET 1) ratio (%) (7)	17.2	17.9	21.7
Leverage ratio (%) (8)	5.4	4.3	5.2
Risk-weighted assets (RWAs) (£bn) (9)	21.4	22.7	25.6
Total Capital ratio (%) (10)	25.7	25.9	30.3
Total CRR-compliant MREL (£bn) (2)(11)	8.7	9.6	12.7
MREL ratio (%) (2)(11)(12)	40.4	42.1	49.6

- (1) Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc. Regulatory capital is monitored and reported at legal entity level for significant subsidiaries of NatWest Group. Leverage is based on the CRR end-point minimum requirement.
- (2) These liquidity metrics and ratios have been presented for the NWM Plc solo legal entity / non-consolidated basis as they are monitored and reported for regulatory purposes.
- (3) The LCR is a regulatory measure that requires banks to hold sufficient liquid assets to cover a period of liquidity stress. It is calculated by taking a firm's HQLA divided by its 30-day stress net outflows.
- (4) The liquidity portfolio comprises largely of cash and high quality government securities that can be readily converted to cash within a short timeframe and with a reliable value. The calculation of the liquidity portfolio metric aligns the liquidity values to the SOC, which entails the application of discounts (or haircuts) to the liquidity instruments.
- (5) The SOC is an internal measure calculated by reference to liquid assets as a percentage of net stressed contractual and behavioural outflows over three months under the most severe of a suite of stress scenarios which fit into three themes: Idiosyncratic, Market-Wide and Combined. The SOC ratio is only published at year-end.
- (6) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third-party subordinated liabilities. See 'Operating and Financial Review—Funding and Liquidity—Funding' and 'Selected Statistical Data and Other Information—Deposits and Short-Term Borrowings.'
- (7) A regulatory measure which assesses the highest quality of capital held as a percentage of RWAs, which represents both the size and inherent riskiness of on and off balance sheet exposures.
- (8) The leverage ratio measures the Tier 1 capital expressed as a percentage of leverage exposure. Leverage exposure is broadly aligned to the accounting value of on and off balance sheet exposures but subject to certain adjustments for trading positions, repurchase agreements and off balance sheet exposures. Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework from 1 January 2022. The leverage ratio for 31 December 2022 in the above table reflects the UK leverage ratio for NWM Plc, as per the new framework. The comparatives for 31 December 2021 and 31 December 2020 reflect the previous CRR framework which was applicable prior to 1 January 2022.
- (9) RWAs are a measure of NWM Group's assets and off balance sheet positions that capture both the size and risks inherent in those positions.
- (10) A regulatory measure which assesses total capital held as a percentage of RWAs.
- (11) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £3.2 billion (31 December 2021 - £3.7 billion, 31 December 2020 - £4.9 billion).
- (12) A measure of the total resources that would be available in an ordinary resolution situation. It is calculated as total regulatory capital and CRR-compliant MREL instruments with a maturity of at least one year, expressed as a percentage of RWAs.

## OPERATING AND FINANCIAL REVIEW

*The following discussion is primarily based on and should be read in conjunction with the Financial Statements incorporated by reference into this Registration Document. The 2022 Financial Statements and 2021 Financial Statements are prepared in accordance with UK adopted IAS, IFRS as issued by the IASB and IFRS as adopted by the European Union.*

*This section contains forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements. See 'Important Information for Investors—Special Notice Regarding Forward-Looking Statements' and 'Risk Factors.'*

### Overview

NWM Plc is a wholly owned subsidiary of NatWest Group plc, a banking and financial services group. It is a strategically important part of NatWest Group.

NWM Group provides liquidity and risk management in Currencies and Fixed Income. The Capital Markets business provides an integrated proposition across financing, solutions and advisory services. NWM Group provides services principally to corporates, sponsors, financial institutions and sovereigns as well as the broader NatWest Group. NWM Group's climate strategy also supports and contributes to NatWest Group's ambition and is focused on helping customers to achieve their climate ambitions, proactively supporting their transition to a low carbon economy while managing NWM Group's operations with respect to carbon emissions.

Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' NWM Group and other entities within the broader NatWest Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 35 per cent of NWM Group's total income for the year ended 31 December 2022 was sourced from customers referred to NWM Group by other NatWest Group entities, compared to 54 per cent for the year ended 31 December 2021. The percentage decrease largely reflects improved income performance in other areas not subject to revenue share.

The core business lines of NWM Group are:

- **Fixed Income.** A range of cash bond, repo and interest rate derivatives products with a focus on sterling, euros and U.S. dollars that support customers' financing and hedging needs, together with the provision of liquidity and credit trading capabilities for investment-grade and high-yield bonds and loans for both financial institutions and corporate issuers.
- **Currencies.** Offering FX spot, forwards, cross-currency swaps and options, as well as an FX prime service and FX digital solutions.
- **Capital Markets.** Access to global debt capital markets across a wide variety of products and target markets that include bonds, loans, commercial paper, medium-term notes, private placements, via bespoke financing solutions and primary lending products.

NWM Group is focussed on leveraging technology and automation to add value for customers. NWM Group has developed digital self-service applications covering, among others, FX, rates, risk management, and international payments services. NWM's strategists and content experts across currencies, fixed income and capital markets offer content and ideas alongside market-leading economic insights in the key economies where its customers do business.

NWM Group's operations are centred around the UK, a market in which it has a strong positioning and a competitive value proposition. NWM Group targets customers in the UK and Europe and its activities in the US and the APAC region are focused on providing risk distribution capability and access to institutional clients in those regions. For the year ended 31 December 2022, 73 per cent (2021 - 59 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2021 - 25 per cent) was generated in the US and 13 per cent (2021 - 16 per cent) was generated in the rest of the world. See '—Geographic Footprint' for further details.

As further discussed under ‘*Description of NWM Group —NWM Group’s History and Development,*’ in the year ended 31 December 2018 NatWest Group restructured its group legal entities and business model to meet the requirements of UK ring-fencing legislation. Following this, NWM Plc became the principal holding and operating company for NatWest Group’s operations outside the ring-fence and NWM Group’s business, operations and financial condition cannot be compared to its business, operations and financial condition prior to the implementation of the UK ring-fencing regime. The implementation of the UK ring-fencing regime had a material impact on NWM Group’s operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

Due to the exit of the UK from the EU, financial institutions and some of their customers that previously accessed European markets through the UK were required to relocate activities to Europe to ensure business continuity and minimise disruption to customers. To manage the risks arising from Brexit, NWM N.V. began transacting new business on 25 March 2019 to ensure continuity of service to EEA customers following the UK’s exit from the EU. In November 2019, NWM N.V. and its holding company, RBSH, were acquired by NWM Plc from NatWest Group plc.

In February 2020, NatWest Group plc announced that it would become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy entails balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities, being Enterprise, Learning and Climate change.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, NWM Plc implemented its ‘NWM Refocusing’ initiative to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc. NWM Plc’s RWAs reduced to £21.4 billion at 31 December 2022 reflecting lower levels of counterparty credit and operational risk, partially offset by increases in credit and market risk.

NWM Plc CET 1 capital is also expected to reduce as a result of the reduction in RWAs. NWM Plc paid dividends amounting to £430 million to NatWest Group plc during the year ended 31 December 2022. In the medium-term, NWM Plc is targeting at CET1 capital ratio of approximately 14%. Other factors may also influence the CET 1 ratio. For more information, please refer to ‘*Risk Factors—Financial resilience risk.*’

The front office transformation of NatWest Markets is complete. To enable becoming a more sustainable business, we have leveraged NatWest Group investment in technology both for colleagues and customers.

The implementation of the NWM Refocusing was a complex process and implementation of the strategy was completed in 2022.

On 27 January 2022, NatWest Group also announced that, in order to further support its customers’ growth ambitions and deliver on the next phase of its strategy, it would evolve its Commercial, NatWest Markets and RBS International businesses to form a single business segment to best support its customers across the full non-personal customer lifecycle. The Commercial and Institutional business segment (C&I) went live on 1 July 2022 with appointments made across four customer businesses and functional roles for the C&I Management Committee.

The following metrics have been set for NWM Plc in the medium-term and supersede all prior guidance:

<b>Metric</b>	<b>Estimate</b>
CET 1 ratio	~14%
MREL ratio <sup>(1)</sup>	> 30%
Leverage ratio	> 4%

(1) Includes total regulatory capital, non-eligible capital and downstreamed internal MREL.

The NWM Plc 2023 funding plan targets £3–5 billion of public benchmark issuance.

## Comparability of NWM Group's Historical Financial Results

### *Note on recent changes to the scope of NWM Group's activities*

In 2022, NatWest Group announced the creation of the Commercial & Institutional (C&I) segment, which brought together the Commercial, NatWest Markets and RBS International customer businesses. The new segment is a step forward in NatWest Group becoming a simpler bank to deal with, bringing the best of NatWest Group's expertise to better support its customers' needs. The creation by NatWest Group of the Commercial & Institutional segment has enhanced the NWM Group's ability to work across NatWest Group to deliver on opportunities from referrals from other entities within the NatWest Group, including revenue growth.

To improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group's Transfers Business, may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ringfenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations. These changes are discussed below under '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Recent Changes to NWM Group's Scope of Activities Relating to the UK's Exit From The EU.*'

### *Non-GAAP Measures of Financial Performance*

The discussion of the results of operations of NWM Group and its reporting segments included in '*Risk Factors,*' '*Overview of Consolidated Financial Information and Other Data,*' '*Operating and Financial Review*' and '*Description of NWM Group*' is based on the Financial Statements. The Issuer prepares its financial statements in accordance with UK adopted IAS, IFRS as issued by the IASB and IFRS as adopted by the European Union, which constitutes a body of GAAP. This document contains a number of alternative performance measures or non-GAAP (or non-IFRS) financial measures. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP financial measure.

The non-GAAP financial measures used in this document generally exclude certain items which management believes are not representative of the underlying performance of the business and which distort period-on-period comparison. These measures are used internally by management, in conjunction with IFRS financial measures, to measure performance and make decisions regarding the future direction of the business. Management believes these non-GAAP financial measures, when provided in combination with reported IFRS results, provide helpful supplementary information for investors. These non-GAAP financial measures are not a substitute for, and should be read in conjunction with, reported IFRS financial measures.

NWM Group uses 'funded assets' as a non-GAAP financial measure in this Registration Document. This measure allows a review of balance sheet trends exclusive of the volatility associated with derivative fair values. Funded assets are represented by NWM Group's total assets in accordance with the published IFRS balance sheet, less derivative assets.

NWM Group also presents a management view of operating expenses alongside the statutory measure. This analysis of operating expenses aims to remove more volatile items within litigation and conduct costs. A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the section '*Operating and Financial Review - Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021.*'

NWM Group presents a management view of income by business, including: separate itemisation of revenue share with other NatWest Group subsidiaries; own credit adjustments ('OCA'); asset disposals/strategic risk reduction; income including shared revenue and before asset disposals and OCA; and income excluding asset disposals and OCA. Asset disposals/strategic risk reduction includes the costs of exiting positions, which include changes in carrying value to align to the expected exit valuation, and the impact of risk reduction transactions entered into as part of the optimisation of NWM Plc's capital usage.



## Primary Factors Affecting NWM Group's Results of Operations

NWM Group's business, results of operations and financial position have been affected, and may continue to be affected, by various factors, the most significant of which are described below. The impact of these and other potential factors may vary significantly in the future. See 'Important Information for Investors—Special Notice Regarding Forward-Looking Statements.'

### Macroeconomic Environment

NWM Group's activities are primarily related to the economic environment in the UK, Europe and the US.

NWM Group derives a substantial majority of its income from its operations in the UK. Accordingly, NWM Group's business, results of operations and financial position depend upon the economic conditions prevailing in its primary market, in particular economic growth and the general level of interest rates and volume of transactions. NWM Group's operations are also affected by the level of competition in these primary markets, particularly from other major banking groups and specialist providers. Lower demand and the financial and economic crisis in these markets have adversely affected, and could in the future adversely affect, the business, results of operations and financial position of NWM Group. Economic crises and financial market stress in certain markets can also benefit the results of operations and financial position of NWM Group. This can arise from areas such as providing structuring and advisory services to Financial Institutions and corporates within those markets.

In all of the regions in which NWM Group operates, economies expanded rapidly in 2021 as the roll-out of vaccination programmes allowed governments to remove social restrictions introduced to limit the spread of COVID-19. Governments also maintained substantial support for firms and consumers through the year with transfers and loan guarantees, while central banks kept monetary policy loose and engaged in quantitative easing.

Conditions in the second half of 2021 were more challenging as demand returned to pre-pandemic levels and supply constraints emerged. Unemployment remained lower than forecast in many countries and business investment benefited from some reduction in uncertainty. Against this backdrop, inflationary pressure began to build with an increase in energy prices particularly notable. Asset prices were volatile, reflecting the varying sentiment towards the economic outlook.

During 2022, the outlook for credit risk and asset quality remained weak and uncertain. While emergence from the Covid-19 pandemic caused an optimistic start to the year, this was soon reversed by the Russian invasion of Ukraine which led to global supply chain shocks, rising energy costs and significant increases in inflation. This has resulted in some asset quality deterioration in some parts of the NWM Group portfolio, but in aggregate the portfolio has shown robust performance, driven by the fact the NWM Group's lending exposure is primarily focussed on investment grade positions in asset backed Financial Institutions (securitisations and leveraged funds) and larger European corporates.

The weak economic outlook has resulted in migration of some positions from IFRS 9 Stage 1 to Stage 2 ECL and, combined with overall business growth in the lending book, the IFRS 9 Stage 1 and Stage 2 ECL provisions increased from £9 million to £28 million in 2022. Stage 3 ECL provisions reduced from £75 million to £26 million in 2022 primarily due to £51 million of write-offs. As a result, the total ECL provisions balance decreased from £84 million to £54 million and the full year impairment charge for 2022 was £8 million.

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Over the period ahead there is a risk of observable credit deterioration of a proportion of assets resulting in an uplift in ECL requirements; a credit deterioration would also lead to RWA increases. However, the extent of such deterioration remains uncertain. Furthermore, the assumptions and judgements used in the MES and ECL assessment at 31 December 2022 may not prove to be adequate, resulting in incremental ECL provisions for NWM Group.

	2022	2021	2020
UK Gross Domestic Product Growth YoY (%).....	4.0	7.6	-9.9
UK unemployment rate (October-December) (%) .....	3.7	4.0	5.1

	2022	2021	2020
Number of people in employment in the UK (October-December) (millions) .....	32.8	32.6	32.2
BoE base rate as at 31 December (%) .....	3.5	0.25	0.10

In the UK, for 2022 as a whole, GDP rose 4.0 per cent compared to a 7.6 per cent rise in 2021. Between the third and fourth quarter of the year ended 31 December 2022 business investment increased 4.8 per cent, and was up 13.3 per cent compared with the same period in the year ended 31 December 2021.

The labour market tightened in 2022 with employment increasing to 32.8 million in the year ended 31 December 2022, from 32.6 million in the year ended 31 December 2021. The unemployment rate decreased to 3.7 per cent in the year ended 31 December 2022, compared to 4.0 per cent in the year ended 31 December 2021. Total average pay growth was 5.9 per cent in the 3 months ended 31 December 2022, from 4.6 per cent in the 3 months ended 31 December 2021 and vacancies fell to 1.13 million in the three months to January 2023, a decrease of 135,000 from the same period a year ago. Continuously high inflation numbers prompted the BoE to hike the bank rate eight times over the course of 2022 to a base rate of 3.5 per cent, followed by another 50bps hike in February 2023.

The IMF estimates that global growth rose 3.4 per cent in 2022 and expects global growth to fall to 2.9 per cent in 2023. Euro-area and US growth increased by 0.1 per cent and 2.1 per cent in the year ended 31 December 2022. UK economic growth remained flat in the three months ended 31 December 2022, as increases in private consumption, government expenditure and investment were offset by a decrease in net trade.

### ***Strategic changes to NWM Group's scope of activities***

On 14 February 2020, NatWest Group announced a new strategy that would require changes in NWM Group's business, including a material reduction in capital allocated to NWM Group and its cost base, the simplification of its operating model and technology platform and an increased focus on serving NatWest Group's corporate and institutional customer base. Together, these initiatives are referred to as the 'NWM Refocusing.' The implementation of the NWM Refocusing was a complex process and implementation of the strategy was completed in 2022.

A part of the NWM Refocusing was the reduction in NWM Group's and NWM Plc's level of RWAs, through accelerating the exit of exposures and an optimisation of inefficient capital across NWM Group, especially in relation to its Rates products. During 2022, the NWM Refocusing was completed, resulting in a significant reduction in RWAs through, among others, optimising inefficient capital and accelerating the exit of historic credit exposures. NWM Plc's RWAs reduced to £21.4 billion by 31 December 2022, reflecting lower levels of credit counterparty credit, market and operational risk which have trended downwards as business seeks to reduce RWAs through the execution of capital optimisation actions. NWM Group incurred an operating loss in 2022, and it is expected that NWM Group will continue to generate operating losses over the course of 2023, consistent with expectations for the transition plan period, and therefore NWM Group's capital levels are also expected to decline. Moreover, it is anticipated that NWM Plc's capital ratios will be maintained, as the level of RWAs is anticipated to reduce more quickly than capital levels. However, capital levels could decline at a faster pace than expected (with a corresponding effect on the capital ratios), should RWA exit costs or operating costs be higher than anticipated, revenues reduce relatively faster than costs as a result of execution issues or market conditions, or if NWM Plc and/or NWM N.V. have difficulties accessing the funding market on acceptable terms or at all (including if the legal entity credit ratings are negatively impacted). The implementation of the NWM Refocusing resulted in material costs for NWM Group.

In addition, the focus on meeting cost reduction targets as part of the NWM Refocusing has required head-count reductions and may also result in limited investment in other areas which could affect NWM Group's long-term prospects, product offering or competitive position and its ability to meet its other targets. Ultimately, the NWM Refocusing envisages a smaller scaled business and its successful implementation is expected to result in substantially lower revenues. In the year ended 31 December 2022, NWM Group implemented the following actions to support the delivery of NWM Refocusing, which included:

- increased the allocation of capital and balance sheet to the Capital Markets franchise to support the growth in the Private Financing business;

- created strong momentum in the Currencies business by driving growth across Mid-Corporate customers through referrals from the ring-fenced subgroup of the Commercial & Institutional segment and increasing the penetration with Private Funds customers;
- established a Digital Capital Markets team to further develop NWM's proposition to support tokenised bond issuance;
- facilitated the raising of £12.2 billion in Climate and Sustainable Funding and Financing over 2022;
- reduced NWM Plc RWAs by £1.3 billion over 2022;
- reduced Operating Expenses by c£0.02 billion over 2022; and
- taken steps to implement the new business segment organisational model for the Commercial & Institutional segment

while delivering a c£0.3 billion increase in Total Income in NWM Group.

### ***Ring-Fencing and related changes to NWM Group's scope of activities***

The UK government passed legislation which required UK banks to separate their retail and investment banking activities by 1 January 2019. To comply with this legislation, NatWest Group undertook a reorganisation of its group legal entity structure and business model. Following the reorganisation, NatWest Group has been split into a ring-fenced subgroup and to entities positioned outside the ring-fence. NWM Plc, which prior to the implementation of the UK ring-fencing regime was NatWest Group's principal operating subsidiary, is the principal holding and operating company for NatWest Group's operations outside the ring-fence. Accordingly, throughout 2018, all activities which must only be provided by a ring-fenced entity have been moved out of NWM Group together with certain activities that may be provided by an entity within the ring-fence or by an entity positioned outside of the ring-fence, but which NatWest Group believed are best provided by an entity positioned inside the ring-fence.

As a result, the implementation of the UK ring-fencing regime had a material impact on NWM Group's operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

In addition, because NWM Group can no longer undertake certain activities which in accordance with the UK ring-fencing rules can only be performed inside the ring-fenced entities of NatWest Group, NWM Group can no longer accept deposits from certain retail and small business customers and competes with other financial institutions, including NWB, for corporate deposit funding. This increases the requirement for NWM Group to raise funding in the wholesale markets which is generally more expensive, and access to these markets is more uncertain than retail and commercial deposit funding. In particular, a lower credit rating would result in an increase in the cost of funding, therefore negatively impacting profitability.

Other implications of the UK ring-fencing legislation include NWM Group being unable to provide critical services to any ring-fenced entity in NatWest Group.

In February 2021, the UK government appointed an independent panel chaired by Keith Skeoch to undertake a review of the ring-fencing regime and proprietary trading. The independent panel published its findings in March 2022 (Skeoch Report). In December 2022, as part of the Edinburgh Reforms, and in its response to the Skeoch Report, the UK government proposed 1) a public call for evidence in Q1 2023 on aligning ring-fencing and resolution regimes; and 2) a Consultation in Summer 2023 on a series of near-term ring-fencing reforms. NatWest Group is expecting to be involved in the call for evidence and the consultation.

### ***Recent Changes to NWM Group's Scope of Activities Relating to the UK's Exit From the EU***

#### *The EU-UK Trade and Cooperation Agreement*

NWM Group obtained the requisite regulatory permissions (including third country licence branch approvals and access to TARGET2 clearing and settlement mechanics) it considered were required for continuity of business as a result of the UK's departure from the EU. The EU-UK Trade and Cooperation Agreement ('TCA') was agreed on 24 December 2020 and received royal assent in the UK on 31 December 2020. The TCA ended the transition period phase and provided for free trade between the UK and EU. However, the TCA principally covers goods and the coverage of financial services is minimal. As a result, UK-incorporated financial services providers no longer have EU passporting rights and there is no mutual recognition regime. It is anticipated that financial services will largely be subject to individual equivalence decisions by relevant regulators. A number of equivalence decisions have been made which cover clearing and access to central securities deposits, but these may not cover all services offered by NWM Group. In addition, equivalence determinations do not guarantee permanent access rights and can be withdrawn with 30 days' notice. The TCA was accompanied by a Joint Declaration on financial services which set out an intention for the EU and UK to cooperate on matters of financial regulation and to agree a Memorandum of Understanding by March 2021 and NWM Group's business operations were subject to further potential changes as a result of any such agreement. On 26 March 2021 technical discussions on the text of the Memorandum of Understanding were concluded and formal steps need to be undertaken by the UK and the EU in order to sign the Memorandum of Understanding. Once signed, the Memorandum of Understanding creates the framework for voluntary regulatory cooperation in financial services between the UK and the EU. As of the date hereof, it has not yet been formally signed and has not yet entered into force (see also, '*Risk Factors—Economic and political risk—Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM Group and its operating environment.*'). The volume and pace of these potential changes will depend on the terms and circumstances of the UK's and EU's cooperation on matters of financial regulation, as well as the specific contractual terms of the affected products and the agreement of certain customers, amongst other variables discussed below.

*Transfer of the Issuer's EEA customers outside the UK and not subject to regulatory exemptions (the 'EEA transfer customers') to NWM N.V.*

In anticipation of Brexit, NatWest Group plc repurposed the banking licence of its Dutch subsidiary, NWM N.V., during the year ended 31 December 2018 in order to be operationally ready to serve customers of the Issuer who are incorporated or located in the EEA. In addition, the ownership of NWM N.V. was changed on 29 November 2019 with the transfer of RBSH, the parent entity of NWM N.V., to be a subsidiary of NWM Plc.

NWM N.V. serves the Issuer's EEA customers outside the UK facilitated by a FSMA transfer scheme (the '**Transfer Scheme**') which was approved by the Court of Session in Scotland on 22 February 2019 and then extended for 12 months until 31 December 2020 through approval by DNB, the PRA and Court of Session in Scotland on 20 December 2019.

Pursuant to Phase I of the Transfer Scheme, NWM EEA transfer customers' master trade documentation were automatically replicated in the name of NWM N.V. (rather than NWM Plc) by the end of March 2019, thereby allowing NWM N.V. to provide services to such customers if necessary as NWM N.V. chooses to do so. Approximately 30 per cent of NWM Plc's customer base by number of customers as at 31 December 2018 were affected by the duplication of documents under the Transfer Scheme. Certain existing transactions in NWM Plc's back book were also transferred from the Issuer to NWM N.V. as part of Phase II under this Transfer Scheme.

In 2022, an amount of €0.5 billion of contingent liabilities and commitments were transferred from NWB to NWM N.V. in relation to the Transfer Business. In 2021, an amount of €0.3 billion of contingent liabilities and commitments were transferred from NWM Plc to NWM N.V. in relation to the Transfer Business. As part of a larger initiative to increase the size and diversity of the banking book portfolio, €0.3 billion (2021 - €0.9 billion) of contingent liabilities and commitments and €0.1 billion (2021 - nil) of drawn balances were transferred from NWB to NWM N.V.. The total contingent liabilities and commitments transferred from NWM N.V. to NWB in 2022 were nil (2021 - €0.4 billion).

In 2022, there were no transfers of assets or liabilities from NWM Plc to NWM N.V. In 2021, €1.4 billion of assets and €1.6 billion of liabilities were transferred from NWM Plc to NWM N.V. These transfers covered both FSMA scheme and non-FSMA scheme portfolios, and included trading assets of €0.4 billion, derivative assets of €1.0 billion, trading liabilities of €0.4 billion and derivative liabilities of €1.2 billion.

Trading with EEA transfer customers is conducted from NWM N.V. instead of NWM Plc and, as a result, these transactions are booked in NWM N.V. as well as some existing transactions by such customers if they are renegotiated or refinanced, resulting in asset and liability transfers from NWM Plc to NWM N.V.

For a significant portion of the transactions NWM N.V. executes with EEA transfer customers, the Issuer expects NWM N.V. to enter into a corresponding trade-level-hedge transaction with it and accordingly the customer revenue earned on EEA transfer customers will be earned by the Issuer. The capacity of NWM N.V. to service new customers and accept transfers of back book transactions is subject to regulatory permissions.

The Issuer entered into a number of transfer pricing arrangements with NWM N.V. reflecting new intragroup relationships arising due to the EEA transfer customer moves. These agreements are concluded on an arm's-length basis in order to compensate the Issuer and NWM N.V. appropriately. They are designed to provide the Issuer and NWM N.V. with a commercial share of the profits derived by NWM N.V. taking into account the relative risks assumed, functions undertaken and assets utilised by the two entities involved. Accordingly, the Issuer continues to receive a share of profits from certain trades executed by EEA transfer customers. However, following Brexit and in part as a result of the EEA transfer customer moves, NWM Plc's business is now split across NWM Plc and NWM N.V.

From 29 November 2019, NWM N.V. has been consolidated in NWM Group financial statements.

NWM Plc and NWM N.V. have risk-sharing arrangements to facilitate the provision of services to NWM Plc's customers. The arrangements include:

- The provision of a funded guarantee of up to €1 billion in aggregate (the '**Funded Guarantee**') by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2022 the deposits amounted to €0.8 billion and the guaranteed fees in the year were €4.4 million.
- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2022 the exposure at default covered by the guarantees was approximately €0.2 billion (of which €35 million was cash collateralised). Fees of €1.4 million in relation to the guarantees were recognised in the year. See '*Operating and Financial Review—Contingent Liabilities.*'

### ***Relationship with NatWest Group***

#### ***Shared Services***

Following the implementation of the UK ring-fencing regime and the separation of the ring-fenced subgroup and the entities outside the ring-fence, such as NWM Group, NWM Group materially increased its dependence on NatWest Bank Plc and other NatWest Group entities for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, risk, regulatory compliance and reporting, human resources, and certain other support and administrative functions. A failure to adequately supply these services may result in increased costs to NWM Group should NWM Group have to increase its capacity to provide these services internally or by outsourcing to third parties for these services. Because NWM Group relies on certain services provided by NatWest Group plc and other entities within NatWest Group, these may become more expensive or cheaper over time than the cost which could be achieved independently by NWM Group. These differences, over time, may impact on NWM Group's results of operations.

#### ***Revenue Share Agreements***

NWM Group continues to provide access to markets, products and services for the franchises of the ring-fenced sub-group of NatWest Group and on 6 November 2018 entered into a series of revenue share agreements (the '**Revenue Share Agreements**') with certain entities within NatWest Group's ring-fenced sub-group, including NWB, RBS Plc and Ulster Bank Ireland DAC (collectively, the '**RFB Entities**'), and with a non-ring-fenced entity, RBSI (together with the RFB Entities, the '**Revenue Sharing Entities**'). The Revenue Share Agreements reflect the provision of products and services across NWM Group's Rates, Currencies and Financing products to customers that have their primary banking relationship with the Revenue Sharing Entities. The allocation of income from customers that have their primary banking relationship with the Revenue Sharing Entities across the relevant

counterparties within NatWest Group is referred to as ‘revenue share.’ This operating model reflects NatWest Group plc’s UK ring-fencing design to locate the entirety of its markets activity within NWM Group, and for customers from other Revenue Sharing Entities to be referred to NWM Group for risk management and financing products, although Revenue Sharing Entities are not required to refer customers solely to NWM Group for such products. UK ring-fencing legislation and tax legislation dictates that all transactions with these entities are established on an arm’s-length basis. Accordingly, the Revenue Share Agreements have been prepared on this basis.

NWM Group leverages its market making, institutional business and distribution capabilities to offer a commercially relevant proposition to UK and European large corporates and institutions that are current customers of the Revenue Sharing Entities. NWM Group entities and the Revenue Sharing Entities follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification.

NWM Group derives a significant portion of its income from customers of the Revenue Sharing Entities and expects this to continue. Accordingly, it has contributed, and expects to continue to contribute, under the Revenue Sharing Agreements, a significant amount of its income to the Revenue Sharing Entities. For example, in the year ended 31 December 2022, NWM Group contributed £191 million in income, representing approximately 28 per cent of NWM Group’s total income for that year to other subsidiaries of NatWest Group (principally the commercial, private banking and personal banking businesses of the Revenue Share Entities). This amount is lower compared to the amount of revenue share contributed for the year ended 31 December 2021 which amounted to £197 million, or 49 per cent of total income for that year.

Because a significant proportion of NWM Plc revenues are driven by customers of NatWest Group entities inside the ring-fence, with NWM Group acting as the product provider, NWM Group’s results of operations are limited to shifts in the volume of transactions and number of customers referred to NWM Group by the Revenue Sharing Entities pursuant to the Revenue Share Agreements, and can be impacted by the market perception of, and other external factors affecting, the core businesses of the Revenue Sharing Entities. As a result, a decrease or increase in the volume of transactions or number of customers referred to NWM Group by the Revenue Sharing Entities pursuant to the Revenue Share Agreements would materially impact NWM Group’s results of operations and financial condition. NWM Group reports its results of operations in its Financial Statements on a post-revenue share basis.

### ***Other Arrangements***

In the year ended 31 December 2019, NWM Group entered into certain arrangements, including transfer pricing arrangements, a Funded Guarantee and RSAs, with NWM N.V. in relation to the EEA customer transfers and the Western European Transfers. Following the acquisition of NWM N.V., such arrangements are now intragroup (in terms of NWM Group) arrangements. These arrangements remain outstanding. See, ‘—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’

### ***Exposures to Non-Traded Market Risk***

NWM Group’s results are affected by non-traded market risk. Non-traded market risk is the risk to the value of assets or liabilities outside the trading book, or the risk to income, that arises from changes in market prices such as interest rates, foreign exchange rates, credit spreads and equity prices. The key sources of non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk and equity risk.

#### **Interest Rates**

Non-traded interest rate risk (‘NTIRR’) mainly arises from capital hedges in portfolios held for liquidity purposes and from interest rate repricing mismatches between assets and liabilities in other portfolios. 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.

#### **Credit Spreads**

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond (or other credit-sensitive instrument) yields and swap rates, where the portfolios are accounted at fair value. Credit risk also arises on loan portfolios classified at fair value.

To ensure NWM Group can continue to meet its obligations in the event that access to wholesale funding markets is restricted, it maintains a liquidity buffer in the form of cash and bond portfolios – comprising primarily high-quality securities – and central bank cash. Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a regular basis.

#### Foreign Exchange

Non-traded foreign exchange risk arises from structural FX movements related to the capital deployed in foreign currency operations (mainly overseas subsidiaries and branches) net of currency hedging, joint arrangements and related currency funding where it differs from sterling, and non-trading book FX movements, which arise from customer transactions and profits and losses that are in a currency other than the functional currency of the transacting operation.

NWM Group maintains open structural foreign currency positions to reduce the sensitivity of the CET1 ratio to movements in spot foreign exchange rates. FX gains or losses arising in equity from the retranslation of net investments in overseas operations reduce the potentially adverse sensitivity of the CET1 ratio to retranslation, in particular, of non-sterling denominated RWAs.

CET1 ratio FX sensitivity is managed within limits set by NWM Plc's ALCO. The sensitivity is managed and monitored by NWM Plc Treasury and reported regularly to NWM Plc senior management.

FX exposures arising from customer transactions are sold down by businesses on a regular basis.

#### ***Regulatory Landscape and Continuing Uncertainty***

NWM Group is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes. NWM Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future. Recent regulatory changes, proposed or future developments and heightened levels of public and regulatory scrutiny in the UK, Europe and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

In recent years, regulators and governments have focused on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Among others, measures have included: enhanced capital, liquidity and funding requirements, implementation of the UK ring-fencing regime, implementation and strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II), and enhanced data privacy and IT resilience requirements. There has also been increased regulatory focus on areas such as conduct, consumer protection, AML, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations and environmental, social and governance matters.

Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an impact on NWM Group's operational and financial performance include:

- Continued delays around the Basel 'IV' reforms addressing, amongst other things, the variability of banks' internal models, creating ongoing international uncertainty. The overall impact of the Basel 'IV' reforms is expected to result in a 5 to 10 per cent phased increase of NWM Group's RWAs across 2021 to 2023.
- In relation to regulatory capital, new rules set by the PRA, the introduction of the Capital Requirements Directive V (CRD V), the Capital Requirements Regulation 2 (CRR2) and the introduction of a revised prudential framework for banks and investment firms in the UK from 1 January 2022 have impacted NWM Group. NWM Group's results of operations will particularly be impacted by any changes made by UK regulators to the Leverage Ratio and NSFR.

- EMIR in the EU imposes requirements on entities dealing in derivatives and securities trading as both customers and service providers such as NWM Group. EMIR requires certain types of OTC derivative contracts to be centrally cleared, imposes an obligation to report trades to a trade repository and mandates that parties incorporate risk mitigation procedures into their trading documentation in respect of uncleared derivatives. EMIR and the delegated legislation adopted thereunder have been incorporated into UK law. The bifurcation of the regulation of OTC derivatives and the potential for diverging standards to emerge creates a more complex trading environment for NWM Group. Collectively, these developments are changing market dynamics and in some areas reducing returns for banks, including NWM Group.
- In the EU, the revised Markets in Financial Instruments Directive and the associated Regulation (MiFID II / MiFIR) took effect on 3 January 2018. MiFID II, among other things, introduced substantial new regulation of exchanges and trading venues, including new pre-trade and post-trade transparency requirements, a ban on the practice of using commission on transactions to compensate for research services and substantial new conduct requirements for financial services firms when dealing with clients. Although MiFID II and MiFIR have been implemented into UK law, the UK has started to diverge from these EU standards and may continue to do so in the future, creating regulatory uncertainty and additional compliance burdens for NWM Group.
- The requirement set out in the CRD V for third country groups of financial institutions with a substantial presence in the EU and that have two or more institutions within the EU to establish an intermediate parent undertaking in the EU under which institutions within that group would operate.
- The direct and indirect effects of the UK's exit from the EU and the EEA have and will continue to affect many aspects of NWM Group's business and operating environment (see also, *'Risk Factors—Economic and political risk— Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM Group's post Brexit EU operating model may continue to adversely affect NWM Group and its operating environment.'*). In addition, the longer term effects of Brexit on NWM Group's operating environment are difficult to predict and are subject to wider global macro-economic trends and events, but may significantly impact NWM Group and its customers and counterparties who are themselves dependent on trading with the EU or personnel from the EU and may result in periodic financial volatility and slower economic growth, in the UK in particular, but also in Republic of Ireland, Europe and potentially the global economy.
- UK and international regulators are driving a transition from the use of IBORs, including LIBOR, to alternative RFRs. In the UK, the FCA has previously announced that it would not compel LIBOR submissions beyond 2021 and strongly urged market participants to transition to RFRs, as has the CFTC and other regulators in the US. On 5 March 2021, the FCA published a statement announcing the dates that panel bank submissions for all LIBOR settings will cease, after which representative LIBOR rates will no longer be available. In line with these announcements, publication of 24 of the 35 LIBOR settings ceased from 1 January 2022. Six sterling and yen LIBOR settings will continue for the duration of 2022 on a synthetic basis. The FCA announced in September 2022 that two synthetic sterling LIBOR settings would continue for a further 3 months after the end of 2022, until 21 March 2023. Five US dollar LIBOR settings will continue to be calculated using panel bank submissions until mid-2023, although its use for new business is restricted from end-2021, with limited exceptions. NWM Group has significant exposure to IBORs primarily on its derivatives and legacy securities. The implementation of any alternative RFRs may be impossible or impracticable under the existing terms of such financial instruments and could have an adverse effect on the value of, return on and trading market for such financial instruments.

### ***Competitive landscape***

NWM Group offers risk management, trading solutions and debt financing to both financial institutions and UK, European, and US corporate customers. It competes with large domestic banks, major international banks and a number of investment banks. During 2022 continued focus and investment to expand ESG and sustainable financing solutions, as well as a growing focus on risk management solutions for customers, have been common themes across corporate and investment banks. Competition also continues from non-bank liquidity providers using low-latency and algorithmic trading to participate in high-volume flow markets.



During 2022, there was solid performance across Fixed income, Currencies and Commodities (FICC) divisions in the industry, while mergers and acquisitions were subdued due to market uncertainty and declining initial public offering (IPO) valuations, with a particular impact on US banks compared to European banks. The market experienced stronger performance in currencies, which benefitted from heightened FX volatility. Institutions servicing debt capital markets saw increased issuance activity in the first half of the year, with the second half seeing more focused, sustainability driven deal pipelines.

NWM Group continued to refine and innovate its products and services to support the needs of corporate and institutional customers. By doing so, NWM Group also looked to preserve strong market positions in FX and capital markets in its areas of focus, whilst also evolving its rates risk solutions offering to align with the needs of its customers.

### ***Market Conditions***

NWM Group's business, results of operations and financial position are impacted by the economic conditions prevailing in its primary markets, the UK, Europe and the US. In particular the economic growth and the general level of interest rates and volume of markets in those transactions may affect NWM Group.

In all of these regions economic growth slowed in the second half of 2022 as inflation and interest rates rose. Unemployment stayed low but asset markets displayed turbulence.

There were significant shifts in interest rate expectations, as inflation looked set to be more entrenched than expected and these shifts were associated with falls in bond prices. In the UK this was exacerbated by political instability and changes in the direction of fiscal policy, culminating in intervention in the gilt market by the Bank of England to restore financial stability. Sterling and the euro weakened against the dollar before recovering somewhat in the fourth quarter. Major equity indices showed divergent trends, with US and Asian markets generally lower at the end of the year, compared to more modest declines and small gains in Europe and the UK.

NWM Group's ability to achieve planned revenues is dependent on customer activity across NWM Group's various product lines and net trading income derived from management of its trading portfolio. Customer activity can shift, as a result of a market dislocation, customer sentiment and ceasing of activity, or more gradually over time as a result of a change in customer preferences (for example, in a particular hedging product or foreign exchange pair). As an example, appetite for customers to raise funding in the capital markets through bond issuance may reduce in a period of market uncertainty and widening of credit spreads, resulting in a reduction in fees earned by NWM Group on issuance activity.

NWM Group trades a considerable amount of financial instruments (including derivatives) and volatile market conditions could result in a significant decline in NWM Group's net trading income or result in a trading loss. In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, increasing NWM Group's counterparty risk.

Market volatility, illiquid market conditions and disruptions in the credit markets may make it difficult to value certain of NWM Group's financial instruments, particularly during periods of market displacement which could cause a decline in the value of NWM Group's financial instruments, which may have an adverse effect on NWM Group's results of operations in future periods, or inaccurate carrying values for certain financial instruments.

Actual or perceived difficult global economic conditions can create challenging economic and market conditions and a difficult operating environment for NWM Group's businesses and its clients and counterparties, thereby affecting its financial performance, including as a result of the COVID-19 pandemic. The value of NWM Group's financial instruments may be materially affected by market risk, including as a result of market fluctuations.

NWM Group has lending exposure to, among others, Financial Institutions and European Corporate customers and therefore, has exposure to the related relevant credit risk arising from such lending activities. The credit quality of NWM Group's borrowers and other counterparties is impacted by prevailing economic and market conditions and by the legal and regulatory landscape in the UK and Europe in general, and any deterioration in such conditions or

changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and consequently impact NWM Group's ability to enforce contractual security rights.

NWM Group's risk management and monitoring processes seek to quantify and mitigate NWM Group's exposure to more extreme market moves. However, severe market events have historically been difficult to predict and NWM Group could realise significant losses if extreme market events were to occur.

## Reporting Segments

As of 31 December 2022, the business operations of NWM Group were organised into the following reporting segments:

- 'NatWest Markets' which is a single operating reportable segment offering its customers global market access, providing them with trading, risk management and financing solutions through its trading hubs in London, Amsterdam, Singapore and Stamford and sales offices across key locations in the UK, EU, US and Asia.
- 'Central Items & Other' which includes corporate functions and other activity not managed in the NatWest Markets segment. In 2022 income reported within this segment principally comprised one-off items, and costs largely related to litigation costs reflecting progress on closing legacy matters. In 2021 income reported within this segment principally comprised amounts recycled from FX reserves following the closure of subsidiaries during the year ended 31 December 2021, and costs largely related to a credit in litigation and conduct costs reflecting progress on closing legacy matters.

## Credit Ratings

As at the date of this Registration Document 2023, the long-term credit ratings of the Issuer are A1 (stable outlook) by Moody's, A- (stable outlook) by S&P and A+ (stable outlook) by Fitch. Additionally, the Issuer is rated A (stable outlook) by Japan Credit Rating Agency Ltd.

A credit or financial strength rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating. There is no guarantee that any rating of the Issuer assigned by any such rating agency will be maintained following the date of this Registration Document, and the Issuer may seek to obtain ratings from other rating agencies. Up-to-date information should always be sought by direct reference to the relevant rating agency. S&P (S&P Global Ratings UK Limited), Moody's (Moody's Investors Service Limited) and Fitch (Fitch Ratings Limited) are each established in the UK. S&P, Moody's and Fitch are each included in the list of credit rating agencies registered in accordance with the UK CRA Regulation, available on the FCA website at <https://www.fca.org.uk/firms/credit-rating-agencies> (last updated on 11 January 2023).

## Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021

### Income Statement

#### Consolidated

The following table sets forth a summary of NWM Group's results of operations for the years indicated.

	2022	2021
	£m	£m
Interest receivable.....	745	343
Interest payable.....	(654)	(335)
<b>Net interest income</b> .....	<b>91</b>	<b>8</b>
Fees and commissions receivable.....	349	262
Fees and commissions payable.....	(158)	(104)
Income from trading activities.....	389	263
Other operating income .....	18	(28)
<b>Non-interest income</b> .....	<b>598</b>	<b>393</b>

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Total income</b> .....	689	401
Staff costs .....	(400)	(498)
Premises and equipment .....	(60)	(110)
Other administrative expenses.....	(652)	(522)
Depreciation and amortisation.....	(16)	(20)
<b>Operating expenses</b> .....	<b>(1,128)</b>	<b>(1,150)</b>
Loss before impairment (losses)/releases .....	(439)	(749)
Impairment (losses)/releases.....	(8)	35
<b>Operating loss before tax</b> .....	<b>(447)</b>	<b>(714)</b>
Tax credit.....	183	223
<b>Loss for the year</b> .....	<b>(264)</b>	<b>(491)</b>

The operating loss before tax of £447 million compares with a loss of £714 million in the year ended 31 December 2021. Total income of £689 million increased by £288 million, or 72 per cent, largely driven by Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performance in Currencies (as FX volatility heightened during 2022) and in Capital Markets. Net interest income, representing interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business, was £91 million for the year ended 31 December 2022, compared with £8 million in 2021, reflecting growth in lending and reduced funding costs for the business driven by the ongoing repayment of legacy debt. Non-interest income increased by £205 million to £598 million compared with £393 million for the year ended 31 December 2021, largely driven by Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performances in Currencies (as FX volatility heightened during 2022) and in Capital Markets. Own credit adjustments were £42 million for 2022, reflecting the widening of credit spreads, compared with £6 million in 2021.

Operating expenses decreased by £22 million, or 2 per cent, to £1,128 million in the year ended 31 December 2022 from £1,150 million in the year ended 31 December 2021. Within these figures, litigation and conduct costs of £80 million for the year ended 31 December 2022 reflected ongoing progress in closing legacy matters, and were up by £97 million compared with £17 million credit in the prior year. Other operating expenses decreased by £119 million, or 10 per cent, to £1,048 million for the year ended 31 December 2022, largely reflecting higher costs recognised in 2021 in relation to technology investment and the refocusing of NWM Group.

#### Net Interest Income

NWM Group's net interest income for the year ended 31 December 2022 amounted to £91 million, an increase of £83 million compared with £8 million for the year ended 31 December 2021. Interest receivable of £745 million for the year ended 31 December 2022 was up by £402 million compared with £343 million in the prior year, largely driven by an increase in lending during the year. Interest payable of £654 million in the year ended 31 December 2022 increased by £319 million compared with £335 million in the prior year, largely due to the increase in lending, partially offset by lower funding costs driven by the ongoing repayment of legacy debt.

#### Non-Interest Income

The following table sets forth NWM Group's non-interest income data as at the dates and for the years indicated.

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
<b>Net fees and commissions</b> .....	191	158
<b>Income from trading activities</b>		
Foreign exchange .....	237	191
Interest rate .....	92	(17)
Credit .....	18	83
Changes in fair value of own debt and derivative liabilities attributable to own credit risk - debt securities in issue and derivative liabilities .....		6

	<b>2022</b>	<b>2021</b>
	<b>£m</b>	<b>£m</b>
	42	
	<u>389</u>	<u>263</u>
<b>Other operating income</b>		
Loss on redemption of own debt.....	(74)	(26)
Operating lease and other rental income.....	1	2
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (1).....	16	(8)
Hedge ineffectiveness.....	(7)	(10)
Profit on disposal of amortised cost assets.....	87	10
Loss on disposal of fair value through other comprehensive income assets.....	(7)	(1)
Dividend income.....	6	4
Other income.....	(4)	1
	<u>18</u>	<u>(28)</u>
<b>Total Non-Interest Income</b> .....	<u>598</u>	<u>393</u>

(1) Including related derivatives

NWM Group's non-interest income for the year ended 31 December 2022 amounted to £598 million, an increase of £205 million, or 52 per cent, as compared to £393 million for the year ended 31 December 2021. The increase was largely due to higher income from trading activities, reflecting Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performances in Currencies (as FX volatility heightened during 2022) and in Capital Markets. Other operating income for the year ended 31 December 2022 amounted to a profit of £18 million compared to a loss of £28 million in the prior year.

NWM Group's net fees and commissions for the year ended 31 December 2022, largely comprising those in respect of NWM Group's Capital Markets business, amounted to a net income of £191 million as compared to a net income of £158 million for the year ended 31 December 2021.

NWM Group's income from trading activities for the year ended 31 December 2022, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £389 million, an increase of £126 million, or 48 per cent, as compared to £263 million for the year ended 31 December 2021. The increase largely reflected Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performances in Currencies (as FX volatility heightened during 2022) and in Capital Markets. Within income from trading activities, own credit adjustments represented a £42 million gain in the year ended 31 December 2022 as credit spreads widened during the year, compared with a gain of £6 million in the year ended 31 December 2021. NWM Group's other operating income for the year ended 31 December 2022 amounted to a gain of £18 million, an increase of £46 million compared to a loss of £28 million for the year ended 31 December 2021. The increase was largely due to profit on sale of amortised cost assets of £87 million in the year ended 31 December 2022, which was up by £77 million compared with £10 million in the prior year, partially offset by loss on redemption of own debt of £(74) million, which was down by £48 million compared with £(26) million in the prior year.

#### Operating Expenses

NWM Group's operating expenses for the year ended 31 December 2022 amounted to £1,128 million, a decrease of £22 million, or 2 per cent, as compared to £1,150 million for the year ended 31 December 2021, primarily reflecting an increase in litigation and conduct costs which was more than offset by a decrease in other operating expenses.

A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the table below:

	2022			2021		
	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
<b>Operating expenses (1)</b>						
Staff expenses	5	395	400	-	498	498
Premises and equipment	-	60	60	-	110	110
Other administrative expenses	75	577	652	(17)	539	522
Depreciation and amortisation	-	16	16	-	20	20
<b>Total</b>	<b>80</b>	<b>1,048</b>	<b>1,128</b>	<b>(17)</b>	<b>1,167</b>	<b>1,150</b>

(1) The management view of operating expenses allows litigation and conduct expenses to be tracked separately from the underlying costs of the business. NWM Group made a presentational change in 2022 whereby strategic costs are included within Other operating expenses and are not reported separately.

NWM Group's staff expenses for the year ended 31 December 2022 amounted to £400 million, a decrease of £98 million, or 20 per cent, as compared to £498 million for the year ended 31 December 2021. The decrease largely reflected higher costs recognised in the prior year in relation to technology investment and the refocusing of NWM Group, including the impact of the transfer of the NWM Chief Digital and Information Office ('CDIO') investment portfolio to NWB in 2022.

NWM Group's premises and equipment expenses for the year ended 31 December 2022 amounted to £60 million, a decrease of £50 million, or 45 per cent, as compared to £110 million for the year ended 31 December 2021. The decrease largely reflected higher costs recognised in the prior year in relation to technology investment and the refocusing of NWM Group, including the impact of the transfer of the NWM CDIO investment portfolio to NWB in 2022.

NWM Group's other administrative expenses for the year ended 31 December 2022 amounted to £652 million, an increase of £130 million, or 25 per cent, as compared to £522 million for the year ended 31 December 2021. The increase was largely driven by an increase in litigation and conduct costs, reflecting ongoing progress in closing legacy matters, and an increase in costs recharged from other NatWest Group entities, largely due to the transfer of the NWM CDIO investment portfolio to NWB in 2022.

NWM Group's depreciation and amortisation expenses for the year ended 31 December 2022 amounted to £16 million, a decrease of £4 million, or 20 per cent as compared to £20 million for the year ended 31 December 2021.

#### Impairment (Losses)/Releases

NWM Group's impairment losses for the year ended 31 December 2022 amounted to £8 million, compared to releases of £35 million for the year ended 31 December 2021. The current year loss was principally due to credit deterioration, partially offset by fortuitous recoveries, and the releases in the prior year were largely driven by credit improvements and releases on individual exposures.

#### Operating Loss Before Tax

NWM Group's operating loss before tax for the year ended 31 December 2022 amounted to £447 million, a decrease of £267 million, or 37 per cent, as compared to a loss of £714 million for the year ended 31 December 2021, due to the factors described above for each income and expense line.

#### Tax Credit

NWM Group's total tax credit for the year ended 31 December 2022 amounted to £183 million, a decrease of £40 million as compared to a tax credit of £223 million for the year ended 31 December 2021. The 2022 tax credit of £183 million on operating loss before tax of £447 million is higher than the expected tax credit based on the UK corporation tax rate of 19%. There is non-taxable income from the retail price index uplift on UK Government index linked gilts and a tax credit for the banking surcharge, partially offset by a decrease in the carrying value of the deferred tax asset in respect of losses.

## Net Loss for the Year

NWM Group's net loss for the year ended 31 December 2021 amounted to £264 million, a decrease of £227 million as compared to a loss of £491 million for the year ended 31 December 2021.

### *NatWest Markets*

The following table sets forth a summary of the results of the continuing operations of the NatWest Markets segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment (losses)/releases	Operating loss
	£m							
<b>2022</b>								
NWM Group.....	91	188	413	692	(1,039)	(16)	(8)	(371)
<b>2021</b>								
NWM Group.....	8	158	243	409	(1,137)	(20)	35	(713)

## Total Income

NWM Group's total income for the year ended 31 December 2022 amounted to £692 million, an increase of £283 million, or 69 per cent, as compared to £409 million for the year ended 31 December 2021. The increase largely reflected stronger performance across the product suite in 2022. Operating expenses of £1,039 million, excluding depreciation and amortisation, decreased by £98 million compared to £1,137 million for the year ended 31 December 2021, largely reflecting higher costs recognised in the prior year in relation to technology investment and the refocusing of NWM Group. Impairment losses were £8 million for the year ended 31 December 2022, largely driven by credit deterioration partially offset by fortuitous recoveries, compared with releases of £35 million for the year ended 31 December 2021, which were largely due to credit improvements and releases on individual exposures.

NWM Group's net interest income for the year ended 31 December 2022 amounted to £91 million, an increase of £83 million, as compared to £8 million for the year ended 31 December 2021. The increase largely reflected growth in lending and reduced funding costs for the business driven by the ongoing repayment of legacy debt. NWM Group's net fees and commissions for the year ended 31 December 2022 amounted to net income of £188 million, an increase of £30 million, as compared to net income of £158 million for the year ended 31 December 2021. NWM Group's other non-interest income for the year ended 31 December 2021 amounted to £413 million, an increase of £170 million, or 70 per cent, as compared to £243 million for the year ended 31 December 2021. The increase was largely driven by Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performances in Currencies (as FX volatility heightened during 2022) and in Capital Markets. Within income from trading activities, own credit adjustments were a £42 million gain in the year ended 31 December 2022, reflecting the widening of credit spreads, compared with a £6 million gain in the year ended 31 December 2021.

## Operating Expenses

NWM Group's operating expenses for the year ended 31 December 2022 amounted to £1,039 million, a decrease of £98 million, or 9 per cent, as compared to £1,137 million for the year ended 31 December 2021. The decrease was principally due to higher costs recognised in the prior year in relation to technology investment and the refocusing of NWM Group.

The IFRS and management view of operating expenses, excluding depreciation and amortisation, within the NatWest Markets segment are set out as follows.

	<u>2022</u>	<u>2021</u>
	<u>£m</u>	<u>£m</u>
<b>IFRS view</b>		
Staff costs .....	(396)	(491)
Premises and equipment .....	(56)	(110)

	<u>2022</u>	<u>2021</u>
	<u>£m</u>	<u>£m</u>
Other administrative expenses.....	(587)	(536)
Total operating expenses .....	<u>(1,039)</u>	<u>(1,137)</u>
<b>Management view(1)</b>		
Litigation and conduct costs .....	(22)	-
Other expenses .....	<u>(1,017)</u>	<u>(1,137)</u>
Statutory operating expenses.....	<u>(1,039)</u>	<u>(1,137)</u>

- (1) The management view of operating expenses allows litigation and conduct expenses to be tracked separately from the underlying costs of the business. NWM Group made a presentational change in 2022 whereby strategic costs are included within Other operating expenses and are no longer reported separately.

### Impairment (Losses)/Releases

NWM Group's impairment losses for the year ended 31 December 2022 amounted to £8 million, largely driven by credit deterioration partially offset by fortuitous recoveries. This compared with releases of £35 million for the year ended 31 December 2021, which were largely due to credit improvements and releases on individual exposures.

### Operating Loss for the Year

NWM Group's operating loss for the year ended 31 December 2022 amounted to £371 million, a decrease of £342 million, as compared to the loss of £713 million for the year ended 31 December 2021, due to the factors explained above.

#### *Central Items & Other*

The following table sets forth a summary of the results of the continued operations of the Central Items & Other segment for the years indicated.

	<u>Net interest income</u>	<u>Net fees and commissions</u>	<u>Other non- interest income</u>	<u>Total income</u>	<u>Operating expenses</u>	<u>Depreciatio n and amortisation</u>	<u>Impairment losses</u>	<u>Operating loss</u>
	£m							
<b>2022</b>								
Central Items & Other .....	—	3	(6)	(3)	(73)	—	—	(76)
<b>2021</b>								
Central Items & Other .....	—	—	(8)	(8)	7	—	—	(1)

### Total Income

Central Items & Other's total income for the year ended 31 December 2022 amounted to £(3) million, an increase of £5 million, as compared to £(8) million for the year ended 31 December 2021. The increase was principally due to one-off items.

Central Items & Other's net fees and commissions income for the year ended 31 December 2022 amounted to £3 million, an increase of £3 million, as compared to nil for the year ended 31 December 2021. The increase was principally due to one-off items.

Central Items & Other's other non-interest income for the year ended 31 December 2022 amounted to £(6) million, an increase of £2 million as compared to an income of £(8) million for the year ended 31 December 2021. The increase was principally due to one-off items.

### Operating Expenses

Central Items & Other's operating expenses for the year ended 31 December 2022 amounted to £73 million, an increase of £80 million as compared to a credit of £7 million for the year ended 31 December 2021. The increase was principally due to higher litigation and conduct costs, reflecting ongoing progress in closing legacy matters.

### Impairment Losses

Central Items & Other's impairment losses for the year ended 31 December 2022 amounted to nil, the same as in the year ended 31 December 2021.

### Operating Loss for the Year

Central Items & Other's operating loss for the year ended 31 December 2022 amounted to £76 million, a decrease of £75 million, as compared to a £1 million operating loss for the year ended 31 December 2021, due to the factors explained above.



## Balance Sheet

The following table sets forth NWM Group's consolidated and NWM Plc's unconsolidated balance sheet data as at the dates indicated.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	£m		£m	
<b>Assets</b>				
Cash and balances at central banks.....	17,007	16,645	13,467	12,294
Trading assets(2) .....	45,291	59,101	27,301	41,222
Derivatives(1).....	100,154	105,550	96,258	103,042
Settlement balances .....	2,558	2,139	1,686	795
Loans to banks – amortised cost.....	1,146	962	815	712
Loans to customers – amortised cost.....	10,171	7,471	9,154	6,810
Amounts due from holding company and fellow subsidiaries .....	740	1,479	6,665	6,723
Other financial assets.....	11,870	8,786	10,377	7,743
Investments in group undertakings.....	—	—	2,626	2,481
Other assets(3).....	832	878	712	732
<b>Total assets .....</b>	<b>189,769</b>	<b>203,011</b>	<b>169,061</b>	<b>182,554</b>
<b>Liabilities</b>				
Bank deposits .....	3,069	1,808	2,936	1,808
Customer deposits .....	3,614	2,268	2,665	1,510
Amounts due to holding company and fellow subsidiaries .....	6,217	6,126	12,867	10,978
Settlement balances .....	2,010	2,068	1,133	1,028
Trading liabilities(2).....	52,792	64,482	33,225	47,119
Derivatives(1).....	93,585	98,497	90,754	95,096
Other financial liabilities .....	21,103	19,255	18,396	16,877
Other liabilities(3) .....	816	1,055	567	789
<b>Total liabilities.....</b>	<b>183,206</b>	<b>195,559</b>	<b>162,543</b>	<b>175,205</b>
Owners' equity .....	6,565	7,455	6,518	7,349
Non-controlling interests .....	(2)	(3)	—	—
<b>Total equity.....</b>	<b>6,563</b>	<b>7,452</b>	<b>6,518</b>	<b>7,349</b>
<b>Total liabilities and equity .....</b>	<b>189,769</b>	<b>203,011</b>	<b>169,061</b>	<b>182,554</b>

(1) Derivatives are presented net of IFRS offsets, corresponding predominantly to positions settled through clearing houses.

(2) The line items 'Trading assets' and 'Trading liabilities' are further analysed as follows.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	(£m)			
<b>Trading assets</b>				
Reverse repos.....	21,537	20,742	8,559	9,246
Derivative cash collateral given.....	12,719	11,990	10,468	9,332
Securities.....	9,922	24,955	7,336	21,455
Other loans.....	1,113	1,414	938	1,189
Total.....	<u>45,291</u>	<u>59,101</u>	<u>27,301</u>	<u>41,222</u>
<b>Trading liabilities</b>				
Repos.....	23,740	19,389	8,716	4,940
Derivative cash collateral received.....	17,663	17,619	14,556	16,386
Short positions.....	9,524	24,964	8,090	23,287
Other deposits and issuance.....	1,865	2,510	1,863	2,506
Total.....	<u>52,792</u>	<u>64,482</u>	<u>33,225</u>	<u>47,119</u>

(3) The line items 'Other assets' and 'Other liabilities' are further analysed as follows

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	(£m)			
<b>Other assets</b>				
Accrued income.....	111	34	101	27
Tax recoverable.....	294	332	295	330
Pension schemes in net surplus.....	241	306	241	306
Property, plant and equipment.....	59	66	8	13
Other assets	81	72	67	56
Assets of disposal groups.....	—	20	—	—
Deferred tax.....	46	48	—	—
Total.....	<u>832</u>	<u>878</u>	<u>712</u>	<u>732</u>
<b>Other liabilities</b>				
Current tax.....	21	11	12	2
Accruals.....	224	123	178	92
Deferred income.....	35	22	24	16
Deferred tax.....	101	374	92	352
Other liabilities.....	51	64	41	40
Retirement benefit liabilities.....	63	66	55	57
Provisions for liabilities and charges.....	274	342	161	220
Lease liabilities.....	47	53	4	10
Total.....	<u>816</u>	<u>1,055</u>	<u>567</u>	<u>789</u>

NWM Group's balance sheet profile as at 31 December 2022 can be summarised as follows.

<b>Assets</b>	<b>£bn</b>	<b>Liabilities</b>	<b>£bn</b>
Cash and balances at central banks .....	17.0		
Trading assets .....	45.3	Trading liabilities .....	52.8
Securities .....	9.9	Short positions .....	9.5
Reverse repos(1).....	21.5	Repos(2).....	23.7
Derivative collateral(3).....	12.7	Derivative collateral(4) .....	17.7
Other trading assets .....	1.2	Other trading liabilities .....	1.9
Loans - amortised cost .....	11.3	Deposits - amortised cost.....	6.7
Settlement balances.....	2.6	Settlement balances .....	2.0
Amounts due from holding company and fellow subsidiaries .....	0.7	Amounts due to holding company and fellow subsidiaries.....	6.2
Other financial assets .....	11.9	Other financial liabilities .....	21.1
Other assets .....	0.8	Other liabilities .....	0.8
Funded assets .....	89.6	Liabilities excluding derivatives.....	89.6
Derivative assets .....	100.2	Derivative liabilities .....	93.6
Total assets.....	<u>189.8</u>	Total liabilities.....	<u>183.2</u>
		of which: wholesale funding(5) .....	23.5
		of which: short-term wholesale funding(5) .....	7.7
Net derivative assets .....	3.5	Net derivative liabilities .....	5.6

(1) Comprises bank reverse repos of £4.6 billion (2021- £3.9 billion) and customer reverse repos of £16.9 billion (2021- £16.8 billion).

(2) Comprises bank repos of £1.6 billion (2021- £0.8 billion) and customer repos of £22.1 billion (2021- £18.6 billion).

(3) Comprises derivative collateral posted relating to banks of £4.6 billion (2021- £4.3 billion) and customers of £8.1 billion (2021- £7.7 billion).

(4) Comprises derivative collateral received relating to banks of £7.5 billion (2021- £8.1 billion) and customers of £10.2 billion (2021- £9.5 billion).

(5) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third-party subordinated liabilities.

NWM Group's balance sheet is predominantly comprised of trading assets and liabilities and derivative assets and liabilities, centred around its product offering of Fixed Income, Currencies and Capital Markets. Trading assets and liabilities largely include debt securities, reverse repos and derivative collateral, together with short positions, repos and derivative collateral respectively. Derivative assets and liabilities include interest rate and foreign exchange contracts as well as smaller volumes of credit, equity and commodity derivatives. Banking book assets and liabilities are limited to amortised cost portfolios of corporate lending and deposits, as well as Treasury activities such as the management of the liquidity portfolio of cash and bonds, and the issuance of senior unsecured, subordinated and equity instruments.

As NWM Group is not primarily a deposit-taking and lending institution, metrics such as net interest margin (NIM) have limited significance for NWM Plc and do not relate to the basis on which the business is managed. The short term and fluctuating nature of the trading business can result in relatively large intra-period movements in the balance sheet with trading assets and liabilities primarily moving in unison. This is due to the flow nature of the trading business activities and balance sheet profile which is largely matched across trading and derivative assets, and trading and derivative liabilities. Risks and exposures may be managed on a net basis.

#### *Assets*

As at 31 December 2022, NWM Group's total assets amounted to £189,769 million, a decrease of £13,242 million, or 7 per cent, as compared to £203,011 million as at 31 December 2021. The decrease was primarily driven by a reduction in trading assets, largely reflecting risk management activity undertaken in 2022, in addition to lower derivative fair values, largely driven by market volatility in 2022 including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

As at 31 December 2022, NWM Group's cash and balances at central banks amounted to £17,007 million, an increase of £362 million, or 2 per cent, as compared to £16,645 million as at 31 December 2021.

As at 31 December 2022, NWM Group's trading assets amounted to £45,291 million, a decrease of £13,810 million, or 23 per cent, as compared to £59,101 million as at 31 December 2021, mainly driven by a reduction in securities reflecting risk management activity undertaken in 2022, partially offset by increases in derivative cash collateral posted and reverse repos.

As at 31 December 2022, NWM Group's derivative assets amounted to £100,154 million, a decrease of £5,396 million, or 5 per cent, as compared to £105,550 million as at 31 December 2021. The decrease in mark-to-market value was largely driven by market volatility in 2022 including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

As at 31 December 2022, NWM Group's loans to customers (amortised cost) amounted to £10,171 million, an increase of £2,700 million, or 36 per cent, as compared to £7,471 million as at 31 December 2021. The increase was mainly driven by new lending in 2022.

As at 31 December 2022, NWM Group's other financial assets amounted to £11,870 million, an increase of £3,084 million, or 35 per cent, as compared to £8,786 million as at 31 December 2021. The increase largely reflected an increase in held-to-collect securities purchased to support customer primary issuance.

As at 31 December 2022, NWM Group's other assets amounted to £832 million, a decrease of £46 million, or 5 per cent, as compared to £878 million as at 31 December 2021. The decrease was principally driven by decreases in pension schemes in net surplus and tax recoverable, partially offset by an increase in accrued income.

#### *Liabilities*

As at 31 December 2022, NWM Group's total liabilities amounted to £183,206 million, a decrease of £12,353 million, or 6 per cent, as compared to £195,559 million as at 31 December 2021. The decrease was primarily driven by a reduction in trading liabilities, largely reflecting risk management activity undertaken in 2022, in addition to lower derivative fair values, largely driven by market volatility in 2022 including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

As at 31 December 2022, NWM Group's customer deposits amounted to £3,614 million, an increase of £1,346 million, or 59 per cent, as compared to £2,268 million as at 31 December 2021. The increase was primarily related to increased funding requirements as at 31 December 2022.

As at 31 December 2022, NWM Group's trading liabilities amounted to £52,792 million, a decrease of £11,690 million, or 18 per cent, as compared to £64,482 million as at 31 December 2021, mainly driven by a reduction in short positions reflecting risk management activity undertaken in 2022, partially offset by an increase in repos.

As at 31 December 2022, NWM Group's derivative liabilities amounted to £93,585 million, a decrease of £4,912 million, or 5 per cent, as compared to £98,497 million as at 31 December 2021. The decrease in mark-to-market value was largely driven by market volatility in 2022 including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

As at 31 December 2022, NWM Group's other liabilities amounted to £816 million, a decrease of £239 million, or 23 per cent, as compared to £1,055 million as at 31 December 2021, mainly driven by decreases in deferred tax and provisions for liabilities and charges, partially offset by an increase in accruals.

#### *Cash Flows*

The following table sets forth NWM Group's cash flow data as at the dates and for the years indicated.

<b>NWM Group</b>	
<b>For the years ended</b>	
<b>2022</b>	<b>2021</b>
<b>£m</b>	

#### **Cash flows from operating activities**

	<b>NWM Group</b>	
	<b>For the years ended</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	
Operating loss before tax .....	(447)	(714)
Adjustments for:		
Impairment losses/(releases).....	8	(35)
Amortisation of discounts and premiums of other financial assets .....	18	4
Depreciation and amortisation.....	16	20
Change in fair value taken to profit or loss of other financial assets .....	168	80
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities .....	(251)	(180)
Elimination of foreign exchange differences.....	(458)	738
Other non-cash items .....	(82)	(1)
Income receivable on other financial assets .....	(236)	(130)
Loss on sale of other financial assets.....	11	2
Interest payable on MREs and subordinated liabilities .....	227	204
Loss on redemption of own debt .....	74	26
Charges and release on provisions.....	15	(7)
Defined benefit pension schemes .....	2	4
<b>Net cash flows from trading activities</b> .....	<b>(935)</b>	<b>11</b>
Decrease in trading assets.....	14,994	7,664
Decrease in derivative assets .....	4,973	59,861
(Increase)/decrease in settlement balance assets .....	(419)	157
Decrease/increase in net loans to banks.....	4	(122)
(Increase)/decrease in net loans to customers.....	(2,703)	1,003
Decrease/(increase) in amounts due from holding company and subsidiaries .....	577	351
(Increase)/decrease in other financial assets.....	(62)	41
Increase in other assets .....	(85)	(10)
Increase in bank deposits.....	1,261	—
Increase/(decrease) in customer deposits.....	1,346	(350)
Increase/(decrease) in amounts due to holding company and fellow subsidiaries.....	719	(394)
Decrease in settlement balance liabilities .....	(58)	(180)
Decrease in trading liabilities .....	(11,690)	(7,771)
Decrease in derivative liabilities.....	(4,912)	(58,835)
Increase in other financial liabilities.....	2,395	1,199
Decrease in other liabilities .....	(47)	(154)
Changes in operating assets and liabilities .....	6,293	2,460
Income taxes received .....	135	28
<b>Net cash flows from operating activities(1)</b> .....	<b>5,493</b>	<b>2,499</b>
<b>Cash flows from investing activities</b>		
Sale and maturity of other financial assets .....	5,935	4,523
Purchase of other financial assets .....	(9,093)	(4,617)
Income received on other financial assets .....	236	130
(Purchase)/sale of investment in associates.....	(1)	4
Sale of property, plant and equipment.....	20	1
Purchase of property, plant and equipment .....	(2)	(1)
<b>Net cash flows from investing activities</b> .....	<b>(2,905)</b>	<b>40</b>
<b>Cash flows from financing activities</b>		
Movement in MREs .....	(1,027)	(1,234)
Movement in subordinated liabilities .....	(573)	(378)
Dividends paid.....	(500)	(1,063)
<b>Net cash flows from financing activities</b> .....	<b>(2,100)</b>	<b>(2,675)</b>
Effects of exchange rate changes on cash and cash equivalents.....	1,090	(994)
<b>Net increase/(decrease) in cash and cash equivalents</b> .....	<b>1,578</b>	<b>(1,130)</b>

	<b>NWM Group</b>	
	<b>For the years ended</b>	
	<b>2022</b>	<b>2021</b>
	<b>£m</b>	
Cash and cash equivalents at 1 January.....	25,250	26,380
<b>Cash and cash equivalents at 31 December.....</b>	<b>26,828</b>	<b>25,250</b>

(1) Includes interest received of £637 million (2021 - £419 million) and interest paid of £524 million (2021 - £330 million).

Total cash outflow from trading activities was £935 million for the year ended 31 December 2022; an increase of £946 million as compared to a cash inflow of £11 million for the year ended 31 December 2021. The change was largely due to movements in foreign exchange differences of £(1,196) million, partially offset by the decrease in operating loss before tax from £714 million to £447 million, and other adjustments for non-cash movements.

Total cash inflow from changes in operating assets and liabilities was £6,293 million for the year ended 31 December 2022; an increase of £3,833 million compared to an inflow of £2,460 million for the year ended 31 December 2021. The increase in inflow was principally attributable to the increased net inflow from decreases in trading assets and liabilities, and inflows from increases in bank deposits, customer deposits, amounts due to holding company and fellow subsidiaries and other financial liabilities, partially offset by the outflow from increased net loans to customers, and the net outflow from decreases in derivative assets and liabilities.

Total cash inflow from operating activities was £5,493 million for the year ended 31 December 2022; an increase of £2,994 million compared to the £2,499 million inflow for the year ended 31 December 2021. The increase in inflow was principally attributable to the increased net inflow from decreases in trading assets and liabilities, increased inflows from the increases in bank deposits, customer deposits, amounts due to holding company and fellow subsidiaries and other financial liabilities, partially offset by movements in foreign exchange differences and the outflow from increased net loans to customers, and the increased net outflow from decreases in derivative assets and liabilities.

Total cash outflow from investing activities was £2,905 million for the year ended 31 December 2022; an increase of £2,945 million as compared to the cash inflow of £40 million for the year ended 31 December 2021. The increase in outflow was principally attributable to increased outflow from purchase of other financial assets, partially offset by increased inflow from sale and maturity of other financial assets.

Total cash outflow from financing activities was £2,100 million for the year ended 31 December 2022, a decrease of £575 million from outflow of £2,675 million for the year ended 31 December 2021. The decrease was principally due to a reduction in dividends paid to NatWest Group plc and decreased outflow from movement in MREL instruments, partially offset by increased outflow from movement in subordinated liabilities.

## **Consolidated Financial Information for the Years Ended and as at 31 December 2021 and 2020**

### ***Income Statement***

#### *Consolidated*

The following table sets forth a summary of NWM Group's results of operations for the years indicated.

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
Interest receivable.....	343	531
Interest payable.....	(335)	(591)
<b>Net interest income</b> .....	<b>8</b>	<b>(60)</b>
Fees and commissions receivable.....	262	386
Fees and commissions payable.....	(104)	(287)
Income from trading activities.....	263	1,088
Other operating income.....	(28)	31

	2021	2020
	£m	£m
<b>Non-interest income</b> .....	393	1,218
<b>Total income</b> .....	401	1,158
Staff costs .....	(498)	(670)
Premises and equipment .....	(110)	(107)
Other administrative expenses.....	(522)	(629)
Depreciation and amortisation.....	(20)	(25)
<b>Operating expenses</b> .....	(1,150)	(1,431)
Loss before impairment releases/(losses).....	(749)	(273)
Impairment releases/(losses).....	35	(42)
<b>Operating loss before tax</b> .....	(714)	(315)
Tax credit/(charge) .....	223	(12)
<b>Loss for the year</b> .....	(491)	(327)

The operating loss before tax of £714 million compares with a loss of £315 million in the year ended 31 December 2020. Total income of £401 million decreased by £757 million, or 65 per cent, driven by under-performance in Fixed Income, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the initial spread of the COVID-19 virus. Net interest income, representing interest income from lending activity and capital hedges, offset by interest expense from the funding costs of the business, was a net income of £8 million for the year ended 31 December 2021, compared with a net expense of £60 million in 2020, reflecting reduced funding costs for the business driven by the ongoing repayment of legacy debt. Non-interest income decreased by £825 million to £393 million compared with £1,218 million for the year ended 31 December 2020, principally reflecting under-performance in Fixed Income, which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the initial spread of the COVID-19 virus.

Operating expenses decreased by £281 million, or 20 per cent, to £1,150 million in the year ended 31 December 2021 from £1,431 million in the year ended 31 December 2020. The decrease was driven by reduced staff costs, other administrative expenses and depreciation and amortisation, partially offset by a small rise in premises and equipment expenses. Within these figures, litigation and conduct costs credit of £17 million for the year ended 31 December 2021 reflected continued progress in closing legacy matters and were down £151 million from £134 million in the prior year. Strategic costs increased by £57 million to £248 million in the year ended 31 December 2021, compared with £191 million in the prior year, as work continued on the refocusing of NWM Group. Other operating expenses decreased by £187 million, or 17 per cent, to £919 million for the year ended 31 December 2021, primarily reflecting ongoing progress on underlying cost reductions.

#### Net Interest Income

NWM Group's net interest income for the year ended 31 December 2021 amounted to a net income of £8 million, an increase of £68 million as compared to a net expense of £60 million for the year ended 31 December 2020. The increase was largely a result of lower interest payable, which decreased to £335 million for the year ended 31 December 2021 compared with £591 million in the prior year, and exceeded the impact of lower interest receivable, which decreased to £343 million from £531 million in the prior year.

#### Non-Interest Income

The following table sets forth NWM Group's non-interest income data as at the dates and for the years indicated.

	2021	2020
	£m	£m
<b>Net fees and commissions</b> .....	158	99
<b>Income from trading activities</b>		
Foreign exchange.....	191	425
Interest rate .....	(17)	648
Credit .....	83	3

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
Changes in fair value of own debt attributable to own credit - debt securities in issue and derivative liabilities .....	6	(24)
Equities and other .....	-	36
	<u>263</u>	<u>1,088</u>
<b>Other operating income</b>		
Loss on redemption of own debt.....	(26)	(16)
Operating lease and other rental income.....	2	2
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (1) .....	(8)	(54)
Hedge ineffectiveness .....	(10)	(5)
Profit/(loss) on disposal of amortised cost assets.....	10	(2)
Loss on disposal of fair value through other comprehensive income assets..	(1)	(13)
Dividend income.....	4	29
Profit/(loss) on disposal of subsidiaries and associates .....	-	64
Other income (2).....	1	26
	<u>(28)</u>	<u>31</u>
<b>Total Non-Interest Income</b> .....	<u>393</u>	<u>1,218</u>

(1) Including related derivatives

(2) Includes income from activities other than banking.

NWM Group's non-interest income for the year ended 31 December 2021 amounted to £393 million, a decrease of £825 million, or 68 per cent, as compared to £1,218 million for the year ended 31 December 2020. The decrease was principally due to lower income from trading activities, reflecting under-performance in Fixed Income, which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the initial spread of the COVID-19 virus. Other operating income for the year ended 31 December 2021 amounted to a loss of £28 million compared to a profit of £31 million in the prior year.

NWM Group's net fees and commissions for the year ended 31 December 2021, largely comprising those in respect of NWM Group's Capital Markets business, amounted to a net income of £158 million as compared to an income of £99 million for the year ended 31 December 2020.

NWM Group's income from trading activities for the year ended 31 December 2021, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £263 million, a decrease of £825 million, or 76 per cent, as compared to £1,088 million for the year ended 31 December 2020. The decrease reflected under-performance in Fixed Income, which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the initial spread of the COVID-19 virus. Within income from trading activities, own credit adjustments represented a £6 million gain in the year ended 31 December 2021 compared with a loss of £24 million in the year ended 31 December 2020. NWM Group's other operating income for the year ended 31 December 2021 amounted to a loss of £28 million, a decrease of £59 million as compared to a gain of £31 million for the year ended 31 December 2020.

### Operating Expenses

NWM Group's operating expenses for the year ended 31 December 2021 amounted to £1,150 million, a decrease of £281 million, or 20 per cent, as compared to £1,431 million for the year ended 31 December 2020, primarily reflecting lower litigation and conduct costs and ongoing progress on underlying cost reductions, partially offset by an increase in strategic costs as work continued on the refocusing of NWM Group.

A reconciliation between the statutory and non-statutory presentations of operating expenses is set out in the table below:

<b>2021</b>	<b>2020</b>
-------------	-------------



<b>Operating expenses (1)</b>	Strategic costs (2)	Litigation and conduct costs	Other expenses	Statutory operating expenses	Strategic costs (2)	Litigation and conduct costs	Other expenses	Statutory operating expenses
Staff expenses	135	-	363	498	121	—	549	670
Premises and equipment	40	-	70	110	19	—	88	107
Other administrative expenses	72	(17)	467	522	51	134	444	629
Depreciation and amortisation	1	-	19	20	—	—	25	25
<b>Total</b>	<b>248</b>	<b>(17)</b>	<b>919</b>	<b>1,150</b>	<b>191</b>	<b>134</b>	<b>1,106</b>	<b>1,431</b>

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.

(2) Strategic costs include restructuring expenses and costs associated with the transformation of NWM Group.

### Impairment Releases/(Losses)

NWM Group's impairment releases for the year ended 31 December 2021 amounted to £35 million, an increase of £77 million, or 183 per cent, as compared to losses of £42 million for the year ended 31 December 2020. The current year release was principally due to credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 exposures, and the losses in the prior year were largely due to the credit deterioration of an individual counterparty and the increased expected credit losses recognised following the COVID-19 pandemic.

### Operating Loss Before Tax

NWM Group's operating loss before tax for the year ended 31 December 2021 amounted to £714 million, an increase of £399 million, or 127 per cent, as compared to a loss of £315 million for the year ended 31 December 2020, due to the factors described above for each income and expense line.

### Tax Credit/(Charge)

NWM Group's total tax credit for the year ended 31 December 2021 amounted to £223 million, an increase of £235 million as compared to a tax charge of £12 million for the year ended 31 December 2020.

### Net Loss for the Year

NWM Group's net loss for the year ended 31 December 2021 amounted to £491 million, an increase of £164 million as compared to a loss of £327 million for the year ended 31 December 2020.

#### *NatWest Markets*

The following table sets forth a summary of the results of the continuing operations of the NatWest Markets segment for the years indicated.

	Net interest income	Net fees and commissions	Other non- interest income	Total income	Operating expenses	Depreciatio n and amortisation	Impairment releases/(los ses)	Operating loss
	£m							
<b>2021</b>								
NWM Group.....	8	158	243	409	(1,137)	(20)	35	(713)
<b>2020</b>								
NWM Group.....	(62)	99	1,081	1,118	(1,292)	(25)	(40)	(239)

### Total Income

NWM Group's total income for the year ended 31 December 2021 amounted to £409 million, a decrease of £709 million, or 63 per cent, as compared to £1,118 million for the year ended 31 December 2020. The decrease reflected under-performance in Fixed Income, which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the

initial spread of the COVID-19 virus. Operating expenses of £1,137 million excluding depreciation and amortisation, decreased by £155 million compared to £1,292 million for the year ended 31 December 2020, largely reflecting continued progress on underlying cost reductions, offset partially by higher strategic costs. Impairment releases were £35 million for the year ended 31 December 2021, largely driven by credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 exposures, compared with losses of £40 million for the year ended 31 December 2020, which were largely due to the credit deterioration of an individual counterparty and the increased expected credit losses recognised following the COVID-19 pandemic.

NWM Group's net interest income for the year ended 31 December 2021 amounted to £8 million, an increase of £70 million, as compared to £62 million net interest expense for the year ended 31 December 2020. The increase was principally due to reduced funding costs for the business driven by the ongoing repayment of legacy debt. NWM Group's net fees and commissions for the year ended 31 December 2021 amounted to a gain of £158 million, an increase of £59 million, as compared to a gain of £99 million for the year ended 31 December 2020. NWM Group's other non-interest income for the year ended 31 December 2021 amounted to £243 million, a decrease of £838 million, or 78 per cent, as compared to £1,081 million for the year ended 31 December 2020. The decrease reflected under-performance in Fixed Income, which was impacted by the re-shaping of the business, in contrast to the prior year which benefitted from exceptional levels of market activity generated by volatility resulting from the initial spread of the COVID-19 virus. Within income from trading activities, own credit adjustments were a £6 million gain in the year ended 31 December 2021 compared with a £24 million loss in the year ended 31 December 2020.

### Operating Expenses

NWM Group's operating expenses for the year ended 31 December 2021 amounted to £1,137 million, a decrease of £155 million, or 12 per cent, as compared to £1,292 million for the year ended 31 December 2020. The decrease was principally due to continued progress on underlying cost reductions, offset partially by higher strategic costs.

The IFRS and management view of operating expenses, excluding depreciation and amortisation, within the NatWest Markets segment are set out as follows.

	<u>2021</u>	<u>2020</u>
	<u>£m</u>	<u>£m</u>
<b>IFRS view</b>		
Staff costs .....	(491)	(686)
Premises and equipment .....	(110)	(107)
Other administrative expenses .....	(536)	(499)
Total operating expenses .....	<u>(1,137)</u>	<u>(1,292)</u>
<b>Management view(1)</b>		
Strategic costs(2) .....	(236)	(207)
Litigation and conduct costs .....	-	(4)
Other expenses .....	(901)	(1,081)
Statutory operating expenses .....	<u>(1,137)</u>	<u>(1,292)</u>

(1) The management view of operating expenses allows strategic costs and litigation and conduct expenses to be tracked separately from the underlying costs of the business.

(2) Strategic costs include restructuring expenses and costs associated with the transformation of NWM Group.

### Impairment Releases/(Losses)

NWM Group's impairment releases for the year ended 31 December 2021 amounted to £35 million, largely driven by credit improvements and releases on individual IFRS 9 Stage 2 and Stage 3 exposures. This compared with losses of £40 million for the year ended 31 December 2020, which were largely due to the credit deterioration of an individual counterparty and the increased expected credit losses recognised following the COVID-19 pandemic.

### Operating Loss for the Year

NWM Group's operating loss for the year ended 31 December 2021 amounted to £713 million, an increase of £474 million, as compared to the loss of £239 million for the year ended 31 December 2020, due to factors explained above.

#### *Central Items & Other*

The following table sets forth a summary of the results of the continued operations of the Central Items & Other segment for the years indicated.

	Net interest income	Net fees and commissions	Other non-interest income	Total income	Operating expenses	Depreciation and amortisation	Impairment losses	Operating loss
	£m							
<b>2021</b>								
Central Items & Other .....	—	—	(8)	(8)	7	—	—	(1)
<b>2020</b>								
Central Items & Other .....	2	—	38	40	(114)	—	(2)	(76)

### Total Income

Central Items & Other's total income for the year ended 31 December 2021 amounted to £(8) million, a decrease of £48 million, as compared to £40 million for the year ended 31 December 2020. The decrease was principally due to the gain recognised in the prior year on transfer of a service subsidiary to NatWest Group.

Central Items & Other's net interest income for the year ended 31 December 2021 amounted to nil, a decrease of £2 million, as compared to a net interest income of £2 million for the year ended 31 December 2020.

Central Items & Other's other non-interest income for the year ended 31 December 2021 amounted to £(8) million, a decrease of £46 million, as compared to an income of £38 million for the year ended 31 December 2020. The decrease was principally due to the gain recognised in the prior year on transfer of a service subsidiary to NatWest Group.

### Operating Expenses

Central Items & Other's operating expenses for the year ended 31 December 2021 amounted to a credit of £7 million, a decrease of £121 million, as compared to expenses of £114 million for the year ended 31 December 2020. The decrease is principally due to lower litigation and conduct costs, reflecting ongoing progress in closing legacy matters and costs incurred in the prior year in relation to the historical trading activities of a joint venture subsidiary.

### Impairment Losses

Central Items & Other's impairment losses for the year ended 31 December 2021 amounted to nil, a decrease of £2 million compared to £2 million in the year ended 31 December 2020, which was primarily due to an increase in ECL provisions on intra-NatWest Group exposures.

### Operating Loss for the Year

Central Items & Other's operating loss for the year ended 31 December 2021 amounted to £1 million, a decrease of £75 million, as compared to a £76 million operating loss for the year ended 31 December 2020, due to the factors explained above.

## Balance Sheet

The following table sets forth NWM Group's consolidated and NWM Plc's unconsolidated balance sheet data as at the dates indicated.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2021	2020	2021	2020
	£m		£m	
<b>Assets</b>				
Cash and balances at central banks.....	16,645	15,771	12,294	11,736
Trading assets(2) .....	59,101	68,689	41,222	52,169
Derivatives(1).....	105,550	165,619	103,042	164,104
Settlement balances .....	2,139	2,296	795	1,084
Loans to banks – amortised cost.....	962	1,003	712	701
Loans to customers – amortised cost.....	7,471	8,444	6,810	7,477
Amounts due from holding company and fellow subsidiaries .....	1,479	1,587	6,723	7,606
Other financial assets.....	8,786	9,041	7,743	8,043
Investment in group undertaking.....	—	—	2,481	2,600
Other assets(3).....	878	688	732	562
<b>Total assets .....</b>	<b>203,011</b>	<b>273,138</b>	<b>182,554</b>	<b>256,082</b>
<b>Liabilities</b>				
Bank deposits .....	1,808	1,808	1,808	1,762
Customer deposits .....	2,268	2,618	1,510	1,469
Amounts due to holding company and fellow subsidiaries .....	6,126	8,134	10,978	16,189
Settlement balances .....	2,068	2,248	1,028	604
Trading liabilities(2).....	64,482	72,252	47,119	56,916
Derivatives(1).....	98,497	157,332	95,096	153,754
Other financial liabilities .....	19,255	18,170	16,877	15,370
Other liabilities(3) .....	1,055	1,234	789	866
<b>Total liabilities.....</b>	<b>195,559</b>	<b>263,796</b>	<b>175,205</b>	<b>246,930</b>
Owners' equity .....	7,455	9,388	7,349	9,152
Non-controlling interests .....	(3)	(46)	—	—
<b>Total equity.....</b>	<b>7,452</b>	<b>9,342</b>	<b>7,349</b>	<b>9,152</b>
<b>Total liabilities and equity .....</b>	<b>203,011</b>	<b>273,138</b>	<b>182,554</b>	<b>256,082</b>

(1) Derivatives are presented net of IFRS offsets, corresponding predominantly to positions settled through clearing houses.

(2) The line items 'Trading assets' and 'Trading liabilities' are further analysed as follows.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2021	2020	2021	2020
	(£m)			
<b>Trading assets</b>				
Reverse repos.....	20,742	19,404	9,246	11,071
Derivative cash collateral given.....	11,990	18,459	9,332	15,389
Securities.....	24,955	29,215	21,455	24,212
Other loans.....	1,414	1,611	1,189	1,497
Total.....	<u>59,101</u>	<u>68,689</u>	<u>41,222</u>	<u>52,169</u>
<b>Trading liabilities</b>				
Repos.....	19,389	19,036	4,940	5,928
Derivative cash collateral received.....	17,619	23,226	16,386	22,267
Short positions.....	24,964	26,779	23,287	25,513
Other deposits and issuance.....	2,510	3,211	2,506	3,208
Total.....	<u>64,482</u>	<u>72,252</u>	<u>47,119</u>	<u>56,916</u>

(3) The line items 'Other assets' and 'Other liabilities' are further analysed as follows.

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2021	2020	2021	2020
	(£m)			
<b>Other assets</b>				
Accrued income.....	34	25	27	19
Tax recoverable.....	332	221	330	207
Pension schemes in net surplus.....	306	264	306	264
Property, plant and equipment.....	66	106	13	19
Other assets	72	70	56	51
Assets of disposal groups.....	20	—	—	—
Deferred tax.....	48	2	—	2
Total.....	<u>878</u>	<u>688</u>	<u>732</u>	<u>562</u>
<b>Other liabilities</b>				
Current tax.....	11	54	2	16
Accruals.....	123	108	92	79
Deferred income.....	22	25	16	16
Deferred tax.....	374	417	352	380
Other liabilities.....	64	48	40	67
Retirement benefit liabilities.....	66	63	57	54
Provisions for liabilities and charges.....	342	448	220	238
Lease liabilities.....	53	71	10	16
Total.....	<u>1,055</u>	<u>1,234</u>	<u>789</u>	<u>866</u>

NWM Group's balance sheet profile as at 31 December 2021 can be summarised as follows.

<b>Assets</b>	<b>£bn</b>	<b>Liabilities</b>	<b>£bn</b>
Cash and balances at central banks .....	16.6		
Trading assets .....	59.1	Trading liabilities .....	64.5
Securities .....	25.0	Short positions .....	25.0
Reverse repos(1).....	20.7	Repos(2).....	19.4
Derivative collateral(3).....	12.0	Derivative collateral(4) .....	17.6
Other trading assets .....	1.4	Other trading liabilities .....	2.5
Loans - amortised cost .....	8.4	Deposits - amortised cost.....	4.1
Settlement balances.....	2.1	Settlement balances .....	2.1
Amounts due from holding company and fellow subsidiaries .....	1.5	Amounts due to holding company and fellow subsidiaries.....	6.1
Other financial assets .....	8.8	Other financial liabilities .....	19.3
Other assets .....	0.9	Other liabilities .....	1.0
Funded assets .....	97.4	Liabilities excluding derivatives.....	97.1
Derivative assets .....	105.6	Derivative liabilities .....	98.5
Total assets.....	<u>203.0</u>	Total liabilities.....	<u>195.6</u>
		of which: wholesale funding(5) .....	21.1
		of which: short-term wholesale funding(5) .....	9.2
Net derivative assets .....	3.6	Net derivative liabilities .....	2.9

- (1) Comprises bank reverse repos of £3.9 billion (2020- £2.2 billion) and customer reverse repos of £16.8 billion (2020- £17.2 billion).
- (2) Comprises bank repos of £0.8 billion (2020- £1.0 billion) and customer repos of £18.6 billion (2020- £18.0 billion).
- (3) Comprises derivative collateral relating to banks of £4.3 billion (2020- £7.5 billion) and customers of £7.7 billion (2020- £11.0 billion).
- (4) Comprises derivative collateral relating to banks of £8.1 billion (2020- £11.8 billion) and customers of £9.5 billion (2020- £11.4 billion).
- (5) Predominantly comprises bank deposits (excluding repos), debt securities in issue and third-party subordinated liabilities.

NWM Group's balance sheet is predominantly comprised of trading assets and liabilities and derivative assets and liabilities, centred around its product offering of Fixed Income, Currencies and Capital Markets. Trading assets and liabilities largely include debt securities, reverse repos and derivative collateral, together with short positions, repos and derivative collateral respectively. Derivative assets and liabilities include interest rate and foreign exchange contracts as well as smaller volumes of credit, equity and commodity derivatives. Banking book assets and liabilities are limited to amortised cost portfolios of corporate lending and deposits, as well as Treasury activities such as the management of the liquidity portfolio of cash and bonds, and the issuance of senior unsecured, subordinated and equity instruments.

As NWM Group is not primarily a deposit-taking and lending institution, metrics such as net interest margin (NIM) have limited significance for NWM Plc and do not relate to the basis on which the business is managed. The short term and fluctuating nature of the trading business can result in relatively large intra-period movements in the balance sheet with trading assets and liabilities primarily moving in unison. This is due to the flow nature of the trading business activities and balance sheet profile which is largely matched across trading and derivative assets, and trading and derivative liabilities. Risks and exposures may be managed on a net basis.

#### *Assets*

As at 31 December 2021, NWM Group's total assets amounted to £203,011 million, a decrease of £70,127 million, or 26 per cent, as compared to £273,138 million as at 31 December 2020. The decrease largely reflects lower derivative fair values, which were largely driven by increases in interest rates across major currencies during the year.

As at 31 December 2021, NWM Group's cash and balances at central banks amounted to £16,645 million, an increase of £874 million, or 6 per cent, as compared to £15,771 million as at 31 December 2020.

As at 31 December 2021, NWM Group's trading assets amounted to £59,101 million, a decrease of £9,588 million, or 14 per cent, as compared to £68,689 million as at 31 December 2020, driven by decreases in derivatives cash collateral posted and securities, partially offset by an increase in reverse repos as the balance sheet was managed within limits.

As at 31 December 2021, NWM Group's derivative assets amounted to £105,550 million, a decrease of £60,069 million, or 36 per cent, as compared to £165,619 million as at 31 December 2020. The decrease in mark-to-market value was largely due to increases in interest rates across major currencies during the year.

As at 31 December 2021, NWM Group's loans to customers (amortised cost) amounted to £7,471 million, a decrease of £973 million, or 12 per cent, as compared to £8,444 million as at 31 December 2020.

As at 31 December 2021, NWM Group's other financial assets amounted to £8,786 million, a decrease of £255 million, or 3 per cent, as compared to £9,041 million as at 31 December 2020. The decrease was principally due to a reduction in debt securities held at FVOCI, partially offset by an increase in debt securities held at amortised cost.

As at 31 December 2021, NWM Group's other assets amounted to £878 million, an increase of £190 million, or 28 per cent, as compared to £688 million as at 31 December 2020. The increase was principally driven by increases in tax recoverable, deferred tax and pension schemes in net surplus.

#### *Liabilities*

As at 31 December 2021, NWM Group's total liabilities amounted to £195,559 million, a decrease of £68,237 million, or 26 per cent, as compared to £263,796 million as at 31 December 2020. The decrease primarily reflects lower derivative fair values, largely driven by increases in interest rates across major currencies.

As at 31 December 2021, NWM Group's customer deposits amounted to £2,268 million, a decrease of £350 million, or 13 per cent, as compared to £2,618 million as at 31 December 2020. The decrease was primarily related to reduced funding requirements as at 31 December 2021.

As at 31 December 2021, NWM Group's trading liabilities amounted to £64,482 million, a decrease of £7,770 million, or 11 per cent, as compared to £72,252 million as at 31 December 2020, driven largely by a reduction in derivatives cash collateral.

As at 31 December 2021, NWM Group's derivative liabilities amounted to £98,497 million, a decrease of £58,835 million, or 37 per cent, as compared to £157,332 million as at 31 December 2020. The decrease in mark-to-market value was largely due to increases in interest rates across major currencies during the year.

As at 31 December 2021, NWM Group's other liabilities amounted to £1,055 million, a decrease of £179 million, or 15 per cent, as compared to £1,234 million as at 31 December 2020, driven by decreases in provisions for liabilities and charges, current tax and deferred tax.

#### *Cash Flows*

The following table sets forth NWM Group's cash flow data as at the dates and for the years indicated.

	<b>NWM Group</b>	
	<b>For the years ended</b>	
	<b>2021</b>	<b>2020</b>
	<b>£m</b>	
<b>Cash flows from operating activities</b>		
Operating loss before tax.....	(714)	(315)
Adjustments for:		
Impairment (releases)/losses.....	(35)	42
Amortisation of discounts and premiums of other financial assets .....	4	17
Depreciation, amortisation and impairment of other assets.....	20	25

	<b>NWM Group</b>	
	<b>For the years ended</b>	
	<b>2021</b>	<b>2020</b>
	<b>£m</b>	
Change in fair value taken to profit or loss of other financial assets .....	80	(43)
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities .....	(180)	132
Elimination of foreign exchange differences .....	738	(841)
Other non-cash items .....	(1)	99
Income receivable on other financial assets .....	(130)	(198)
Loss on sale of other financial assets .....	2	13
Profit on sale of subsidiaries and associates .....	—	(64)
Loss on sale of other assets and net assets/liabilities .....	—	3
Interest payable on MRELS and subordinated liabilities .....	204	329
Loss on sale of MRELS and subordinated liabilities .....	26	16
Charges and release on provisions .....	(7)	106
Defined benefit pension schemes .....	4	10
<b>Net cash flows from trading activities</b> .....	<b>11</b>	<b>(669)</b>
Decrease in trading assets .....	7,664	4,127
Decrease/(increase) in derivative assets .....	59,861	(16,905)
Decrease in settlement balance assets .....	157	2,043
Increase in net loans to banks .....	(122)	(137)
Decrease/(increase) in net loans to customers .....	1,003	(152)
Decrease/(increase) in amounts due from holding company and subsidiaries .....	351	(179)
Decrease in other financial assets .....	41	212
(Increase)/decrease in other assets .....	(10)	40
Decrease in bank deposits .....	—	(281)
(Decrease)/increase in customer deposits .....	(350)	(1,085)
(Decrease)/increase in amounts due to holding company and fellow subsidiaries .....	(394)	40
(Decrease)/increase in settlement balance liabilities .....	(180)	(1,774)
(Decrease)/increase in trading liabilities .....	(7,771)	(1,584)
(Decrease)/increase in derivative liabilities .....	(58,835)	13,190
Increase/(decrease) in other financial liabilities .....	1,199	(297)
Decrease in other liabilities .....	(154)	(506)
Changes in operating assets and liabilities .....	2,460	(3,248)
Income taxes received/(paid) .....	28	(73)
<b>Net cash flows from operating activities(1)</b> .....	<b>2,499</b>	<b>(3,990)</b>
<b>Cash flows from investing activities</b>		
Sale and maturity of other financial assets .....	4,523	10,735
Purchase of other financial assets .....	(4,617)	(8,020)
Income received on other financial assets .....	130	198
Net movement in business interests .....	4	358
Sale of property, plant and equipment .....	1	2
Purchase of property, plant and equipment .....	(1)	(2)
<b>Net cash flows from investing activities</b> .....	<b>40</b>	<b>3,271</b>
<b>Cash flows from financing activities</b>		
Movement in MREL .....	(1,234)	(191)
Movement in subordinated liabilities .....	(378)	(548)
Dividends paid .....	(1,063)	(68)
Capital contribution .....	—	22
<b>Net cash flows from financing activities</b> .....	<b>(2,675)</b>	<b>(785)</b>
Effects of exchange rate changes on cash and cash equivalents .....	(994)	841
<b>Net decrease in cash and cash equivalents</b> .....	<b>(1,130)</b>	<b>(663)</b>
Cash and cash equivalents at 1 January .....	26,380	27,043
<b>Cash and cash equivalents at 31 December</b> .....	<b>25,250</b>	<b>26,380</b>



(1) Includes interest received of £419 million (2020 - £671 million) and interest paid of £330 million (2020 - £632 million).

Total cash inflow from trading activities was £11 million for the year ended 31 December 2021, an increase of £680 million as compared to a cash outflow of £669 million for the year ended 31 December 2020. The change was largely due to movements in foreign exchange differences of £1,579 million, partially offset by the increase in operating loss before tax from £315 million to £714 million, and other adjustments for non-cash movements.

Total cash inflow from changes in operating assets and liabilities was £2,460 million for the year ended 31 December 2021, an increase of £5,708 million compared to the £3,248 million outflow for the year ended 31 December 2020. The increase in inflow was principally attributable to the increased net inflow from decreases in derivative assets and derivative liabilities, increased inflows from the decrease in net loans to customers and increase in other financial liabilities, partially offset by the increased net outflow from decreases in trading assets and liabilities.

Total cash inflow from operating activities was £2,499 million for the year ended 31 December 2021, an increase of £6,489 million compared to the £3,990 million outflow for the year ended 31 December 2020. The increase in inflow was principally attributable to the movement in in foreign exchange differences, the increased net inflow from decreases in derivative assets and derivative liabilities, increased inflows from the decrease in net loans to customers and increase in other financial liabilities, partially offset by the increase in operating loss before tax from £315 million to £714 million and the increased net outflow from decreases in trading assets and liabilities.

Total cash inflow from investing activities was £40 million for the year ended 31 December 2021, a decrease of £3,231 million as compared to the cash inflow of £3,271 million for the year ended 31 December 2020. The decrease in inflow was principally attributable to reduced inflows from sales and maturity of other financial assets, offset by reduced outflows from purchase of other financial assets.

Total cash outflow from financing activities was £2,675 million for the year ended 31 December 2021, an increase of £1,890 million, as compared to the cash outflow of £785 million for the year ended 31 December 2020. The increase was principally due to the redemption of MREL instruments and dividends paid to NatWest Group plc during the year.

## Contingent Liabilities

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.

NWM Group uses a variety of loan-related financial instruments to meet customers' financial requirements. Instruments include loan offers and other credit facilities, guarantees and instruments not recognised in the balance sheet. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments.

The following table sets forth NWM Group's guarantees and other contingent liabilities as at the dates indicated.

	NWM Group			NWM Plc		
	For the years ended			For the years ended		
	2022	2021	2020	2022	2021	2020
	£m			£m		
<b>Contingent liabilities and commitments</b>						
Guarantees and assets pledged as collateral security.....	594	595	638	144	197	195
Other contingent liabilities .....	30	110	137	30	109	136

	NWM Group			NWM Plc		
	For the years ended			For the years ended		
	2022	2021	2020	2022	2021	2020
	£m			£m		
Standby facilities, credit lines and other commitments .....	13,973	11,245	12,292	7,967	7,363	7,534
	14,597	11,950	13,067	8,141	7,669	7,865

Note: In the normal course of business, NWM Plc guarantees specified third-party liabilities of certain subsidiaries; it also gives undertakings that individual subsidiaries will fulfil their obligations to third parties under contractual or other arrangements.

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

#### *Guarantees*

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

#### *Other Contingent Liabilities*

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

#### *Standby Facilities and Credit Lines*

Under a loan commitment NWM Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term, may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

#### *Other Commitments*

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

#### *Capital Support Deed*

As a pre-requisite for ring-fencing, from 1 November 2018 the Issuer has left NatWest Group's CSD to which it was party to until that date. The Issuer, together with its UK subsidiaries outside the ring-fenced subgroup, is now party to a new CSD. Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

The CSD, particularly compared to NatWest Group's CSD, has limited significance to NWM Plc as it is the only member-entity which is a bank and the other legacy entities have modest capitalisations and are subject to medium-term wind down plans.

#### *Risk Sharing Agreements*

During 2019 NWM Plc and NWM N.V. established limited risk-sharing arrangements that facilitate the smooth provision of services to NWM Group's customers. The arrangements include:

- (i) A Funded Guarantee of up to £1.0 billion in aggregate by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10 per cent of NWM N.V.'s capital. At 31 December 2022, NWM N.V. was in receipt of £0.8 billion of the Funded Guarantee from NWM Plc and the guarantee fees in the year ended 31 December 2022 amounted to £4.4 million. NWM Plc cash collateralises the Funded Guarantee in full and deposits funds with NWM N.V. where they are used for general corporate purposes.
- (ii) The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s Legacy portfolio. At 31 December 2022 the exposure at default covered by the guarantees was approximately £0.2 billion (of which £35 million was cash collateralised). Fees of £1.4 million in relation to the guarantees were recognised in the year ended 31 December 2022.

Following the acquisition of NWM N.V. in the year ended 31 December 2019, these arrangements are now intragroup (in terms of NWM Group). See '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Recent Changes to NWM Group's Scope of Activities Relating to the UK's Exit From The EU.*'

#### *Indemnity Deed*

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

## **Funding and Liquidity**

### ***Funding***

The Issuer monitors its funding mix to ensure that it is well diversified in terms of funding sources, maturities and currencies. A well-balanced portfolio of liabilities is intended to generate a stable flow of funding and provides protection against market disruptions. NWM Group seeks to diversify its funding base as much as reasonably possible and as part of this looks to supplement wholesale funding securities issuance by sourcing deposits from a broad range of counterparties. The Issuer regularly considers various market funding options and accesses the debt capital markets in a variety of issuance formats, currencies and tenors from time to time in connection with executing its funding plans.

The Issuer has the following principle sources of funding:

- Trading liabilities, including repos, which are largely matched by trading assets;
- Capital and funding (including internal MREL instruments), which totalled £8.7 billion as at 31 December 2022 and which is structurally subordinated to the Issuer's senior creditors;
- Term senior unsecured issuances, which totalled £15.6 billion as at 31 December 2022, of which £6.1 billion was issued in the year ended 31 December 2022. NWM Plc's 2023 funding plan targets £3 billion to £5 billion of public benchmark issuance;

- Money market instruments, principally certificates of deposit and commercial paper, which totalled £3.2 billion as at 31 December 2022; and
- Deposits consisting of customer deposits and wholesale deposits, which totalled £4.9 billion as at 31 December 2022; and
- Secured funding and other unsecured sources across a number of different formats, including private bilateral transactions such as bilateral loans.

The Issuer may also participate in a number of schemes operated by the BoE in the normal course of business. In particular, the Issuer is a participant in the BoE's Sterling Monetary Framework ('SMF') and may access SMF operations such as the Discount Window Facility ('DWF') and Indexed Long-Term Repo ('ILTR') operations by placing eligible collateral with the BoE.

As such, the Issuer seeks to cover its funding requirements from an increasingly wider investor, currency, product and geographic base with a split between secured and unsecured funding. The funding plan has diversification of funding types designed to ensure the Issuer has access to a range of options to minimise the risk of losing access to chosen markets, currencies, counterparties or instruments that enables it to meet its obligations as they fall due. A predetermined range of alternate and contingent funding options have been identified.

NWM Group's primary access to incremental funding is through wholesale funding markets. As such, NWM Group maintains a close dialogue with its rating agencies.

NWM Plc issued £4.6 billion (equivalent) of public benchmark issuances during 2022, in line with guidance of £3 billion to £5 billion in 2022. NWM Plc issued (i) €750,000,000 Floating Rate Senior Notes on January 13, 2023, with a maturity date of January 13, 2026 and (ii) €750,000,000 4.250% Senior Notes on January 13, 2023, with a maturity date of January 13, 2028, in each case under its £15,000,000,000 Euro Medium Term Note Programme. The Issuer has also raised funding in other formats, such as, but not limited to, structured notes and bilateral loans. The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal MREL instruments by residual maturity.

	Trading liabilities		Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
	Debt securities in issue		Debt securities in issue				Internal MREL	Subordinated liabilities	Total notes in issue
			Commercial paper and		Subordinated liabilities	Total			
	MTNs (1)	Total	CDs	MTNs (1)			liabilities	Total	Internal MREL
£m	£m	£m	£m	£m	£m	£m	£m	£m	
2022									
Less than 1 year .....	54	54	3,084	2,368	206	5,658	2,199	—	7,911
1-3 years .....	474	474	73	9,011	—	9,084	974	830	11,362
3-5 years .....	37	37	12	4,403	18	4,433	—	—	4,470
More than 5 years ....	232	232	—	636	242	878	—	689	1,799
Total .....	797	797	3,169	16,418	466	20,053	3,173	1,519	25,542
2021									
Less than 1 year .....	178	178	5,179	2,693	275	8,147	939	—	9,264
1-3 years .....	335	335	105	4,907	222	5,234	2,919	824	9,312
3-5 years .....	112	112	10	4,425	21	4,456	—	—	4,568
More than 5 years ....	349	349	—	405	445	850	—	640	1,839
Total .....	974	974	5,294	12,430	963	18,687	3,858	1,464	24,983

(1) With respect to MTNs only, £2,422 million will mature in 2023, £4,207 million will mature in 2024, £5,278 million will mature in 2025, £2,322 million will mature in 2026 and £2,118 million will mature in 2027.

The table below shows the currency breakdown of total notes in issue.

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2022					
Commercial paper and CDs .....	496	679	1,994	—	3,169

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
MTNs .....	1,301	5,249	7,991	2,674	17,215
External subordinated liabilities .....	19	102	345	—	466
Internal MREL due to NatWest Group plc .....	—	3,173	—	—	3,173
Subordinated liabilities due to NatWest Group plc .....	—	689	830	—	1,519
Total .....	1,816	9,892	11,160	2,674	25,542
2021 Total .....	853	9,156	13,467	1,507	24,983

The following table sets forth NWM Group's funding sources as at the dates indicated:

	2022			2021		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits .....	2,427	642	3,069	1,244	564	1,808
<i>of which: repos (amortised cost).....</i>	799	—	799	522	—	522
Customer deposits .....	3,353	261	3,614	2,161	107	2,268
<i>of which: repos (amortised cost).....</i>	—	254	254	—	—	—
Trading liabilities (1)						
Repos (2) .....	23,740	—	23,740	19,389	—	19,389
Derivative cash collateral received.....	17,663	—	17,663	17,619	—	17,619
Other bank and customer deposits.....	414	654	1,068	832	704	1,536
Debt securities in issue (3) .....	54	743	797	178	796	974
	41,871	1,397	43,268	38,018	1,500	39,518
Other financial liabilities						
Customer deposits (designated at fair value) .....	253	797	1,050	568	—	568
Debt securities in issue commercial paper and certificates of deposits.....	3,084	85	3,169	5,179	115	5,294
Medium-term notes (MTNs)(3) .....	2,368	14,050	16,418	2,693	9,737	12,430
Subordinated liabilities.....	206	260	466	275	688	963
	5,911	15,192	21,103	8,715	10,540	19,255
Amounts due to holding company and fellow subsidiaries (4)						
Internal MREL .....	2,199	974	3,173	939	2,919	3,858
Other bank and customer deposits.....	1,288	—	1,288	623	—	623
Subordinated liabilities.....	—	1,519	1,519	—	1,464	1,464
	3,487	2,493	5,980	1,562	4,383	5,945
Total funding .....	57,049	19,985	77,034	51,700	17,094	68,794
<i>Of which: available in resolution (5) .....</i>			2,753			6,010

- (1) Funding sources excludes short positions of £9,524 million (2021 – £24,964 million) reflected as trading liabilities on the balance sheet.
- (2) Comprised Central and other bank repos of £1,642 million (2021– £827 million), other financial institution repos of £19,354 million (2021 – £16,935 million) and other corporate repos of £2,744 million (2021– £1,627 million).
- (3) With respect to MTNs only, £2,422 million will mature in 2023, £4,207 million will mature in 2024, £5,278 million will mature in 2025, £2,322 million will mature in 2026 and £2,118 million will mature in 2027.
- (4) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £211 million (2021– £181 million) and intercompany settlement balances of £26 million (2021 – Nil) have been excluded from the table.

- (5) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the BoE including the Statement of Policy published in December 2021 (updating June 2018).

### **Liquidity Requirements**

The Issuer adheres to the UK implementation of rules on minimum liquidity requirements as set out by the Basel Committee on Banking Supervision ('BCBS'). Following the UK exit from the European Union the relevant BCBS liquidity standards have been incorporated into the UK regulatory framework by inclusion in the PRA Rulebook. The UK liquidity rules came into effect on 1 January 2022, prior to this the Issuer was subject to similar rules under the CRR. The Issuer is required to comply with a minimum LCR requirement as defined in these regulations. The LCR is a regulatory liquidity stress ratio measuring the ability of an entity's liquid asset resources to absorb stressed net outflows over a 30-day period. The Issuer monitors compliance with LCR on a daily basis using a set of liquidity and funding indicators. As at 31 December 2022, the Issuer's LCR was 253 per cent (as at 31 December 2021, the Issuer's LCR was 205 per cent).

In addition to the LCR, BCBS has issued liquidity standards in the form of the NSFR which has also been implemented in the UK in the PRA Rulebook from 1 January 2022. The Issuer is required to comply with a minimum NSFR as defined in these regulations. The NSFR is intended to ensure a sound funding structure by promoting an increase in long-term funding. It is monitored against a risk appetite of greater than or equal to 100 per cent. The ratio uses a weighting mechanism for assets and liabilities and calculates an aggregate 'stability weighting' for liabilities (liabilities and equity securities having maturities over one year are preferred) and a 'liquidity weighting' for assets. The less liquid the assets are, the more stable the funding must be.

The following table sets forth the NWM Plc's liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal SOC. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or SOC purposes.

	Liquidity value	
	2022	2021
	£m	£m
NWM Plc		
Cash and balances at central banks.....	13,472	12,277
AAA to AA- rated governments.....	4,766	3,457
A+ and lower rated governments .....	59	18
government guaranteed issuers, Public sector entities and government sponsored entities .....	13	13
International Organisations and Multilateral development banks .....	182	140
LCR level 1 bonds.....	5,020	3,628
LCR level 1 Assets.....	18,492	15,905
LCR level 2 Assets.....	—	—
Non-LCR Eligible Assets.....	—	—
Primary liquidity .....	18,492	15,905
Secondary liquidity (1).....	68	190
Total liquidity value .....	18,560	16,095

The table below shows the liquidity value of the liquidity portfolio by currency.

	<u>GBP</u>	<u>USD</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
	£m	£m	£m	£m	£m
Total liquidity portfolio					
2022.....	8,660	3,379	6,460	61	18,560
2021.....	7,947	3,010	5,120	18	16,095

(1) Comprises assets eligible for discounting at the BoE and other central banks.

### ***Liquidity Risk Management***

The Issuer operates independently for liquidity and funding as a non-ring-fenced bank within NatWest Group. The Issuer monitors and manages liquidity and funding risks against defined risk appetites. The liquidity and funding indicators are an important part of the daily management process since they are used as an early warning of potential issues and are reported to senior management.

Funding risk appetite is maintained by a maturity mismatch measure, in addition to the regulatory NSFR, which assesses whether the behavioural tenor of liabilities is longer than assets across various tenor buckets. The Issuer monitors the maturity mismatch by tenor in order to assess that the funding profile is manageable and in line with strategy.

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 at significant legal entity and business levels daily, with performance regularly reported to the Assets & Liabilities Committee. Liquidity Condition Indicators are monitored daily. This ensures any build-up of stress is detected early and the response escalated appropriately through recovery planning.

Under the liquidity risk management framework, NWM Group maintains compliance with rules set out by the PRA for the Internal Liquidity Adequacy Assessment Process. Liquidity risk appetite is maintained using the internal Stressed Outflow Coverage (“SOC”) ratio, in addition to the regulatory LCR. The SOC ratio measures the ability of the liquidity portfolio to absorb net outflows over a three month horizon which are calculated using internally approved assumptions and methodologies. It measures the low point within a suite of severe but plausible stress scenarios. Each scenario tests a combination of vulnerabilities of NWM Plc and provides a particular perspective on the liquidity position of NWM Plc. The full suite is run daily to ensure that the most severe scenario is used to calculate the SOC metric. The scenarios fit into three themes: Idiosyncratic, Market-Wide and Combined, as detailed in the table below.

Idiosyncratic scenarios .....	The market perceives NWM 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 scenarios.....	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. NWM Group is affected under these scenarios but no more severely than any other participants with equivalent exposure.
Combined scenarios.....	These scenarios model the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

The key risk drivers which lead to a change in liquidity metrics include, but are not limited to, intraday risk from timing mismatches between receipts and payments, off balance sheet items and both secured and unsecured wholesale funding. The Issuer has at its disposal a number of business as usual and contingency funding options in the event there is an indication of a future deterioration of the funding and liquidity position.

## Capital and Solvency

### *General*

The Issuer is a licensed financial services provider and is therefore subject to regulatory supervision in relation to the levels and quality of capital it is required to hold in connection with its business, including as a result of the transposition of the Basel Committee on Banking Supervision's regulatory capital framework ('**Basel III**') in Europe by CRD IV. The UK transposed the CRD IV framework, which applies to the Issuer and its financial subsidiaries in the UK. Similarly, the Issuer's financial subsidiaries outside the UK must comply with local capital requirements. The Issuer's ICAAP is based on capital management policies and practices.

The Issuer is regulated and discloses capital ratios and RWAs on a legal entity basis and is currently targeting a CET1 ratio of above 14 per cent, an MREL ratio of at least 30 per cent and a leverage ratio of at least 4 per cent in the medium-term. The Issuer's CET1 ratio decreased to 17.2 per cent at 31 December 2022, from 17.9 per cent at 31 December 2021. The CET1 ratio at year end 2022 reflects RWA reductions as a result of capital optimisation initiatives and in 2022 NWM Plc paid a total of £430 million in dividends to NatWest Group plc. NWM N.V.'s target CET1 ratio of above 17 per cent on a consolidated basis takes into account the potential transfers of EEA client exposure from NWM Plc and NWB to NWM N.V. due to Brexit.

As at 31 December 2022, NWM Plc legal entity RWAs were £21.4 billion.

### *Total Capital*

Capital consists of instruments and financial resources as laid down by applicable regulation and is categorised 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 loss absorption. Tier 1 capital consists of CET1 instruments and reserves, including ordinary shares and retained earnings, which must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. There is one other capital instrument constituting Tier 1 capital:

- Additional Tier 1 (AT1) capital —In the case of the Issuer, these instruments will be written down if NWM Plc's CET1 ratio falls to 7 per cent in accordance with the terms of the instrument.

Tier 2 instruments, used to absorb losses on a gone concern basis after Tier 1 capital, typically consist of subordinated debt securities with a minimum maturity of five years.

From 1 January 2019, MREL requirements have applied to NWM Plc. MREL includes TCR (i.e., the sum of all Tier 1 and Tier 2 capital) together with the portion of Tier 2 capital subject to the derecognition of capital treatment in the fifth year to twelve months prior to maturity where issued to other NatWest Group entities and 'gone concern' loss absorbing (MREL-eligible) securities of greater than one year residual maturity. Given NatWest Group has a Single Point of Entry resolution strategy, NWM Plc only issues internal MREL-eligible securities to NatWest Group plc. Total MREL for NWM Plc at 31 December 2022 was £8.65 billion, or 40.4 per cent of RWAs.

NWM Plc sources the majority of its capital funding from NatWest Group plc. As of December 2022 there were four remaining legacy external subordinated debt instruments (Tier 2) with an aggregated regulatory value for NWM Plc of £0, as they no longer qualify as regulatory capital for NWM Plc. NWM Plc had £1.5 billion of internally issued Tier 2 regulatory capital as of December 2022. The externally issued legacy instruments pre-date UK ring-fencing legislation and are subject to i) CRR legacy grandfathering or ii) regulatory amortisation within 5 years of maturity for the purpose of Own Funds Capital. All Tier 1 and senior internal MREL eligible instruments are held by NatWest Group plc. Going forward, NatWest Group plc is expected to be the sole subscriber of NWM Plc's AT1 and Tier 2 instruments and its senior MREL eligible instruments. This supports NatWest Group plc's single point of entry resolution strategy and ensures an NatWest Group plc-level capital efficiency in relation to its external issuance programme.

NWM Plc's future ability to meet its internal AT1, Tier 2 and MREL requirements will be dependent on NatWest Group plc maintaining sufficient amounts of capital externally and use the proceeds thereof as required to subscribe to NWM Plc instruments. NWM Plc currently holds adequate regulatory capital and CRR compliant senior debt instruments to meet its minimum requirements. The table below outlines NWM Plc's regulatory capital levels and ratios as at 31 December 2022.



In the year ended 31 December 2022, NWM Plc issued no internal AT1 and Tier 2 to NatWest Group plc as it had adequate resources to meet its management targets and minimum requirement throughout the year.

NWM Plc has non-equity capital holdings in two of its subsidiaries, RBSH and NWMSI. RBSH's AT1 (notional €250 million) capital was acquired in November 2019, as part of the transfer of NWM N.V. from NatWest Group plc to NWM Plc, and Tier 2 (notional €150 million) was subscribed to in December 2019. NWM Plc continues to provide subordinated funding to NWMSI, amounting to US\$370 million at 31 December 2022.

	31 December 2022		31 December 2021		31 December 2020	
	£m	%	£m	%	£m	%
CET1 .....	3,682	17.2	4,072	17.9	5,547	21.7
AT1.....	904	3.2	904	3	1,123	3.5
Tier 1 .....	4,361	20.4	4,755	21.0	6,433	25.2
Tier 2 .....	1,141	5.3	1,115	4.9	1,320	5.1
Total .....	5,502	25.7	5,870	25.9	7,753	30.3
MREL-eligible securities (including eligible Tier 2 amortisation).....	3,150	14.7	3,685	16.2	4,926	19.3
MREL.....	8,652	40.4	9,555	42.1	12,679	49.6

In line with paragraph 135 of IAS 1 '*Presentation of Financial Statements*,' the Issuer manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis.

	31 December 2022	31 December 2021	31 December 2020
	£m		
<b>RWAs</b>			
Credit risk.....	7,110	6,878	6,902
Counterparty credit risk.....	5,682	6,854	8,130
Market risk .....	7,152	6,934	8,150
Operational risk .....	1,478	2,020	2,382
Total RWAs.....	21,422	22,686	25,564

*Credit Risk.* The Issuer uses approved Advanced Internal Ratings Based (AIRB) and Internal Model Method ('IMM') models alongside the standardised approach for the calculation of credit risk. The Issuer's advanced internal measures of Credit Risk are based on assessments of the risk characteristics of both the borrower and the specific transaction. In the standardised approach the risk weights used in the capital calculation are determined by the regulator.

*Market Risk.* The Issuer uses a comprehensive set of methodologies and techniques to measure traded market risk, namely VaR, SVaR and the Incremental Risk Charge ('IRC'). Risks that are not adequately captured by VaR or SVaR are captured by the Risks not in VaR ('RNIV') framework to ensure that the Issuer is adequately capitalised for market risk.

*Operational Risk.* The Issuer uses the 'Standardised Approach' for the calculation of Operational Risk. Capital requirements are determined by multiplying three years' historical qualifying gross income by a percentage determined by the regulator. The percentage ranges from 12 per cent to 18 per cent, depending on the type of underlying business undertaken.

The Issuer's relevant capital ratios are outlined in the table below.

	31 December 2022	31 December 2021	31 December 2020
<b>Risk asset ratios (%)</b>			
CET1 .....	17.2	17.9	21.7

<b>Risk asset ratios (%)</b>	<b>31 December 2022</b>	<b>31 December 2021</b>	<b>31 December 2020</b>
Tier 1 .....	20.4	21.0	25.2
Total .....	25.7	25.9	30.3

### ***Expected Capital Developments***

Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an impact on NWM Group's operational and financial performance include:

- The UK countercyclical capital buffer (CCyB) was increased from 0% to 1% on 13 December 2022. The UK FPC has indicated that another increase of 1% is expected in July 2023, in line with its steady state target of 2.0%.
- The PRA has set minimum leverage requirements for UK material entities from 1 January 2023 (PS 21/21). NWM Plc has adopted the UK framework into its leverage risk appetite setting.
- The PRA announced its plan to implement final parts of the Basel III framework in November 2022, aligning to the Basel 3.1 standards where it deems it applicable. This includes revisions to credit risk and CVA framework(s) and output floors for internal models. The proposal is now undergoing a consultation phase with implementation planned from January 2025.

### ***Capital Requirements and Adequacy***

Capital adequacy is the amount of capital supply required, in terms of size and composition of the Issuer's balance sheet, to cover the risks to which the Issuer is exposed. Capital adequacy consists of the regulatory minimum capital level for risks covered under Pillar I (Credit Risk including Counterparty Credit Risk, Market Risk and Operational Risk). The ICAAP evaluates capital requirements under Pillar II which includes part A (for risks not covered or adequately captured under Pillar I) and part B (for a forward-looking assessment of capital requirements in stress conditions). The total of Pillar I and Pillar IIA informs the TCR set by the PRA. The TCR is the minimum level of regulatory capital that the Issuer is required to hold at all times.

As part of the ICAAP under Pillar II, capital adequacy is determined on the basis of an internal assessment of the Issuer's risk profile in relation to the minimum capital requirement. An important part of this process is determining adequacy and evaluating whether capital calculations take into account all material risks to which the Issuer is exposed under Pillar IIA. The Issuer uses its internal models as well as expert judgement and PRA benchmark models (where appropriate) to quantify whether the regulatory framework indicates that additional capital is needed.

CRD IV introduced a combined buffer that applies in addition to capital adequacy needs. For NWM Plc, the combined buffer consists of the capital conservation buffer and the countercyclical buffer.

The capital conservation buffer and the countercyclical buffer are designed to ensure that credit institutions accumulate a sufficient capital base over and above the Pillar I and Pillar IIA requirements during periods of economic growth to absorb losses during periods of stress. From 1 January 2019, the capital conservation buffer is 2.5 per cent of RWA. The countercyclical buffer requirement, which is set between 0 per cent and 2.5 per cent, is calculated as a weighted average of the national buffers in effect in the jurisdictions in which a bank has credit exposures. The determination of national buffers is made by host regulators, primarily informed by assessments of national GDP performance. Breaches of the Issuer's combined buffer requirement would result in regulatory restrictions on capital distributions, including the payment of dividends, payments on Additional Tier 1 capital instruments and variable remuneration.

The FSB makes an annual assessment of each financial institution to determine whether it should be considered a Global Systemically Important Bank ('**G-SIB**') based on methodology developed by the Basel Committee on Banking Supervision. If designated as a G-SIB, a bank would be required to hold an additional capital buffer. NWM did not meet the requirements to be classified as a G-SIB and therefore it does not hold a G-SIB buffer. The PRA

uses its discretion allowable within the EBA framework to designate some UK entities that would otherwise not be considered as G-SIBs to be classified as such (often referred to as D-SIBs). NWM Plc is not considered a G-SIB or a D-SIB.

The table below summarises the minimum capital requirements as at 31 December 2022 as a percentage of RWAs that the Issuer is expected to maintain exclusive of the Pillar IIA requirement. The Pillar IIA requirement is not disclosed publicly by the Issuer.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements (CRR) .....	4.5%	6.0%	8.0%
Capital conservation buffer .....	2.5%	2.5%	2.5%
Countercyclical capital buffer (1).....	0.5%	0.5%	0.5%
Total (excluding Pillar IIA add-on) .....	7.5%	9.0%	11.0%

- (1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The Financial Policy Committee (FPC) increased UK countercyclical capital buffer rate from 0% to 1% from 13 December 2022, with a further increase from 1% to 2% anticipated from 5 July 2023. Foreign exposures may be subject to different countercyclical capital buffer rates dependent on the rate set in those jurisdictions. The capital conservation buffer and the countercyclical capital buffer are required to be met with CET1 capital only.
- (2) In addition, NWM Plc is subject to Pillar 2A requirements, which are not disclosed publicly.

## Capital Planning

### General

NWM Group's capital planning takes into account both short- and long-term horizons in order to give the Board of Directors a comprehensive view of current and future capital levels. The capital plan includes a forecast of NWM Group's expected capital performance based on budgets, 12-month rolling forecast, and takes pending regulation into account when future capital requirements are assessed. NWM Group also uses stress tests in its internal capital planning and compliance with regulatory capital requirements.

NWM Plc's capital plans are produced and updated by the bank on a monthly basis. This process includes integration into NatWest Group's wider annual budgeting process. Capital planning is one of the tools that NWM Group uses to monitor and manage capital adequacy risk on a going and gone concern basis, including the risk of excessive leverage.

NWM Group's capital planning process is summarised below:

<p><b>Produce capital plans</b></p>	<ul style="list-style-type: none"> <li>• A capital plan is produced for NWM Plc using a five-year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing through the ICAAP or for regulatory purposes.</li> <li>• A shorter term rolling 12-month forecast is updated frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.</li> </ul>
<p><b>Assess capital adequacy</b></p>	<ul style="list-style-type: none"> <li>• Capital plans are developed to ensure that capital of sufficient quantity and quality is planned to be available to support NWM Group's business and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements.</li> <li>• Impact assessment captures input from across NWM Group including from businesses.</li> </ul>
<p><b>Inform capital actions</b></p>	<ul style="list-style-type: none"> <li>• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions.</li> <li>• Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions.</li> <li>• As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.</li> </ul>

### *Stress Tests*

Stress testing is a key risk management tool and a fundamental component of the Issuer's approach to capital management. It is used to quantify, evaluate and understand the potential impact of specified changes to risk factors on the financial strength of the Issuer, including its capital position. A macroeconomic scenario which specifies a hypothetical future state of the world is translated into risk drivers and used to test the business model.

The results of both internal and regulatory stress tests show that NWM Plc and its consolidated subsidiaries are robust in the event of unfavourable economic developments in the selected stress test scenarios.

### Internal Stress Tests

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

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

When the Issuer uses stress tests in its capital planning, it identifies Bank-specific vulnerabilities and risks, defines scenarios that examine those risks and assesses the impact of the scenario on income, costs and risk exposures held. Stressing income and costs affect the Issuer's capital, while stressing risk exposures affect its capital adequacy requirements. Scenario results are used to inform the Issuer's business and capital plans.

The Issuer uses stress testing in its annual ICAAP for the purpose of projecting its capital adequacy in a range of unfavourable scenarios and as an essential part of the Issuer's capital planning. The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the PRA to make an assessment of NWM Plc's specific capital requirements through the Pillar II framework. NWM N.V. submits an ICAAP to its regulator, DNB.

The Issuer also conducts ‘Reverse Stress Testing.’ This examines circumstances that can lead to specific defined outcomes such as business failure. Reverse Stress Testing starts from an outcome of business failure and identifies scenarios and circumstances where this might occur. Reverse Stress Testing allows the Issuer to examine potential vulnerabilities in its business model more fully.

### Regulatory Stress Tests

The Issuer’s parent, NatWest Group plc, takes part in a number of external stress tests which the Issuer supports, including the BoE’s annual solvency stress test. The requirements for these stress tests do not extend to the Issuer. However, NWM Plc provides support to its parent in conducting enterprise-wide stress tests.

### **Leverage Ratio**

The leverage ratio represents a non-risk-adjusted capital requirement implemented to serve as a further backstop measure for risk-based capital. Since January 2014, CRD IV rules have required that a credit institution calculate, monitor and report on its leverage ratio (defined as Tier 1 capital as a percentage of total exposure). The PRA and FPC released their UK leverage framework update in October 2021 (PS 21//21) and outlined requirements for material UK entities. The issuer will be subject to a leverage ratio minimum requirement from 2023 as implemented under the UK framework with its risk appetite and planning targets set on this basis.

The following table sets forth certain information with respect to NWM Group’s leverage ratio as at the dates indicated.

<b>Leverage</b>	<b>31 December 2022</b>	<b>31 December 2021</b>	<b>31 December 2020</b>
Tier 1 capital (£m).....	4,361	4,755	6,433
PRA UK leverage exposure (£m).....	81,083	110,603	123,927
PRA UK leverage ratio (%) <sup>(1)</sup> .....	5.4	4.3	5.2

(1) The leverage exposure for December 2022 has been calculated in accordance with the Leverage Exposure (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

### **Derivative Instruments**

NWM Group applies hedge accounting to reduce the accounting mismatch caused in the income statement by using derivatives to hedge the following risks: interest rate, foreign exchange and the foreign exchange risk associated with net investment in foreign operations.

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

Suitable larger fixed rate financial instruments are subject to fair value hedging in line with documented risk management strategies.

Cash flow hedges of interest rate risk relate to exposures to the variability in future interest payments and receipts due to the movement of benchmark interest rates on forecast transactions and on financial assets and financial liabilities. This variability in cash flows is hedged by interest rate swaps, which convert variable cash flows into fixed. For these cash flow hedge relationships, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to the relevant benchmark rates, most notably USD LIBOR, SOFR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant benchmark rate is hedged; this risk component is identified using the risk management systems of NWM Group and encompasses the majority of cash flow variability risk.

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item’s fair

value attributable to changes in the benchmark interest rate risk component of the hedged item. The significant benchmarks identified as risk components are USD LIBOR, SOFR, EURIBOR and SONIA. These risk components are identified using the risk management systems of NWM Group and encompass the majority of the hedged item's fair value risk.

NWM Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts. NWM Group reviews the value of the investments' net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required. Exchange rate risk also arises in NWM Group where payments are denominated in currencies other than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging and fair value hedge relationships NWM Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the expected highly probable forecast cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging instruments. The method used for comparing movements is either regression testing or the dollar offset method. The method for testing effectiveness and the period over which the test is performed depends on the applicable risk management strategy and is applied consistently to each risk management strategy. Hedge effectiveness is assessed on a cumulative basis and the determination of effectiveness is in line with the requirements of IAS39.

NWM Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured in line with the requirements of IAS39 and recognised in the income statement as it arises.

	NWM Group								
	2022			2021			2020		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m			
Exchange rate contracts .....	3,145	45,821	44,938	3,162	38,546	39,275	3,331	52,524	54,863
Interest rate contracts.....	10,356	54,097	48,372	8,601	66,850	58,879	10,412	112,926	102,073
Credit derivatives.....	15	236	275	14	154	343	15	161	388
Equity and commodity contracts .....	—	—	—	—	—	—	1	8	8
		<u>100,154</u>	<u>93,585</u>		<u>105,550</u>	<u>98,497</u>		<u>165,619</u>	<u>157,332</u>

As at 31 December 2022, NWM Group's derivative assets amounted to £100,154 million, a decrease of £5,396 million, or 5 per cent, as compared to £105,550 million as at 31 December 2021. The decrease in mark-to-market value was largely driven by market volatility in 2022, including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

As at 31 December 2022, NWM Group's derivative liabilities amounted to £93,585 million, a decrease of £4,912 million, or 5 per cent, as compared to £98,497 million as at 31 December 2021. The decrease in mark-to-market value was largely driven by market volatility in 2022, including increases in interest rates across major currencies and the strengthening of USD against major currencies, including the pound sterling.

## Credit Exposure

The table below summarises the net credit exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products.

Cash & balances at central banks	Sovereign debt securities	Loans & other lending	Other debt securities	Collateralised rate risk management	Uncollateralised rate risk management	Repo & reverse repo	Off-balance sheet items	Leasing	Total
£m									

2022

	Cash & balances at central banks	Sovereign debt securities	Loans & other lending	Other debt securities	Collateralised rate risk management	Uncollateralised rate risk management	Repo & reverse repo	Off-balance sheet items	Leasing	Total
	£m									
AQ1-AQ4.....	17,007	5,695	9,987	5,538	2,360	1,964	1,659	596	29	44,835
AQ5-AQ8.....	—	—	687	305	164	327	25	21	—	1,529
AQ9.....	—	—	23	—	2	13	—	—	—	38
AQ10.....	—	—	47	1	—	—	—	—	—	48
Current exposure....	17,007	5,695	10,744	5,844	2,526	2,304	1,684	617	29	46,450
Potential exposure..	17,007	5,695	24,235	5,844	11,488	4,749	2,206	1,715	29	72,968
<b>2021</b>										
AQ1-AQ4.....	16,645	5,176	6,998	3,060	2,355	1,520	510	669	49	36,982
AQ5-AQ8.....	—	—	534	238	327	428	10	29	—	1,566
AQ9.....	—	—	23	—	2	52	—	—	—	77
AQ10.....	—	—	21	1	—	2	—	—	—	24
Current exposure....	16,645	5,176	7,576	3,299	2,684	2,002	520	698	49	38,649
Potential exposure..	16,645	5,176	18,065	3,299	10,493	3,865	1,590	2,014	49	61,196
<b>2020</b>										
AQ1-AQ4.....	15,771	5,968	6,687	1,432	2,399	2,109	351	815	55	35,587
AQ5-AQ8.....	—	—	1,183	58	479	985	—	59	—	2,764
AQ9.....	—	—	168	—	2	3	—	1	—	174
AQ10.....	—	—	30	1	1	8	—	1	4	45
Current exposure..	15,771	5,968	8,068	1,491	2,881	3,105	351	876	59	38,570
Potential exposure	15,771	5,968	20,119	1,491	11,969	4,764	1,306	1,811	59	63,258

Note: Measured against NWM Group's asset quality scale, 96 per cent of total current exposure was rated in the AQ1-AQ4 bands at 31 December 2022, which in the context of external credit ratings was equivalent to an investment grade rating of BBB- or better.

As at 31 December 2022, NWM Group's current net credit exposure totalled £46,450 million, as compared to £38,649 million as at 31 December 2021. The increase in total current and potential credit exposure reflected increased business volumes.

For additional information on NWM Group's credit exposure, please refer to 'Risk Management' which provides further detail on credit risk exposures across both trading activities and banking activities.

## Material Contracts

### Revenue Share Agreements

NWM Group continues to provide access to markets products and services for the NatWest Group's ring-fenced sub-group and on 6 November 2018 entered into a series of Revenue Share Agreements with certain Revenue Sharing Entities. The Revenue Share Agreements reflect the provision of products and services across NWM Group's Rates, Currencies and Financing products to customers that have their primary banking relationship with the Revenue Sharing Entities. The allocation of income from customers that have their primary banking relationship with the Revenue Sharing Entities across the relevant counterparties within NatWest Group is referred to as 'revenue share.' This operating model reflects NatWest Group plc's UK ring-fencing design to locate the entirety of its markets activity within NWM Group, and for customers from other Revenue Sharing Entities to be referred to NWM Group for risk management and financing products. UK ring-fencing legislation and tax legislation dictates that all transactions with these entities are established on an arm's-length basis. Accordingly, the Revenue Share Agreements have been prepared on this basis. For further information, please refer to 'Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.'

## Critical Accounting Policies and Key Accounting Estimates

The reported results of NWM Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting standards used in the preparation of the financial statements require the directors, in preparing NWM 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 accounting guidance, standards used in the preparation of the financial statements require the directors to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting' The judgements and assumptions involved in NWM Group's accounting policies that are

considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by NWM Group would affect its reported results.

### ***How climate risk affects NWM Group's accounting judgements and estimates***

#### ***Business planning***

Key financial estimates are based on management's latest five-year revenue and cost forecasts. The outputs from this forecast affect forward-looking accounting estimates. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. In 2022, this exercise supports the development of NatWest Group's climate transition plan, including the assessment of climate-related risks and opportunities.

- changes in business operations, products and services to support customer decarbonisation;
- financial plans linked to business operations and strategy. During 2022, the financial planning process has been enhanced to incorporate climate related opportunities included in the climate transition plan; and
- development in UK Government policies, aligned with the Committee on Climate Change Sixth carbon Budget published in 2021. NWM Group also assumes certain broader policy responses and technological innovation to enable the wider transition of the economy.
- There remains considerable uncertainty regarding this policy response, including the effect of wider geopolitical uncertainty on governmental ambitions regarding climate transition and the effect of decarbonisation on wider economic growth, technology development and customer behaviours.
- NWM Group's 'base case' economic assumptions are those it uses for its determination of expected credit loss. The inclusion of climate factors may have greater effect in future periods. NWM Group does not at this point include new revenue opportunities nor does it assume unilateral commercial actions that are inconsistent with its purpose led strategy that would have material financial consequences.

#### ***Information used in other accounting estimates***

NWM Group makes use of reasonable and supportable information to make accounting judgements and estimates. This includes information about the observable effects of the physical and transition risks of climate change on the current creditworthiness of borrowers, asset values and market indicators. It also includes the effect on NWM Group's competitiveness and profitability. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgements and estimates for the current period. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate-related terms prevent the instrument cashflows being solely payments of principal and interest.
- The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. NWM Group's assessment of sector specific risks, and whether additional adjustments are required, include expectations of the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect its positions.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

#### ***Critical accounting policies***

The judgements and assumptions involved in NWM Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates,



assumptions or models that differ from those adopted by NWM Group would affect its reported results. Management's consideration of uncertainty is outlined in the relevant sections of this document, including the ECL estimate in the Risk and capital management section.

Key financial estimates are based on management's latest five-year revenue and cost forecasts. Changes in judgements and assumptions could result in a material adjustment to those estimates in future reporting periods. Consideration of this source of estimate uncertainty has been set out in the notes below (as applicable).

### ***Tax contingencies***

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

### ***Deferred tax***

The deferred tax liability of £101 million at 31 December 2022 (2021 – liability of £374 million) includes a deferred tax asset on losses of £3 million. The deferred tax asset of £46 million as at 31 December 2022 (2021 - £48 million) comprises losses which arose in the Netherlands.

It was announced in the UK Government's budget on 27 October 2021 that the UK banking surcharge will decrease from 8% to 3% from 1 April 2023. This legislative change was enacted on 24 February 2022. NWM Group's closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystallise.

Judgement - NWM Group has considered the carrying value of deferred tax assets and management considers that sufficient taxable profits will be generated in future years to recover the remaining deferred tax asset.

Estimate – These estimates are partly based on forecast performance. They have regard to inherent uncertainties, such as climate change. The deferred tax asset in NWM Plc is supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022. See Accounting policies Note 2 and Note 7 to the 2022 Financial Statements for further details.

### ***UK tax losses***

Under UK tax rules, tax losses can be carried forward indefinitely. As the recognised tax losses in NWM Plc arose prior to 1 April 2015, credit in future periods is given against 25% of profits at the main rate of UK corporation tax, excluding the Banking Surcharge rate introduced by The Finance (No. 2) Act 2015.

*NWM Plc* – A deferred tax asset of £3 million (2021 - £56 million) has been recognised in respect of losses of £12 million, and is now entirely supported by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2022. NWM Plc expects that the balance of recognised deferred tax asset at 31 December 2022 will be recovered by the end of 2027. Of the losses remaining, £5,538 million have not been recognised in the deferred tax balance at 31 December 2022. See Note 7 to the 2022 Financial Statements for further details.

### ***Overseas tax losses***

*NWM N.V.* – A deferred tax asset of £46 million (2021 - £48 million) has been recognised in respect of losses of £186 million of total losses of £2,914 million carried forward at 31 December 2022. NWM N.V. Group considers it to be probable, based on its 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised. The tax losses and the tax credits have no expiry date.

See Note 7 to the 2022 Financial Statements for further details.

### ***Unrecognised deferred tax***

Deferred tax assets of £3,601 million (2021 - £3,340 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £13,045 million (2021 - £12,125 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other deductible temporary differences, £75 million expire within five years and £4,774 million thereafter. The balance of tax losses and other deductible temporary differences carried forward has no expiry date.

There are no unrecognised deferred tax liabilities in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches.

See Note 7 to the 2022 Financial Statements for further details.

### ***Fair value – financial instruments***

Financial instruments classified as mandatory fair value through profit or loss; held-for-trading; designated fair value through profit or loss and fair value through other comprehensive income are recognised in the financial statements at fair value. All derivatives are measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement considers the characteristics of the asset or liability and the assumptions that a market participant would consider when pricing the asset or liability.

NWM Group manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs (see 'Valuation Adjustments' in the 2022 Financial Statements).

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.

See Note 10 to the 2022 Financial Statements for further details.

### ***Loan impairment provisions***

Accounting policies Note 2.3 in the 2022 Financial Statements sets out how the expected loss approach is applied. At 31 December 2022, customer loan impairment provisions amounted to £54 million (2021 - £84 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

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

See Note 14 to the 2022 Financial Statements for further details.

#### *IFRS 9 ECL model design principles*

Refer to 'Risk management – Credit risk – IFRS 9 ECL model design principles' for further details.

#### *Approach for multiple economic scenarios (MES)*

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

### ***Provisions for liabilities***

The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where NWM 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.

- Litigation and other regulatory: NWM Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 25 to the 2022 Financial Statements.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

See Accounting policies Note 2 and Note 20 to the 2022 Financial Statements for further details.

### **Recent Accounting Developments**

A number of IFRSs and amendments to IFRS were in issue at 31 December 2022 that would affect NWM Group from 1 January 2023 or later:

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

Other new standards and amendments that are effective for annual periods beginning after 1 January 2024, with earlier application permitted, are set out below.

Effective 1 January 2024:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-current Liabilities with Covenants (Amendments to IAS 1); and
- Lease Liability in a sale and Leaseback (Amendments to IFRS 16).

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

## DESCRIPTION OF NWM GROUP

### Overview

NWM Plc is a wholly owned subsidiary of NatWest Group plc, a banking and financial services group. It is a strategically important part of NatWest Group.

NWM Group provides liquidity and risk management in Currencies and Fixed Income. The Capital Markets business provides an integrated proposition across financing, solutions and advisory services. NWM Group provides services principally to corporates, sponsors, financial institutions and sovereigns as well as the broader NatWest Group. NWM Group's climate strategy also supports and contributes to NatWest Group's ambition and is focused on helping customers to achieve their climate ambitions, proactively supporting their transition to a low carbon economy while managing NWM Group's operations with respect to carbon emissions.

Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' NWM Group and other entities within the broader NatWest Group follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Approximately 35 per cent of NWM Group's total income for the year ended 31 December 2022 was sourced from customers referred to NWM Group by other NatWest Group entities, compared to 54 per cent for the year ended 31 December 2021. The percentage decrease largely reflects improved income performance in other areas not subject to revenue share.

The core business lines of NWM Group are:

- **Fixed Income.** A range of cash bond, repo and interest rate derivatives products with a focus on sterling, euros and U.S. dollars that support customers' financing and hedging needs, together with the provision of liquidity and credit trading capabilities for investment-grade and high-yield bonds and loans for both financial institutions and corporate issuers.
- **Currencies.** Offering FX spot, forwards, cross-currency swaps and options, as well as an FX prime service and FX digital solutions.
- **Capital Markets.** Access to global debt capital markets across a wide variety of products and target markets that include bonds, loans, commercial paper, medium-term notes, private placements, via bespoke financing solutions and primary lending products.

NWM Group is focussed on leveraging technology and automation to add value for customers. NWM Group has developed digital self-service applications covering, among others, FX, rates, risk management, and international payments services. NWM's strategists and content experts across currencies, fixed income and capital markets offer content and ideas alongside market-leading economic insights in the key economies where its customers do business.

NWM Group's operations are centred around the UK, a market in which it has a strong positioning and a competitive value proposition. NWM Group targets customers in the UK and Europe and its activities in the US and the APAC region are focused on providing risk distribution capability and access to institutional clients in those regions. For the year ended 31 December 2022, 73 per cent (2021 - 59 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2021 - 25 per cent) was generated in the US and 13 per cent (2021 - 16 per cent) was generated in the rest of the world. See '*—Geographic Footprint*' for further details.

As further discussed under '*Description of NWM Group —NWM Group's History and Development,*' in the year ended 31 December 2018 NatWest Group restructured its group legal entities and business model to meet the requirements of UK ring-fencing legislation. Following this, NWM Plc became the principal holding and operating company for NatWest Group's operations outside the ring-fence and NWM Group's business, operations and financial condition cannot be compared to its business, operations and financial condition prior to the implementation of the UK ring-fencing regime. The implementation of the UK ring-fencing regime had a material impact on NWM Group's operational footprint, balance sheet composition, funding strategy, capital requirements and credit ratings. Accordingly, NWM Group adapted its strategy and business model and adopted new processes and structures for, among other things, financial reporting, risk management and corporate governance and has also implemented a shared services model with the ring-fenced entities for certain other services.

Due to the exit of the UK from the EU, financial institutions and some of their customers that previously accessed European markets through the UK were required to relocate activities to Europe to ensure business continuity and minimise disruption to customers. To manage the risks arising from Brexit, NWM N.V. began transacting new business on 25 March 2019 to ensure continuity of service to EEA customers following the UK's exit from the EU. In November 2019, NWM N.V. and its holding company, RBSH, were acquired by NWM Plc from NatWest Group plc.

In February 2020, NatWest Group plc announced that it would become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy entails balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities, being Enterprise, Learning and Climate change.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, NWM Plc implemented its 'NWM Refocusing' initiative to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc. NWM Plc's RWAs reduced to £21.4 billion at 31 December 2022, reflecting lower levels of counterparty credit and operational risk, partially offset by increases in credit and market risk.

NWM Plc CET 1 capital is also expected to reduce as a result of the reduction in RWAs. NWM Plc paid dividends amounting to £430 million to NatWest Group plc during the year ended 31 December 2022. In the medium-term, NWM Plc is targeting a CET1 capital ratio of approximately 14%. Other factors may also influence the CET 1 ratio. For more information, please refer to 'Risk Factors—Financial resilience risk.'

The front office transformation of NatWest Markets is complete. To enable becoming a more sustainable business, we have leveraged NatWest Group investment in technology both for colleagues and customers.

The implementation of the NWM Refocusing was a complex process and implementation of the strategy was completed in 2022.

On 27 January 2022, NatWest Group also announced that, in order to further support its customers' growth ambitions and deliver on the next phase of its strategy, it would evolve its Commercial, NatWest Markets and RBS International businesses to form a single business segment to best support its customers across the full non-personal customer lifecycle. The Commercial and Institutional business segment (C&I) went live on 1 July 2022 with appointments made across four customer businesses and functional roles for the C&I Management Committee.

The following metrics have been set for NWM Plc in the medium-term and supersede all prior guidance:

<b>Metric</b>	<b>Estimate</b>
CET 1 ratio	~14%
MREL ratio <sup>(1)</sup>	> 30%
Leverage ratio	> 4%

(1) Includes total regulatory capital, non-eligible capital and downstreamed internal MREL.

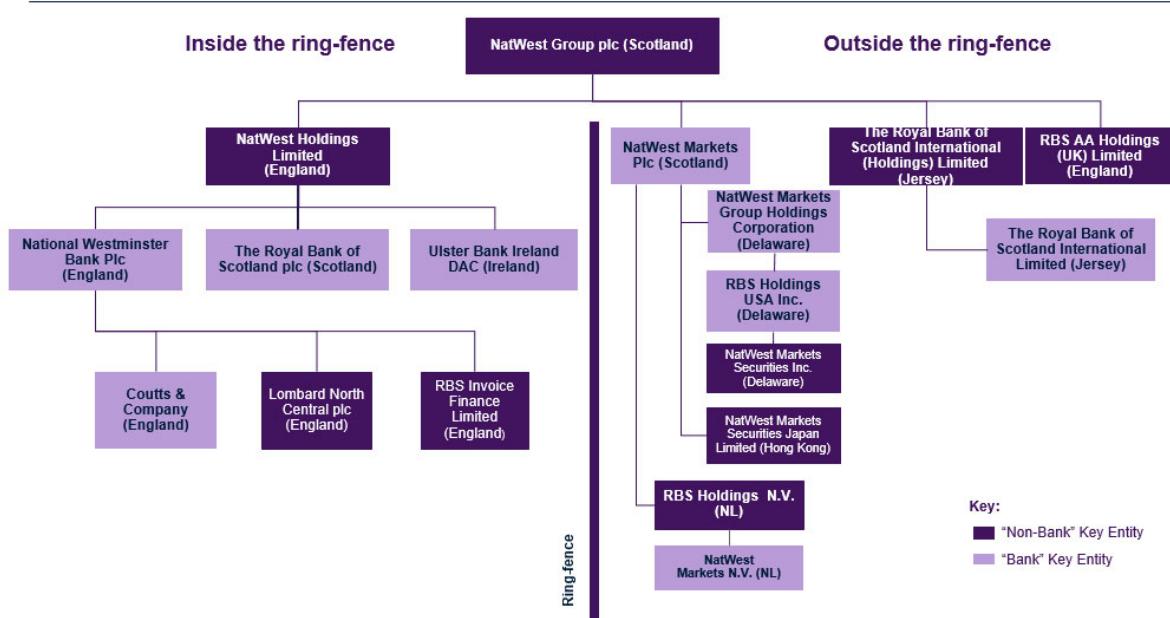
The NWM Plc 2023 funding plan targets £3–5 billion of public benchmark issuances.

## **NWM Group's History and Development**

NWM Plc is a public limited company incorporated in Scotland on 31 October 1984 with registration number SC090312. Prior to the implementation of the ring-fencing regime, NWM Plc was named RBS Plc and was NatWest Group's principal operating subsidiary, holding, directly or indirectly, the majority of the assets and operations of NatWest Group as intermediate holding company.

The chart below indicates NatWest Group's current structure:

# Abridged Structure



Structural hierarchy has been simplified to assist understanding

NWM Group previously announced changes to the scope of its activities as a result of structural changes implemented as part of NatWest Group’s strategy. Certain of these changes concluded during 2019, including (i) the Issuer’s EEA transfer customers transferring to NWM N.V. under a court-approved FSMA scheme, with such transfers being substantially completed in the first half of 2019, and (ii) NatWest Group plc transferring ownership of NWM N.V., so that it became a subsidiary of the Issuer with effect from 29 November 2019, following the completion of the Alawwal Sale and the subsequent unwinding of the consortium arrangements with respect to the ownership of RFS Holdings BV. NWM Group has made significant progress on implementing the Purpose-led Strategy announced in February 2020. This involved a reorganisation of the front office in 2020, including exiting a number of product lines and the transfer of some customer facing roles to NWH Ltd. A Capital Management Unit business was established in Q3 2020 to manage the capital reduction and optimisation. A number of support functions have been transferred from NWM Group to NWH Ltd, including Risk and Treasury in 2020 and certain Finance and COO roles and activities in 2021. Following transfer, the services performed by these functions are now provided by NWH Ltd to NWM Group by way of intra-group agreements. In addition, to improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group’s Transfer Business, may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ringfenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its go-forward results of operations. These changes are discussed under ‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’

## NWM Group's Products and Customers

### *NWM Group's Products*

NWM Group provides liquidity and risk management in Currencies and Fixed Income businesses through a combination of voice and electronic distribution channels. Through its Capital Markets business, NWM Group provides an integrated proposition across financing, solutions and advisory services.

NWM Group understands the power of building deep and enduring relationships. One of the ways this is done is by providing relevant market colour, content and ideas to customers. NWM Group's strategists and content experts across Currencies, Fixed Income and Capital Markets offer industry and economic insights in the key economies where NWM Group's customers do business.

NWM Group has a sharp focus on digitisation and automation and offers a range of digital foreign exchange (FX), fixed income, risk management and international payments options which use NWM Group applications or APIs (application programme interfaces), including Agile Markets, FXmicropay and Rate Manager.

The suite of the products and services that are offered by NWM Group centre around three pillars:

- **Fixed Income.** NWM Group has long-standing expertise in the fixed income markets and offers cash bond, repo and interest rate derivatives, with a focus on sterling, euros and US dollars, that supports its customers' financing and hedging needs. In addition, NWM Group provides liquidity and credit for investment-grade and high-yield bonds and loans for both financial institutions and corporate issuers. For the year ended 31 December 2022, income from Fixed Income represented 5 per cent of NWM Group's income before revenue share paid, asset disposals/strategic risk reduction and OCA (2021 – -10 per cent).
- **Currencies.** NWM Group is an award-winning foreign exchange service provider offering FX spot, forwards, cross-currency swaps and options, as well as an FX prime service and FX digital solutions. For the year ended 31 December 2022, income from Currencies products represented 58 per cent of NWM Group's income before revenue share paid, asset disposals/strategic risk reduction and OCA (2021 - 65 per cent).
- **Capital Markets.** NWM Group aims to be the partner of choice for its customers. NWM Group helps customers to access global debt capital markets across a wide variety of products and target markets, including bonds, loans, commercial paper, medium-term notes (MTNs), private placements, as well as via bespoke financing solutions and primary lending products. NWM Group also provides customers with thought leadership, advice and products to support their climate and ESG strategies through its ESG and Climate capital markets platform. For the year ended 31 December 2022, income from Capital Markets products represented 45 per cent of NWM Group's income before revenue share paid, asset disposals/strategic risk reduction and OCA (2021 - 51 per cent).

### *Customer Segments and Ownership*

NWM Group is focused on its core UK and European corporate customer base, Financial Institutions and the provision of products and services to customers of the broader NatWest Group plc Group, where NWM Plc provides access to markets products and services for NatWest Group entities across NatWest Group plc's commercial, private banking and personal banking customer segments. As such, NWM Group as the non-ring-fenced bank entity and NatWest Group entities inside the ring-fence continue to work together to deliver an integrated products and services proposition for relevant NatWest Group customers.

In addition to serving its own customers, NWM Group provides Fixed Income, Currency and Capital Markets products to corporate, commercial, business and select retail clients of other NatWest Group entities. Income derived from customers whose primary banking relationship is with other NatWest Group plc entities is referred to as 'revenue share.' NWM Group and these other NatWest Group entities follow an integrated customer-planning approach to maximise connectivity, which includes customer account planning, allocation decision-making, and opportunity identification. Ring-fence legislation has dictated that all transactions with these entities are established on an arm's-length, third-party basis. See also, '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.*'

NWM Group's customer base is split into four customer segments:

- Financial Institutions, for which NWM Group owns the client relationship;
- Corporates, for which the ring-fenced bank generally owns the client relationship and NWM Group delivers markets products, with the exception of relationships with Western European corporates, where client coverage primarily resides in NWM Group;
- Commercial Mid-Market customers, for which the ring-fenced bank owns the client relationship and for which NWM Group delivers select markets products; and
- Business Banking customers, for which the ring-fenced bank owns the client relationship and for which NWM Group delivers select markets products.

As mentioned previously, in February 2020 NatWest Group plc announced that NWM Group will become a more customer-focussed business, with a stronger alignment with NatWest Group's core customers. In July 2022, NatWest Group announced the creation of the Commercial & Institutional segment, which brought together the Commercial, NatWest Markets and RBS International customer businesses. The newly formed segment is organised around four customer businesses and aims to deliver a more integrated customer proposition and improved connectivity across entities in the NatWest Group.

### **NWM Group's Strategy**

In February 2020, NatWest Group plc announced that it would become a purpose-led organisation, operating with the purpose to champion potential, helping people, families and businesses to thrive. This strategy will mean balancing the interests and changing needs of all stakeholders, with a focus on the three core areas where NatWest Group plc believes it can make a unique contribution to the broader issues that are impacting the lives of its customers and communities. These are:

- Enterprise - Addressing barriers to enterprise and business creation: the biggest supporter of start-ups in the UK and ROI;
- Learning - Skill building particularly around financial confidence: a leading learning organisation; enhancing the financial ability of the UK and ROI and the skills of employees; and
- Climate change - Supporting the necessary transition to a lower carbon economy: a leading bank in the UK and ROI helping to address the climate challenge.

As part of this new strategy, NatWest Group plc undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation. Following this review, the NWM franchise was refocused to support a more integrated corporate and institutional customer offering, which is intended to result in it having a sustainable future within NatWest Group plc.

NWM Group has an important role in delivering this future strategy by connecting NatWest Group's corporate and institutional customers with international capital markets and helping them to manage their financing and risk management needs.

NWM Group is in the process of implementing a leaner operating model and will focus capital towards supporting NatWest Group's customers' needs and increasing its focus on digital solutions. The implementation of the NWM Refocusing was a complex process and implementation of the strategy was completed in 2022.

The purpose-led approach is supported by NWM Group's four strategic priorities (supporting customers, powered by innovation and partnerships, simple to deal with and sharpened capital allocation) and, taken together with NWM Group's and NatWest Group's financial targets, set out how NWM Group expects to create value and deliver sustainable financial returns for the benefit of all NWM Group stakeholders.

NWM Plc aligns itself to NatWest Group's strategy as part of the Commercial & Institutional segment, which was approved by the NatWest Group Board and is being implemented by NWM management, who are overseen by the NWM Board.



### *Supporting customers*

NWM Group is focused on stronger alignment to NatWest Group's core customers, applying capital markets expertise and thought leadership in areas across a Fixed Income, Currencies and Capital Markets offering. NWM Group plans to support the customers as one bank and increase penetration with NatWest Group's customers that play a critical role in the development of the UK economy.

NWM Group undertook a review of its core businesses to inject greater discipline in its approach to customer and capital allocation and has implemented a new customer segmentation framework to ensure resource deployment to core customers. NWM Group also re-organised its customer facing teams under a new organisational construct built around Trading, Customer Sales and Capital Markets, with aim to elevate customers focus across the organisation. NWM Group has taken steps to simplify its product offering to focus on where it can excel and ensure alignment with the needs of its customers.

NWM Plc continued to work as part of 'One Bank' to invest in growth areas that matter the most to its customers. Its growth plans, with increased collaboration across NatWest Group and the newly formed Commercial & Institutional segment, have already started to deliver benefits.

In 2020, NWM Group has also transferred certain customer facing teams to NatWest Holdings Limited to consolidate coverage activities and service customers under a one bank approach. NWM has also taken steps to rightsize and make refinements to regional operating models in US, Europe and Asia across customer facing and functional teams.

In 2022, the creation by NatWest Group of the Commercial & Institutional segment has enhanced NWM Group's ability to work across NatWest Group to deliver on opportunities from referrals from other entities within the NatWest Group, including revenue growth. NWM Group has onboarded approximately 650 of NatWest Holding's Commercial customers to NatWest Markets for foreign exchange services and are working closely with the Wealth segment on further foreign exchange growth opportunities. NWM Group has developed its Capital Markets business through private financing and continued to support the growth of NatWest Group's funds business.

NWM Group has continued to support its customers' transition to net zero as well as their broader ESG ambitions and targets. In 2022, NWM Group completed £12.2 billion of climate and sustainable funding and financing, contributing to the NatWest Group target of £100 billion aimed to be delivered between 1 July 2021 and the end of 2025.

Responding to and anticipating its customers' digital needs is important to NWM Group to differentiate itself in the industry. Financial markets are increasingly embracing distributed ledger technology and the creation of NWM Group's Digital Capital Markets team is helping NWM Group to innovate in this growth area. NWM Group are also continuing to digitise and automate processes to enhance the customer experience.

NWM Group's commitment to excel in customer service is evidenced by numerous awards received in the year ended 31 December 2022, including:

- NatWest Group was awarded 'Green Bond of the Year for Financial Institutions,' 'Social Bond of the Year for Financial Institutions' and 'Green Bond use of proceeds Innovation of the Year,' while NatWest Markets won the award for 'Lead Manager of the Year, social bonds - local authority/municipality award' at the Environmental Finance Bond Awards 2022.
- NatWest Markets was named 'Best Sterling Lead Manager' and two deals which we supported as joint bookrunner were voted 'Best Sterling Deal' and 'Deal of the Year' at the Global Capital Covered Bond Awards 2022.
- NatWest Group was named 'Most Impressive Investment Bank for Corporate Green and ESG-Linked Bonds' and 'Most Impressive FIG House in Sterling' at the GlobalCapital Bond Awards 2022.
- NatWest Markets was recognised as a 2022 Greenwich Leader in United Kingdom Corporates FX Service Quality and awarded first place for the ninth year running in 2022.

### ***Powered by innovation & partnerships***

NWM Group continues to refine and innovate its products and services to support the needs of corporate and institutional customers. NWM is using new technology, leveraging its digital expertise and partnering with leading external organisations to deliver excellent customer experience.

In August 2020 NWM Group entered into an agreement with BNP Paribas for execution and clearing of listed derivatives following its review and decision to cease offering client clearing or execution services for Exchange Traded Derivatives. The implementation of the agreement for the provision of house futures and associated back-office services was completed in 2022.

NWM Group launched 'CollectionID' in 2022, a foreign exchange service in approximately 50 currencies for multi-currency receipts, after a successful pilot in 2021. The service replaces the need for currency accounts and manual transfers, automates currency conversion, and provides transparent and competitive real-time FX rates for its customers.

NWM Group advanced product innovation in the voluntary carbon market by supporting NatWest Group's collaboration with eight other banks to develop a transparent global marketplace for carbon offsets with clear and consistent pricing and standards known as 'Carbonplace.' In December 2022, 'Carbonplace' was set up as a separate entity with a CEO and board and with confirmed funding requirements from all nine banks. Carbonplace is expected to deliver a production platform, build the NWM Group's functionality and onboard banks, exchanges and customers to the platform as it looks to grow and support the market for carbon credits.

NWM Group also progressed the development of its digital bond capability, completing two successful pilots of a cross-ledger debt issuance in 2022. In 2022, NWM also established a Digital Capital Markets teams to further refine its digital issuance proposition and develop operational readiness for adoption of tokenised bond issuances.

NWM Group has partnered with Lumint Corporation, a US financial technology provider to develop a new passive currency hedging service for institutional investors. The new service aims to support customers to get better execution, gain increased transparency into costs and charges associated with their FX hedging transactions, and increase operational efficiency.

### ***Simple to deal with***

By focusing on the products that matter most to its customers, simplifying its organisational structure and leveraging the benefits of a one-bank approach, NWM Group has become a smaller, simpler business, focused on the needs of NatWest Group's corporate and institutional customers.

As part of the transformation programme, NWM Group transferred some support functions including Risk, Finance, Treasury, COO and Technology from NWM Group to NatWest Holdings Limited to better leverage expertise across the bank, de-duplicate and reduce costs. Following this transfer, the services performed by these functions are procured back to NWM Group by way of service level agreements. The NWM Plc board has approved key performance indicators by which to monitor delivery of the outsourced services, which will be reported to the NWM Plc Board at regular intervals in order to ensure proper oversight of service levels. These changes are part of promoting and operating under a one bank model for functions and services across NatWest Group.

In 2020 NWM Group transferred certain customer facing teams to NatWest Holdings Limited to consolidate coverage activities and service customers under a one bank approach. NWM has also taken steps to rightsize and make refinements to regional operating models in US, Europe and Asia across customer facing and functional teams.

Over 2021 NWM Group took steps to complete its front office transformation by refining its country footprint and product range to further align with customer's needs. NWM continued to invest in its API-first approach, with over 10 APIs now supporting its FX and Rates businesses. NWM Group aims to continue to drive enterprise-wide adoption of APIs and leverage these connections to deliver value to customers.

### ***Sharpened capital allocation***

NWM Group aims to refocus to support a more integrated corporate and institutional customer offering, with full service financing and risk management. This includes focusing on serving core NWM Group customers and large- / mid-corporate customers across the Commercial & Institutional segment.

Capital deployment is intended to be deployed towards activities supporting NatWest Group's corporate and institutional customers and NWM Group's, demonstrating effective capital management by reducing risk-weighted assets (RWAs) while redeploying capital to its growth areas.

NWM Group established in 2020 a Capital Management Unit to oversee the delivery of capital reduction and optimisation across the business, whilst increasing rigour around capital allocation.

NWM Group's RWA reduction is complete. In 2020, NWM Plc delivered an £11 billion reduction, exceeding its original 2020 RWA reduction target. In 2021, NWM continued to demonstrate effective capital management by further reducing RWAs by approximately £2.9 billion primarily through reduction in market risk and counterparty risk RWAs across the trading businesses. In 2022, NWM Group further reduced RWAs by approximately £1 billion primarily from capital optimisation and risk reduction actions. NWM Group will focus capital towards supporting NatWest Group's customers' needs and its growth priorities.

### **Competitive Position and Main Markets**

NWM Group offers risk management, trading solutions and debt financing to both financial institutions and UK, European, and US corporate customers. It competes with large domestic banks, major international banks and a number of investment banks. During 2022 continued focus and investment to expand ESG and sustainable financing solutions, as well as a growing focus on risk management solutions for customers, have been common themes across corporate and investment banks. Competition also continues from non-bank liquidity providers using low- latency and algorithmic trading to participate in high-volume flow markets.

During 2022 there was solid performance across fixed income clearing corporation (FICC) divisions in the industry, while mergers and acquisitions were subdued due to market uncertainty and declining initial public offering (IPO) valuations, with a particular impact on US banks compared to European banks. The market experienced stronger performance in currencies, which benefitted from heightened FX volatility. Institutions servicing debt capital markets saw increased issuance activity in the first half of the year, with the second half seeing more focused, sustainability-driven deal pipelines.

NWM Group continued to refine and innovate its products and services to support the needs of corporate and institutional customers during 2022. By doing so, NWM Group also looked to preserve strong market positions in FX and capital markets in its areas of focus, whilst also evolving its rates risk solutions offering to align with the needs of its customers.

### **Geographic Footprint**

NWM offers its customers global market access, providing them with trading, risk management and financing solutions through its trading and sales operations in Amsterdam, London, Singapore and Stamford, and sales offices across key locations in the UK, EU, US and APAC.

NWM Plc maintains the following geographic footprint:

- UK & Western Europe: NWM Plc has its primary trading and origination hub in London whilst NWM N.V. operates its trading and sales operations in Amsterdam and branches in select EEA locations to provide continuity of services for its European customers;
- Asia: Trading and sales origination hub based in Singapore with sales offices supporting risk distribution and access to investor capital in Tokyo and Hong Kong; and
- US: NatWest Markets Securities Inc. (NWMSI), its broker-dealer in Stamford, provides access to US capital markets and USD products.

For the year ended 31 December 2022, 73 per cent (2021 - 59 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2021 - 25 per cent) was generated in the US and 13 per cent (2021 -

16 per cent) was generated in the rest of the world. In the US and APAC region, NWM Group provides customers mainly with risk management solutions but only has a limited customer business in primary markets.

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

	<b>2022</b>				
	<b>UK £m</b>	<b>USA £m</b>	<b>Europe £m</b>	<b>ROW £m</b>	<b>Total £m</b>
Total revenue.....	1,012	117	280	92	1,501
Interest receivable.....	614	37	85	9	745
Interest payable.....	(582)	(2)	(67)	(3)	(654)
Fees and commissions receivable....	47	65	178	59	349
Fees and commissions payable.....	(120)	(21)	(17)	—	(158)
Income from trading activities.....	366	1	—	22	389
Other operating income .....	(15)	14	17	2	18
Total income.....	310	94	196	89	689
Operating (loss)/profit before tax ....	(474)	(46)	41	32	(447)
Total assets .....	130,145	25,977	30,679	2,968	189,769
Total liabilities.....	132,315	27,034	22,040	1,817	183,206
Contingent liabilities and commitments .....	7,036	—	7,544	17	14,597

	<b>2021</b>				
	<b>UK £m</b>	<b>USA £m</b>	<b>Europe £m</b>	<b>ROW £m</b>	<b>Total £m</b>
Total revenue.....	594	91	132	23	840
Interest receivable.....	262	20	56	5	343
Interest payable.....	(269)	(2)	(62)	(2)	(335)
Fees and commissions receivable....	168	17	77	—	262
Fees and commissions payable.....	(236)	11	79	42	(104)
Income from trading activities.....	190	53	2	18	263
Other operating income .....	(27)	2	(3)	—	(28)
Total income.....	88	101	149	63	401
Operating (loss)/profit before tax ....	(802)	48	39	1	(714)
Total assets .....	158,100	21,823	20,668	2,420	203,011
Total liabilities.....	158,137	23,330	12,820	1,272	195,559
Contingent liabilities and commitments .....	6,482	—	5,450	18	11,950

### Legal and Arbitration Proceedings

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

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

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

There are situations where NWM Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or regulatory matters, even for those Matters for which NWM Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such Matters affect the amount and timing of any potential outflows for both Matters with respect to which provisions have been established and other contingent liabilities in respect of any such Matter.

It is not practicable to provide an aggregate estimate of potential liability for NWM Group's legal proceedings and regulatory matters as a class of contingent liabilities.

The future outflow of resources in respect of any Matter may ultimately prove to be substantially greater than or less than the aggregate provision that NWM Group has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised.

Other than those discussed below, NWM Group is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Registration Document, a significant effect on the financial position or profitability of NWM Group. NWM Group expects that in future periods, additional provisions, settlement amounts and customer redress payments will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 20 to the 2022 Financial Statements for information on material provisions.

Matters which are, or could be material, having regard to NWM Group, considered as a whole, in which NWM Group is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

For a discussion of certain risks associated with NWM Group's litigation, investigations and reviews, see '*Risk Factors—Legal, regulatory and conduct risk— NWM Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM Group.*'

## ***Litigation***

### **Residential mortgage-backed securities (RMBS) litigation in the US**

NatWest Group companies continue to defend RMBS-related claims in the US in which the plaintiff, the Federal Deposit Insurance Corporation (FDIC), alleges that certain disclosures made in connection with the relevant offerings of RMBS contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the RMBS were issued.

### **London Interbank Offered Rate (LIBOR) and other rates litigation**

NWM Plc and certain other members of NatWest Group, including NatWest Group plc, are defendants in a number of class actions and individual claims pending in the United States District Court for the Southern District of New York (SDNY) with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints allege that certain members of NWM Group defendants and other panel banks violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Several purported class actions relating to USD LIBOR, as well as more than two dozen non-class actions concerning USD LIBOR, are part of a co-ordinated proceeding in the SDNY. The class actions include claims on behalf of persons who purchased LIBOR-linked instruments from defendants, bonds issued by defendants, persons who transacted futures and options on exchanges, and lenders who made LIBOR-based loans. The coordinated proceeding is currently in the discovery phase. In March 2020, NatWest Group companies finalised a settlement resolving the class action on behalf of bondholder plaintiffs (those who held bonds issued by non-defendants on which interest was paid from 2007 to 2010 at a rate expressly tied to USD LIBOR). The amount of the settlement (which was covered by an existing provision) was paid into escrow pending court approval of the settlement.

The non-class claims filed in the SDNY include claims that the FDIC is asserting on behalf of certain failed US banks. In July 2017, the FDIC, on behalf of 39 of those failed US banks, commenced substantially similar claims against NatWest Group companies and others in the High Court of Justice of England and Wales. The action alleges collusion with regard to the setting of USD LIBOR and that the defendants breached UK and European competition law, as well as asserting common law claims of fraud under US law. The defendant banks consented to a request by the FDIC for discontinuance of the claim in respect of 20 failed US banks, leaving 19 failed US banks as claimants. The trial is currently anticipated to take place in Q4 2025.

In addition to the USD LIBOR cases described above, there are two class actions relating to JPY LIBOR and Euroyen TIBOR that remain outstanding. The first class action, which relates to Euroyen TIBOR futures contracts, was dismissed by the SDNY in September 2020 on jurisdictional and other grounds, and that decision was affirmed by the US Court of Appeals in October 2022. The plaintiffs have petitioned the court for a rehearing of their appeal. The second class action, which relates to other derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, was dismissed by the SDNY in relation to NWM Plc and other NWM Group companies in September 2021. That dismissal may be the subject of a future appeal.

Two other IBOR-related class actions, concerning alleged manipulation of Euribor and Pound Sterling LIBOR, were previously dismissed by the SDNY for various reasons. The plaintiffs' appeals in those two cases remain pending.

In June 2021, NWM Plc and the plaintiffs in the Swiss Franc LIBOR class action finalised a settlement resolving that case. The amount of that settlement has been paid into escrow pending final court approval of the settlement.

Settlements in the class action relating to the Singapore Interbank Offered Rate and Singapore Swap Offer Rate and the class action relating to the Australian Bank Bill Swap Reference Rate received court approval in 2022, such that the settlements became final and the amounts previously paid into escrow were released to the plaintiffs.

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States retail borrowers against the USD ICE LIBOR panel banks and their affiliates (including NatWest Group plc, NWM Plc, NWMSI and NWB Plc), alleging (i) that the very process of setting USD ICE LIBOR amounts to illegal price-fixing; and (ii) that banks in the United States have illegally agreed to use LIBOR as a component of price in variable retail loans. In September 2022, the district court dismissed the complaint, subject to re-pleading by the plaintiffs. The plaintiffs filed an amended complaint in October 2022, which the defendants are again seeking to have dismissed.

NWM Plc is also named as a defendant in a motion to certify a class action relating to LIBOR in the Tel Aviv District Court in Israel. NWM Plc filed a motion for cancellation of service outside the jurisdiction, which was granted in July 2020. The claimants appealed that decision and in November 2020 the appeal was refused and the claim dismissed by the Appellate Court. The claim could in future be recommenced depending on the outcome of an appeal to Israel's Supreme Court in respect of the dismissal of the substantive case against banks that had a presence in Israel.

### **FX litigation**

NWM Plc, NWMSI and/or NatWest Group plc are defendants in several cases relating to NWM Plc's foreign exchange (FX) business. In 2015, NWM Plc paid US\$255 million to settle the consolidated antitrust class action filed in the SDNY on behalf of persons who entered into over-the-counter FX transactions with defendants or who traded FX instruments on exchanges. In 2018, some members of the settlement class who opted out of that class

action settlement filed their own non-class complaint in the SDNY asserting antitrust claims against NWM Plc, NWMSI and other banks.

In April 2019, some of the claimants in the opt-out case described above, as well as others, served proceedings in the High Court of Justice of England and Wales, asserting competition claims against NWM Plc and several other banks. The claim was transferred from the High Court of Justice of England and Wales in December 2021 and registered in the UK Competition Appeal Tribunal (CAT) in January 2022. In December 2022, NWM Plc reached an agreement in principle, subject to documentation, to resolve both the SDNY and CAT cases. The settlement amount to be paid by NWM Plc is covered by an existing provision.

An FX-related class action, on behalf of ‘consumers and end-user businesses,’ is proceeding in the SDNY against NWM Plc and others. In March 2022, the SDNY denied the plaintiffs’ motion for class certification. Plaintiffs sought an immediate appeal of the decision but the appellate court declined to review the decision. As a result, the case is proceeding on an individual, non-class basis, and the defendants are seeking summary judgement dismissing the individual claims.

In May 2019, a cartel class action was filed in the Federal Court of Australia against NWM Plc and four other banks on behalf of persons who bought or sold currency through FX spots or forwards between 1 January 2008 and 15 October 2013 with a total transaction value exceeding AUD \$0.5 million. The claimant has alleged that the banks, including NWM Plc, contravened Australian competition law by sharing information, coordinating conduct, widening spreads and manipulating FX rates for certain currency pairs during this period. NatWest Group plc and NWMSI have been named in the action as ‘other cartel participants,’ but are not respondents. The claim was served in June 2019 and NWM Plc filed its defence in March 2022.

In July and December 2019, two separate applications seeking opt-out collective proceedings orders were filed in the CAT against NatWest Group plc, NWM Plc and other banks. Both applications were brought on behalf of persons who, between 18 December 2007 and 31 January 2013, entered into a relevant FX spot or outright forward transaction in the EEA with a relevant financial institution or on an electronic communications network. In March 2022, the CAT declined to certify as collective proceedings either of the applications. In October 2022, the CAT granted permission for the applicants to appeal that decision to the Court of Appeal. Separately, the applicants have served judicial review proceedings, which are due to be heard together with the appeal to the Court of Appeal in April 2023.

Two motions to certify FX-related class actions were filed in the Tel Aviv District Court in Israel in September and October 2018, and were subsequently consolidated into one motion. The consolidated motion to certify, which names The Royal Bank of Scotland plc (now NWM Plc) and several other banks as defendants, was served on NWM Plc in May 2020. The applicants have sought the court’s permission to amend their motions to certify the class actions. NWM Plc has filed a motion challenging the permission granted by the court for the applicants to serve the consolidated motion outside the Israeli jurisdiction. That NWM Plc motion remains pending.

In December 2021, a claim was issued in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims, seeking a declaration from the court that anti-competitive FX market conduct described in decisions of the European Commission (EC) of 16 May 2019 is unlawful, along with unspecified damages. The claimant has amended its claim to also refer to a December 2021 decision by the EC, which also described anti-competitive FX market conduct. The defendants are contesting the jurisdiction of the Dutch court.

Certain other foreign exchange transaction related claims have been or may be threatened. NWM Group cannot predict whether all or any of these claims will be pursued.

### **Government securities antitrust litigation**

NWMSI and certain other US broker-dealers are defendants in a consolidated antitrust class action in the SDNY on behalf of persons who transacted in US Treasury securities or derivatives based on such instruments, including futures and options. The plaintiffs allege that the defendants rigged the US Treasury securities auction bidding process to deflate prices at which they bought such securities and colluded to increase the prices at which they sold such securities to the plaintiffs. In March 2022, the SDNY dismissed the complaint, without leave to re-plead. The plaintiffs are appealing the dismissal.

Class action antitrust claims commenced in March 2019 are pending in the SDNY against NWM Plc, NWMSI and other banks in respect of Euro-denominated bonds issued by European central banks (EGBs). The complaint alleges a conspiracy among dealers of EGBs to widen the bid-ask spreads they quoted to customers, thereby increasing the prices customers paid for the EGBs or decreasing the prices at which customers sold the bonds. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. In March 2022, the SDNY dismissed the claims against NWM Plc and NWMSI on the ground that the complaint's conspiracy allegations are insufficient. The plaintiffs have filed a motion for permission to file an amended complaint.

### **Swaps antitrust litigation**

NWM Plc and other members of NatWest Group, including NatWest Group plc, as well as a number of other interest rate swap dealers, are defendants in several cases pending in the SDNY alleging violations of the US antitrust laws in the market for interest rate swaps. There is a consolidated class action complaint on behalf of persons who entered into interest rate swaps with the defendants, as well as non-class action claims by three swap execution facilities (TeraExchange, Javelin, and trueEx). The plaintiffs allege that the swap execution facilities would have successfully established exchange-like trading of interest rate swaps if the defendants had not unlawfully conspired to prevent that from happening through boycotts and other means. Discovery in these cases is complete, and the plaintiffs' motion for class certification remains pending.

In June 2021, a class action antitrust complaint was filed against a number of credit default swap dealers in New Mexico federal court on behalf of persons who, from 2005 onwards, settled credit default swaps in the United States by reference to the ISDA credit default swap auction protocol. The complaint alleges that the defendants conspired to manipulate that benchmark through various means in violation of the antitrust laws and the Commodity Exchange Act. The defendants include several NatWest Group companies, including NatWest Group plc. Defendants are seeking dismissal.

### **Odd lot corporate bond trading antitrust litigation**

In October 2021, the SDNY granted the defendants' motion to dismiss the class action antitrust complaint alleging that from August 2006 onwards various securities dealers, including NWMSI, conspired artificially to widen spreads for odd lots of corporate bonds bought or sold in the United States secondary market and to boycott electronic trading platforms that would have allegedly promoted pricing competition in the market for such bonds. The plaintiffs have filed an appeal.

### **Spoofing litigation**

In December 2021, three substantially similar class actions complaints were filed in federal court in the United States against NWM Plc and NWMSI alleging Commodity Exchange Act and common law unjust enrichment claims arising from manipulative trading known as spoofing. The complaints refer to NWM Plc's December 2021 spoofing-related guilty plea (described below under "US investigations relating to fixed-income securities") and purport to assert claims on behalf of those who transacted in US Treasury securities and futures and options on US Treasury securities between 2008 and 2018. In July 2022, defendants filed a motion to dismiss these claims, which have been consolidated into one matter in the United States District Court for the Northern District of Illinois.

### **Madoff**

NWM N.V. was named as a defendant in two actions filed by the trustee for the bankrupt estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US\$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the US Court of Appeals, they will now proceed in the bankruptcy court, where they have now been consolidated into one action, subject to NWM N.V.'s legal and factual defences. In May 2022, NWM N.V. filed a motion to dismiss the amended complaint in the consolidated action and such motion was denied on 3 March 2023. As a result, an extended period of fact discovery is expected to follow.

### **EUA trading litigation**

NWM Plc was a named defendant in civil proceedings before the High Court of Justice of England and Wales brought in 2015 by ten companies (all in liquidation) (the 'Liquidated Companies') and their respective liquidators



(together, ‘the Claimants’). The Liquidated Companies previously traded in European Union Allowances (EUAs) in 2009 and were alleged to be VAT defaulting traders within (or otherwise connected to) EUA supply chains of which NWM Plc was a party. In March 2020, the court held that NWM Plc and Mercuria Energy Europe Trading Limited (‘Mercuria’) were liable for dishonestly assisting and knowingly being a party to fraudulent trading during a seven business day period in 2009.

In October 2020, the High Court quantified total damages against NWM Plc and Mercuria at £45 million plus interest and costs, and permitted the defendants to appeal to the Court of Appeal. In May 2021 the Court of Appeal set aside the High Court’s judgement and ordered that a retrial take place before a different High Court judge. The claimants have been denied permission by the Supreme Court to appeal that decision and the retrial will therefore proceed on a date to be scheduled. Mercuria has also been denied permission by the Supreme Court to appeal the High Court’s finding that NWM Plc and Mercuria were both vicariously liable.

### **Offshoring VAT assessments**

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of a separate case involving another bank.

### **US Anti-Terrorism Act litigation**

NWM N.V. and certain other financial institutions are defendants in several actions filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

According to the plaintiffs’ allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells that committed the attacks, in violation of the US Anti-Terrorism Act, by agreeing to engage in ‘stripping’ of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions was filed in the United States District Court for the Eastern District of New York in November 2014. In September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. On 5 January 2023, the US Court of Appeals affirmed the district court’s dismissal of this case. Another action, filed in the SDNY in 2017, was dismissed by the SDNY in March 2019 on similar grounds as the first case, but remains subject to appeal to the US Court of Appeals. Other follow-on actions that are substantially similar to the two that have now been dismissed are pending in the same courts.

### **1MDB litigation**

A Malaysian court claim was served in Switzerland in November 2022 by 1MDB, a Sovereign Wealth Fund, in which Coutts & Co Ltd was named, along with six others, as a defendant in respect of losses allegedly incurred by 1MDB. It is claimed that Coutts & Co Ltd is liable as a constructive trustee for having dishonestly assisted the directors of 1MDB in the breach of their fiduciary duties by failing (amongst other alleged claims) to undertake due diligence in relation to a customer of Coutts & Co Ltd, through which funds totalling c.US\$1 billion were received and paid out between 2009 and 2011. The claimant seeks the return of that amount plus interest. Coutts & Co Ltd filed an application in January 2023 challenging the validity of service and the Malaysian court’s jurisdiction to hear the claim. Coutts & Co Ltd is a company registered in Switzerland and is in wind-down following the announced sale of its business assets in 2015.

## ***Regulatory Matters (Including Investigations)***

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

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

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

### **US investigations relating to fixed-income securities**

In December 2021, NWM Plc pled guilty in the United States District Court for the District of Connecticut to one count of wire fraud and one count of securities fraud in connection with historical spoofing conduct by former employees in US Treasuries markets between January 2008 and May 2014 and, separately, during approximately three months in 2018. The 2018 trading occurred during the term of a non-prosecution agreement (NPA) between NWMSI and the United States Attorney's Office for the District of Connecticut (USAO CT), under which non-prosecution was conditioned on NWMSI and affiliated companies not engaging in criminal conduct during the term of the NPA. The relevant trading in 2018 was conducted by two NWM traders in Singapore and breached that NPA. The plea agreement reached with the US Department of Justice and the USAO CT resolved both the spoofing conduct and the breach of the NPA.

As required by the resolution and sentence imposed by the court, NWM Plc is subject to a three-year period of probation. The plea agreement also imposes an independent corporate monitor. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

### **Facilities and Equipment**

In the UK, NWM Group leases its facilities from NWB.

### **IT**

CDIO roles are established across each of NWM Group's customer businesses to deliver a 'One Bank' approach and to enhance the value, speed, and flexibility of the services we provide to its customers as well as ensuring the strength and resilience of its platforms.

The team supporting NWM Plc is a global team that spans locations in the UK, US, India, and APAC with key technology opportunities focused on supporting the Bank's strategic goals to enhance growth and maximise opportunities to deliver for its customers, whilst managing its cost base effectively. Strategic themes to build a simple, modern, and digital business that delivers value to its customers are focussed on:

Customer: Cultivating a digital customer product experience and driving greater collaboration for the benefit of its customers:

- Growing its business – Enhancing growth for NWM Group through customer and One Bank business.
- Championing ESG – Putting the environment, society, and governance at the centre of what we do.
- Enhancing its regulatory capability – Digital solutions for its control and regulatory agenda.

Colleague: Modernising the colleague experience with an engaged workforce that is informed about the matters that are important to them:

- Delivering and optimising the One Bank desktop experience – Delivering a modern desktop capability with a consistent colleague experience across NatWest.
- A modern and resilient trading floor – Updating trader desktop capability and upgrading outdated voice technology.
- Disrupting how we work – Embedding capability to work differently and deliver value faster.

Capability: Simplifying and digitalising its technology capability to set the foundations for business growth:

- Simplifying and building efficiencies for its business – Simplifying its application estate by consolidating its NWM applications.
- Rationalising its global footprint – Rationalising and modernising its application and infrastructure estate.
- Embedding digital capability – Delivering a digital markets capability.

## Employees

As at 31 December 2022, NWM Group employed 1,600 people (full-time equivalent basis, excluding temporary staff) rounded to the nearest hundred. The majority of NWM Group’s employees are located in the UK.

The number of persons employed by NWM Group in continuing operations at 31 December 2022, excluding contingent workers, was as follows (rounded to the nearest hundred for 2022 and 2021):

	<u>2022</u>	<u>2021</u>
UK.....	900	1,000
USA .....	300	300
Rest of the World.....	400	300
Total.....	<u>1,600</u>	<u>1,600</u>

## Material Adverse Change and Significant Change

There has been no significant change in the financial position or financial performance of the NWM Group taken as a whole since 31 December 2022 (the end of the last financial period for which the latest audited or interim financial information of the NWM Group has been published).

Save as disclosed in the ‘*Risk and capital management—Credit risk*’ and ‘*Risk Factors—NWM Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of high inflation and rising interest rates, supply chain disruption, and the Russian invasion of Ukraine*’ sections of this Registration Document, there has been no material adverse change in the prospects of the Issuer since 31 December 2022 (the last date to which the latest audited published financial information of the NWM Group was prepared).

## SELECTED STATISTICAL DATA AND OTHER INFORMATION

The following information is included for analytical purposes and should be read in connection with, and is qualified in its entirety by, the Financial Statements incorporated by reference into this Registration Document, as well as 'Operating and Financial Review.' The information included in this section has not been derived from the Financial Statements. This information has been derived from the Issuer's accounting records and has not been audited.

The information included in this section is not intended to, and does not, comply with subpart 1400 of Regulation S-K under the Securities Act applicable to offerings of securities by bank holding companies that are registered with the SEC.

### Trading Portfolio Assets and Liabilities

The table below summarises debt securities held at mandatory fair value through profit or loss by Issuer as well as ratings based on the lowest of S&P's, Moody's and Fitch.

	<b>Central and local government</b>			<b>Financial institutions</b>	<b>Corporate</b>	<b>Total</b>
	<b>UK</b>	<b>US</b>	<b>Other</b>			
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>2022</b>						
AAA .....	—	—	469	766	3	1,238
AA to AA+ .....	—	2,345	1,042	1,114	21	4,522
A to AA- .....	2,205	—	372	77	29	2,683
BBB- to A- .....	—	—	916	149	296	1,361
Non-investment grade .....	—	—	—	65	49	114
Unrated .....	—	—	—	1	3	4
<b>Total</b> .....	<b>2,205</b>	<b>2,345</b>	<b>2,799</b>	<b>2,172</b>	<b>401</b>	<b>9,922</b>
Short positions .....	(2,313)	(1,293)	(3,936)	(1,875)	(107)	(9,524)
<b>2021</b>						
AAA .....	—	—	2,011	838	—	2,849
AA to AA+ .....	—	3,329	3,145	1,401	62	7,937
A to AA- .....	6,919	—	1,950	308	57	9,234
BBB- to A- .....	—	—	3,792	346	513	4,651
Non-investment grade .....	—	—	31	163	82	276
Unrated .....	—	—	—	3	3	6
<b>Total</b> .....	<b>6,919</b>	<b>3,329</b>	<b>10,929</b>	<b>3,059</b>	<b>717</b>	<b>24,953</b>
Short positions .....	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)
<b>2020</b>						
AAA .....	—	—	3,114	1,113	—	4,227
AA to AA+ .....	—	5,149	3,651	576	49	9,425
A to AA- .....	4,184	—	1,358	272	81	5,895
BBB- to A- .....	—	—	8,277	444	656	9,377
Non-investment grade .....	—	—	36	127	53	216
Unrated .....	—	—	—	—	1	151
<b>Total</b> .....	<b>4,184</b>	<b>5,149</b>	<b>16,436</b>	<b>2,682</b>	<b>840</b>	<b>29,291</b>
Short positions .....	(5,704)	(1,123)	(18,135)	(1,761)	(56)	(26,779)

Trading assets and liabilities held at fair value in trading portfolios are analysed as follows.

	NWM Group			NWM Plc		
	2022	2021	2020	2022	2021	2020
	£m	£m	£m	£m	£m	£m
<b>Trading Assets</b>						
Loans .....						
– Reverse repos.....	21,537	20,742	19,404	8,559	9,246	11,071
– Cash collateral given.....	12,719	11,990	18,459	10,468	9,332	15,389
– Other loans.....	1,113	1,414	1,611	938	1,189	1,497
Total loans .....	<u>35,369</u>	<u>34,146</u>	<u>39,474</u>	<u>19,965</u>	<u>19,767</u>	<u>27,957</u>
Securities .....						
– Central and local government .....						
– UK .....	2,205	6,919	4,184	2,204	6,919	4,184
– US .....	2,345	3,329	5,149	41	145	498
– Other .....	2,799	10,929	16,436	2,799	10,929	16,390
– Other securities .....	2,573	3,778	3,446	2,292	3,462	3,140
Total securities .....	<u>9,922</u>	<u>24,955</u>	<u>29,215</u>	<u>7,336</u>	<u>21,455</u>	<u>24,212</u>
Total .....	<u>45,291</u>	<u>59,101</u>	<u>68,689</u>	<u>27,301</u>	<u>41,222</u>	<u>52,169</u>
<b>Trading Liabilities</b>						
Deposits .....						
– Repos .....	23,740	19,389	19,036	8,716	4,940	5,928
– Cash collateral received .....	17,663	17,619	23,226	14,556	16,386	22,267
– Other deposits .....	1,068	1,536	1,803	1,066	1,532	1,800
Total deposits .....	<u>42,471</u>	<u>38,544</u>	<u>44,065</u>	<u>24,338</u>	<u>22,858</u>	<u>29,995</u>
Debt securities in issue .....	797	974	1,408	797	974	1,408
Short positions .....	9,524	24,964	26,779	8,090	23,287	25,513
Total .....	<u>52,792</u>	<u>64,482</u>	<u>72,252</u>	<u>33,225</u>	<u>47,119</u>	<u>56,916</u>

Companies within NWM Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risk. Further details are set out in the table below.

<b>NWM Group</b>									
	<b>2022</b>			<b>2021</b>			<b>2020</b>		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	<b>£bn</b>	<b>£m</b>	<b>£m</b>	<b>£bn</b>	<b>£m</b>	<b>£m</b>	<b>£bn</b>	<b>£m</b>	<b>£m</b>
Exchange rate contracts.....	3,145	45,821	44,938	3,162	38,546	39,275	3,331	52,524	54,863
Interest rate contracts.....	10,356	54,097	48,372	8,601	66,850	58,879	10,412	112,926	102,073
Credit derivatives.....	15	236	275	14	154	343	15	161	388
Equity and commodity contracts	—	—	—	—	—	—	1	8	8
		<u>100,154</u>	<u>93,585</u>		<u>105,550</u>	<u>98,497</u>		<u>165,619</u>	<u>157,332</u>

<b>NWM Plc</b>									
	<b>2022</b>			<b>2021</b>			<b>2020</b>		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	<b>£bn</b>	<b>£m</b>	<b>£m</b>	<b>£bn</b>	<b>£m</b>	<b>£m</b>	<b>£bn</b>	<b>£m</b>	<b>£m</b>
Exchange rate contracts.....	3,178	46,528	45,592	3,169	38,692	39,427	3,362	53,182	55,514
Interest rate contracts.....	8,840	49,496	44,890	7,383	64,196	55,335	8,606	110,753	97,850
Credit derivatives.....	15	234	272	14	154	334	15	161	382
Equity and commodity contracts	—	—	—	—	—	—	1	8	8
		<u>96,258</u>	<u>90,754</u>		<u>103,042</u>	<u>95,096</u>		<u>164,104</u>	<u>153,754</u>

Refer to Note 9 to the 2022 Financial Statements for further information on the amounts due to/from fellow NatWest Group subsidiaries.

## Investment Securities

Investment securities, comprising debt securities held outside of trading portfolios, are broken down in the following table. For further information please refer to Note 15 to the 2022 Financial Statements.

	<b>NWM Group Debt securities</b>				
	<b>Central and local government</b>				
	<b>UK</b>	<b>US</b>	<b>Other</b>	<b>Other debt</b>	<b>Total</b>
	<b>£m</b>				
<b>2022</b>					
Mandatory fair value through profit or loss.....	—	—	—	2	2
Fair value through other comprehensive income.....	—	3,920	1,213	700	5,833
Amortised cost.....	—	—	—	5,750	5,750
<b>Total</b> .....	<b>—</b>	<b>3,920</b>	<b>1,213</b>	<b>6,452</b>	<b>11,585</b>
<b>2021</b>					
Mandatory fair value through profit or loss.....	—	—	—	1	1
Fair value through other comprehensive income.....	360	3,357	884	794	5,395
Amortised cost.....	—	—	—	3,116	3,116
<b>Total</b> .....	<b>360</b>	<b>3,357</b>	<b>884</b>	<b>3,911</b>	<b>8,512</b>
<b>2020</b>					
Designated as at fair value through profit or loss ...	—	—	—	84	84
Available-for-sale .....	212	3,372	1,691	891	6,166
Loans and receivables.....	—	—	—	2,575	2,575
<b>Total</b> .....	<b>212</b>	<b>3,372</b>	<b>1,691</b>	<b>3,550</b>	<b>8,825</b>
	<b>NWM Plc Debt securities</b>				
	<b>Central and local government</b>				
	<b>UK</b>	<b>US</b>	<b>Other</b>	<b>Other debt</b>	<b>Total</b>
	<b>£m</b>				
<b>2022</b>					
Mandatory fair value through profit or loss.....	—	—	—	2	2
Fair value through other comprehensive income.....	—	3,714	559	465	4,738
Amortised cost.....	—	—	—	5,428	5,428
<b>Total</b> .....	<b>—</b>	<b>3,714</b>	<b>559</b>	<b>5,895</b>	<b>10,168</b>
<b>2021</b>					
Mandatory fair value through profit or loss.....	—	—	—	1	1
Fair value through other comprehensive income.....	86	3,209	794	459	4,548
Amortised cost.....	—	—	—	3,014	3,014
<b>Total</b> .....	<b>86</b>	<b>3,209</b>	<b>794</b>	<b>3,474</b>	<b>7,563</b>
<b>2020</b>					
Designated as at fair value through profit or loss ...	—	—	—	84	84
Available-for-sale .....	108	3,298	1,497	376	5,279
Loans and receivables.....	—	—	—	2,535	2,535
<b>Total</b> .....	<b>108</b>	<b>3,298</b>	<b>1,497</b>	<b>2,995</b>	<b>7,898</b>

## Deposits and Short-Term Borrowings

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	2022			2021		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits .....	2,427	642	3,069	1,244	564	1,808
<i>of which: repos (amortised cost)</i> .....	799	—	799	522	—	522
Customer deposits .....	3,353	261	3,614	2,161	107	2,268
<i>of which: repos (amortised cost)</i> .....	—	254	254	—	—	—
Trading liabilities (1)						
Repos (2) .....	23,740	—	23,740	19,389	—	19,389
Derivative cash collateral received.....	17,663	—	17,663	17,619	—	17,619
Other bank and customer deposits.....	414	654	1,068	832	704	1,536
Debt securities in issue (5) .....	54	743	797	178	796	974
	<u>41,871</u>	<u>1,397</u>	<u>43,268</u>	<u>38,018</u>	<u>1,500</u>	<u>39,518</u>
Other financial liabilities						
Customer deposits (designated at fair value) .....	253	797	1,050	568	—	568
Debt securities in issue commercial paper and certificates of deposits.....	3,084	85	3,169	5,179	115	5,294
Medium-term notes (MTNs)(5) .....	2,368	14,050	16,418	2,693	9,737	12,430
Subordinated liabilities.....	206	260	466	275	688	963
	<u>5,911</u>	<u>15,192</u>	<u>21,103</u>	<u>8,715</u>	<u>10,540</u>	<u>19,255</u>
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL .....	2,199	974	3,173	939	2,919	3,858
Other bank and customer deposits.....	1,288	—	1,288	623	—	623
Subordinated liabilities.....	—	1,519	1,519	—	1,464	1,464
	<u>3,487</u>	<u>2,493</u>	<u>5,980</u>	<u>1,562</u>	<u>4,383</u>	<u>5,945</u>
Total funding .....	<u>57,049</u>	<u>19,985</u>	<u>77,034</u>	<u>51,700</u>	<u>17,094</u>	<u>68,794</u>
<i>Of which: available in resolution (4) .....</i>			<u>2,753</u>			<u>6,010</u>

- (1) Funding sources excludes short positions of £9,524 million (2021 – £24,964 million) reflected as trading liabilities on the balance sheet.
- (2) Comprised Central and other bank repos of £1,642 million (2021 – £827 million), other financial institution repos of £19,354 million (2021 – £16,935 million) and other corporate repos of £2,744 million (2021 – £1,627 million).
- (3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £211 million (2021 – £181 million) and intercompany settlement balances of £26 million (2021 – Nil) have been excluded from the table.
- (4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the BoE including the Statement of Policy published in December 2021 (updating June 2018).
- (5) With respect to MTNs only, £2,422 million will mature in 2023, £4,207 million will mature in 2024, £5,278 million will mature in 2025, £2,322 million will mature in 2026 and £2,118 million will mature in 2027.



Senior notes and subordinated liabilities – residual maturity profile by instrument type

The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal resolution instruments by residual maturity.

	Trading liabilities	Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
	Debt securities in issue	Debt securities in issue				Internal MREL	Subordinated liabilities	Total notes in issue
		Commercial paper and MTNs (1)	CDs	MTNs (1)	Subordinated liabilities			
	£m	£m	£m	£m	£m	£m	£m	£m
2022								
Less than 1 year .....	54	3,084	2,368	206	5,658	2,199	—	7,911
1-3 years .....	474	73	9,011	—	9,084	974	830	11,362
3-5 years .....	37	12	4,403	18	4,433	—	—	4,470
More than 5 years ...	232	—	636	242	878	—	689	1,799
Total .....	797	3,169	16,418	466	20,053	3,173	1,519	25,542
2021								
Less than 1 year .....	178	5,179	2,693	275	8,147	939	—	9,264
1-3 years .....	335	105	4,907	222	5,234	2,919	824	9,312
3-5 years .....	112	10	4,425	21	4,456	—	—	4,568
More than 5 years ...	349	—	405	445	850	—	640	1,839
Total .....	974	5,294	12,430	963	18,687	3,858	1,464	24,983

(1) With respect to MTNs only, £2,422 million will mature in 2023, £4,207 million will mature in 2024, £5,278 million will mature in 2025, £2,322 million will mature in 2026 and £2,118 million will mature in 2027.

The table below shows the currency breakdown of total notes in issue.

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2022					
Commercial paper and CDs .....	496	679	1,994	—	3,169
MTNs .....	1,301	5,249	7,991	2,674	17,215
External subordinated liabilities .....	19	102	345	—	466
Internal MREL due to NatWest Group plc .....	—	3,173	—	—	3,173
Subordinated liabilities due to NatWest Group plc .....	—	689	830	—	1,519
Total .....	1,816	9,892	11,160	2,674	25,542
2021 Total .....	853	9,156	13,467	1,507	24,983

## Maturity

The following tables show the residual maturity of financial instruments, based on contractual date of maturity.

	NWM Group								
	2022			2021			2020		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>									
Cash and balances at central banks .....	17,007	—	17,007	16,645	—	16,645	15,771	—	15,771
Trading assets .....	35,658	9,633	45,291	40,206	18,895	59,101	41,736	26,953	68,689
Derivatives .....	38,174	61,980	100,154	34,423	71,127	105,550	46,232	119,387	165,619
Settlement balances .....	2,558	-	2,558	2,139	—	2,139	2,296	—	2,296
Loans to banks—amortised cost .....	1,129	17	1,146	714	248	962	891	112	1,003
Loans to customers—amortised cost .....	4,282	5,889	10,171	3,707	3,764	7,471	4,535	3,909	8,444
Amounts due from holding company and fellow subsidiaries(1) .....	615	97	712	705	675	1,380	1,295	225	1,520
Other financial assets .....	3,955	7,915	11,870	3,848	4,938	8,786	3,152	5,889	9,041
<b>Liabilities</b>									
Bank deposits .....	2,427	642	3,069	1,244	564	1,808	1,294	514	1,808
Customer deposits .....	3,353	261	3,614	2,161	107	2,268	2,526	92	2,618
Amounts due to holding company and fellow subsidiaries(2) .....		2,494	6,013						
	3,519			1,571	4,384	5,955	942	6,934	7,876
Settlement balances .....	2,010	—	2,010	2,068	—	2,068	2,248	—	2,248
Trading liabilities .....	42,744	10,048	52,792	41,548	22,934	64,482	45,033	27,219	72,252
Derivatives .....	39,166	54,419	93,585	34,606	63,891	98,497	47,138	110,194	157,332
Other financial liabilities .....	6,129	14,974	21,103	8,715	10,540	19,255	8,310	9,860	18,170
Lease liabilities .....	8	39	47	13	40	53	21	50	71

NWM Plc									
	2022			2021			2020		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>									
Cash and balances at central banks .....	13,467	—	13,467	12,294	—	12,294	11,736	—	11,736
Trading assets .....	20,085	7,216	27,301	22,355	18,867	41,222	29,985	22,184	52,169
Derivatives .....	38,402	57,856	96,258	34,259	68,783	103,042	46,739	117,365	164,104
Settlement balances .....	1,686	—	1,686	795	—	795	1,084	—	1,084
Loans to banks—amortised cost .....	798	17	815	464	248	712	589	112	701
Loans to customers—amortised cost.....	4,062	5,092	9,154	3,641	3,169	6,810	4,440	3,037	7,477
Amounts due from holding company and fellow subsidiaries(1) .....	4,068	2,538	6,606	3,862	2,749	6,611	4,720	2,709	7,429
Other financial assets.....	2,727	7,650	10,377	3,092	4,651	7,743	2,632	5,411	8,043
<b>Liabilities</b>									
Bank deposits .....	2,338	598	2,936	1,244	564	1,808	1,248	514	1,762
Customer deposits .....	2,411	254	2,665	1,448	62	1,510	1,406	63	1,469
Amounts due to holding company and fellow subsidiaries(2) .....		2,842	12,650						
	9,808			5,407	5,399	10,806	6,714	9,054	15,768
Settlement balances .....	1,133	—	1,133	1,028	—	1,028	604	—	604
Trading liabilities.....	24,230	8,995	33,225	24,204	22,915	47,119	30,794	26,122	56,916
Derivatives .....	39,380	51,374	90,754	34,547	60,549	95,096	47,670	106,084	153,754
Other financial liabilities .....	4,419	13,977	18,396	7,109	9,768	16,877	6,513	8,857	15,370
Lease liabilities.....	2	2	4	7	3	10	10	6	16

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments of £28 million (2021—£99 million) for NWM Group and £59 million (2021—£112 million) for the Issuer have been excluded from the tables.

(2) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £204 million (2021—£171 million) for NWM Group and £217 million (2021—£172 million) for the Issuer have been excluded from the tables.

The table below shows the timing of cash outflows to settle financial liabilities, prepared on the following basis.

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less-than-three-months' period whatever the level of the index at the year end. The settlement date of debt securities issued by certain securitisation vehicles consolidated by NWM Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

Liabilities with a contractual maturity of greater than 20 years — The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

Held-for-trading liabilities — Held-for-trading liabilities of £147 billion (2021—£163 billion) for NWM Group and £130 billion (2021—£145 billion) for the Issuer, have been excluded from the tables.

	<b>NWM Group</b>					
	<b>0-3 months</b>	<b>3-12 months</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5-10 years</b>	<b>10-20 years</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>2022</b>						
Liabilities by contractual maturity						
Bank deposits .....	1,302	1,135	643	—	—	—
Customer deposits .....	2,286	1,339	21	1	2	20
Amounts due to holding companies and fellow subsidiaries .....	190	2,199	1,805	—	190	—
Settlement balances .....	2,010	—	—	—	—	—
Derivatives held for hedging .....	17	76	202	53	21	-
Other financial liabilities .....	1,600	4,345	9,113	5,271	401	437
Lease liabilities.....	1	7	12	10	17	—
	<u>7,406</u>	<u>9,101</u>	<u>11,796</u>	<u>5,335</u>	<u>631</u>	<u>457</u>
Guarantees and commitments notional amount						
Guarantees(2) .....	594	—	—	—	—	—
Commitments(3).....	12,873	—	—	—	—	—
	<u>13,467</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>2021</b>						
Liabilities by contractual maturity						
Bank deposits .....	825	421	566	—	—	—
Customer deposits .....	1,279	876	36	69	1	19
Amounts due to holding companies and fellow subsidiaries .....	1,057	166	3,743	—	195	—
Settlement balances .....	2,068	—	—	—	—	—
Derivatives held for hedging .....	—	10	93	26	—	—
Other financial liabilities .....	2,948	5,541	5,405	4,368	345	546
Lease liabilities.....	4	10	12	9	18	—
	<u>8,181</u>	<u>7,024</u>	<u>9,855</u>	<u>4,472</u>	<u>559</u>	<u>565</u>
Guarantees and commitments notional amount						
Guarantees(2) .....	595	—	—	—	—	—
Commitments(3).....	9,921	—	—	—	—	—
	<u>10,516</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>2020</b>						
Liabilities by contractual maturity						
Bank deposits .....	458	819	498	37	—	—
Customer deposits .....	1,664	863	84	1	1	20
Amounts due to holding companies and fellow subsidiaries .....	103	204	5,181	889	204	—
Settlement balances .....	2,248	—	—	—	—	—
Derivatives held for hedging .....	—	(1)	92	11	—	—
Other financial liabilities .....	2,419	5,931	5,371	3,371	463	195
Other liabilities(1) .....	4	15	21	8	21	2
	<u>6,896</u>	<u>7,831</u>	<u>11,247</u>	<u>4,317</u>	<u>689</u>	<u>217</u>
Guarantees and commitments notional amount						
Guarantees(2) .....	638	—	—	—	—	—
Commitments(3).....	11,348	—	—	—	—	—
	<u>11,986</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	NWM Plc					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
	£m	£m	£m	£m	£m	£m
<b>2022</b>						
Liabilities by contractual maturity						
Bank deposits .....	1,302	1,045	599	—	—	—
Customer deposits .....	1,689	987	21	1	2	3
Amounts due to holding companies and fellow subsidiaries .....	1,582	2,199	2,153	—	190	—
Settlement balances .....	1,133	—	—	—	—	—
Derivatives held for hedging .....	18	76	201	53	21	-
Other financial liabilities .....	743	3,478	8,512	5,164	401	161
Lease liabilities.....	1	1	2	—	—	—
	<u>6,468</u>	<u>7,786</u>	<u>11,488</u>	<u>5,218</u>	<u>614</u>	<u>164</u>
Guarantees and commitments notional amount						
Guarantees .....	144	—	—	—	—	—
Commitments .....	6,956	—	—	—	—	—
	<u>7,100</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>2021</b>						
Liabilities by contractual maturity						
Bank deposits .....	825	421	566	—	—	—
Customer deposits .....	826	619	11	55	1	3
Amounts due to holding companies and fellow subsidiaries .....	2,367	197	4,047	—	416	—
Settlement balances .....	1,028	—	—	—	—	—
Derivatives held for hedging .....	—	10	93	26	—	—
Other financial liabilities .....	2,522	4,365	5,291	4,364	189	148
Other liabilities(1) .....	2	6	2	—	—	—
	<u>7,570</u>	<u>5,618</u>	<u>10,010</u>	<u>4,445</u>	<u>606</u>	<u>151</u>
Guarantees and commitments notional amount						
Guarantees(2) .....	197	—	—	—	—	—
Commitments(3).....	6,152	—	—	—	—	—
	<u>6,349</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>2020</b>						
Liabilities by contractual maturity						
Bank deposits .....	456	775	498	37	—	—
Customer deposits .....	878	529	61	1	1	3
Amounts due to holding companies and fellow subsidiaries .....	1,672	365	6,379	889	427	—
Settlement balances .....	604	—	—	—	—	—
Derivatives held for hedging .....	—	(1)	92	11	—	—
Other financial liabilities .....	2,086	4,458	5,049	3,276	307	195

Other liabilities(1) .....	<u>2</u>	<u>7</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>5,698</u>	<u>6,133</u>	<u>12,086</u>	<u>4,214</u>	<u>735</u>	<u>198</u>
Guarantees and commitments notional amount						
Guarantees(2) .....	195	—	—	—	—	—
Commitments(3).....	<u>6,678</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>6,873</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(1) Other liabilities includes notes in circulation.

(2) NWM Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NWM Group expects most guarantees it provides to expire unused.

(3) NWM Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. NWM Group does not expect all facilities to be drawn, and some may lapse before drawdown.

## RISK MANAGEMENT

### Presentation of Information

Capital and risk management are generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in NWM Group.

### Introduction

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

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

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

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

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

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

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

### Culture

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

- Consistently role-model the values and behaviours in Our Code, based on strong ethical standards which underpin Our Purpose.
- Empower others to take risks aligned to NWM Group's strategy, explore issues from a fresh perspective, and tackle challenges in new and better ways across organisational boundaries.
- Manage risk in line with appropriate risk appetite.

- Ensure each decision made keeps NWM Group, colleagues, customers, communities and shareholders safe and secure.
- Understand their role in managing risk, remaining clear and capable, grounded in knowledge of regulatory obligations.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses, reporting and communicating these transparently.
- Challenge others' attitudes, ideas and actions.

The target Intelligent Risk-Taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious. These aim to act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

## **Training**

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

## **Our Code**

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

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

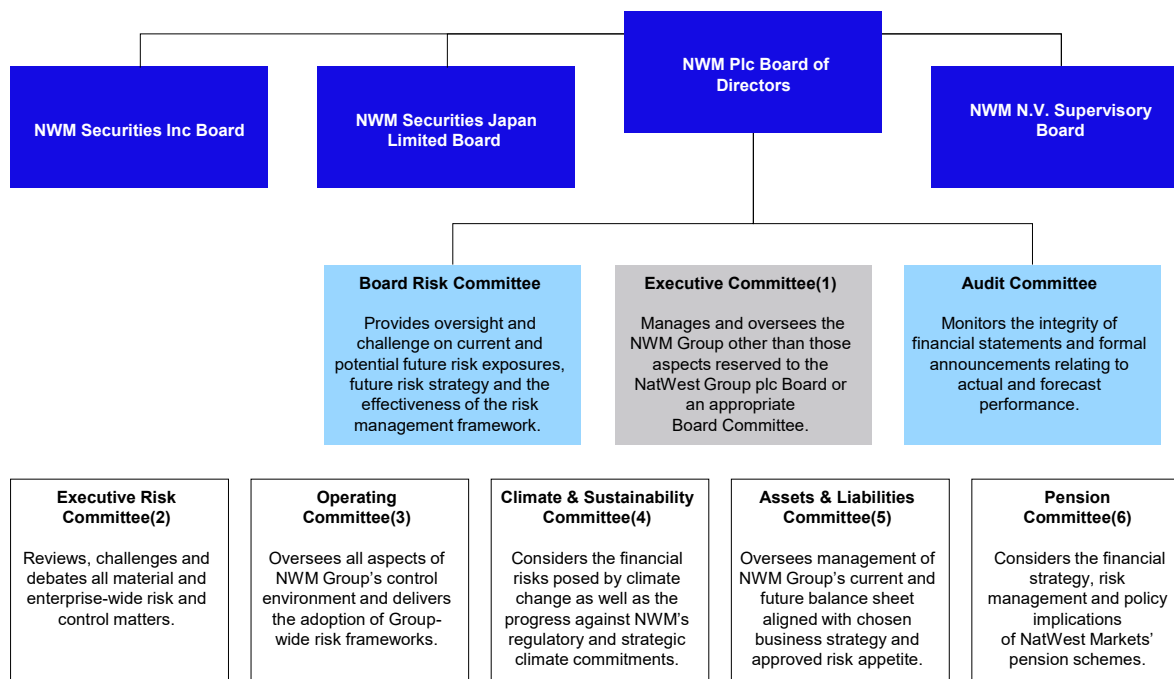
Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees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

## **Governance**

### ***Committee structure***

The diagram shows NWM Plc's risk committee structure in 2022 and the main purposes of each committee.



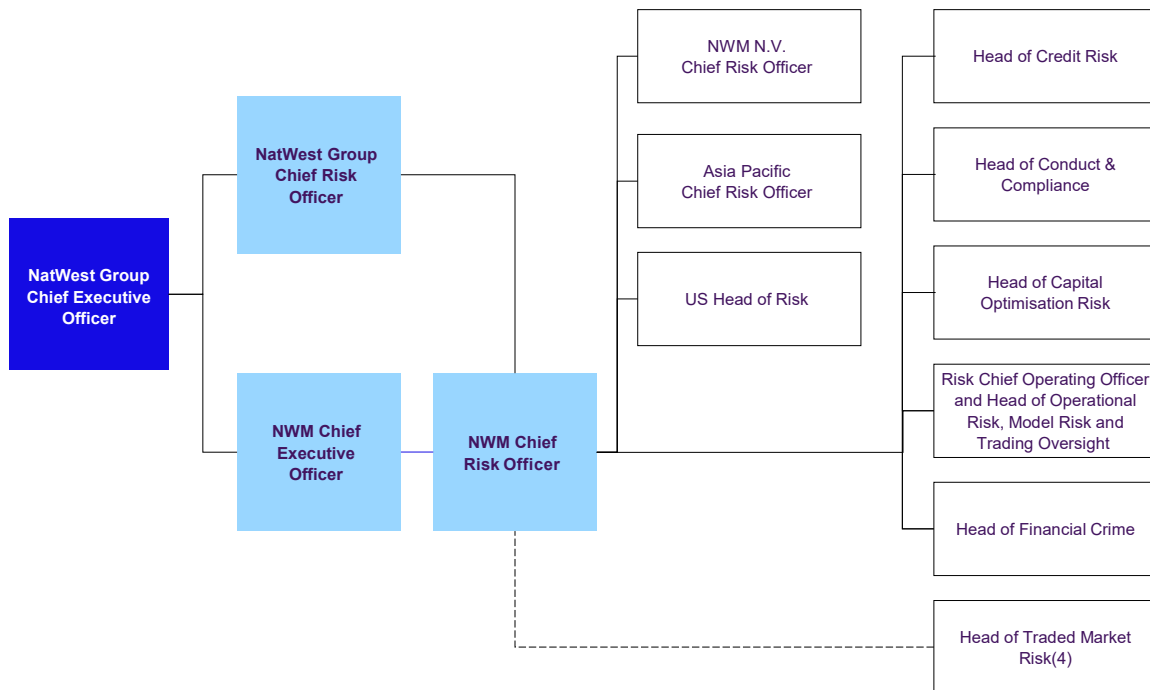


- (1) The NWM Chief Executive Officer has established the Executive Committee to support him in discharging his individual responsibilities in managing the day to day activities of NWM.
- (2) The Executive Risk Committee is chaired by the NWM Chief Risk Officer and supports him in discharging his risk management accountabilities.
- (3) The Operating Committee is chaired by the NWM Chief Operating Officer and supports him in discharging his individual accountabilities in accordance with the authority delegated to him by the NWM Chief Executive Officer.
- (4) The Climate & Sustainability Committee is chaired by the NWM Chief Executive Officer and supports him in discharging his climate risk accountabilities.
- (5) The Assets & Liabilities Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to treasury and balance sheet management.
- (6) The Pension Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to the management of NWM Group's pension schemes.
- (7) The Financial Crime Risk Committee, the E-Trading Oversight Committee, the Reputational Risk Committee, the Valuations Committee, the Enterprise-Wide Risk Committee, the Policy Approval Committee, the Model Risk Committee, the Provisions Committee and the Credit Risk Committee are not shown here. They support the Executive Risk Committee in discharging its risk management responsibilities.

## Governance

### *Risk management structure*

The diagram shows NWM Group's risk management structure in 2022.



- (1) The NWM Chief Risk Officer reports directly to the NWM Chief Executive Officer and the NatWest Group Chief Risk Officer. The NWM Chief Risk Officer also has an additional reporting line to the chair of the NWM Board Risk Committee, and a right of access to the committee.
- (2) The NWM Group Risk function is independent and provides oversight of risk management activities to ensure risks are adequately monitored and controlled. The heads of risk work closely with the NWM N.V. Chief Risk Officer, the US Head of Risk and the Chief Risk Officer Asia Pacific to ensure consistency across the international businesses.
- (3) The NWH Group Risk function provides services across NatWest Group, including – where agreed – to the NWM Chief Risk Officer. These services are managed, as applicable, through service level agreements and resource augmentation agreements.
- (4) The role holder sits in NWH Group but is directed by the NWM Chief Risk Officer.

### Three lines of defence

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

#### *First line of defence*

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

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

The first line of defence is responsible for managing its direct risks, and with the support of specialist functions, it is also responsible for managing its consequential risks, by identifying, assessing, mitigating, monitoring and reporting risks.

#### *Second line of defence*

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

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

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

### ***Third line of defence***

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

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

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

### ***Risk appetite***

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

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

### **Risk appetite framework**

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

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

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

The Board reviews and approves the risk appetite framework annually.

### ***Establishing risk appetite***

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

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

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

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

NWM Group's risk profile is continually monitored and frequently reviewed. Management focus is concentrated on all principal risks as well as the top and emerging threats that may correlate to them. Risk profile relative to risk appetite is reported regularly to senior management and the Board.

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

### **Identification and measurement**

Identification and measurement within the risk management process comprises:

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

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

### ***Mitigation***

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

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

### ***Stress testing***

#### ***Stress testing – capital management***

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

<b>Define scenarios</b>	<ul style="list-style-type: none"> <li>• Identify macro and NWM Group specific vulnerabilities and risks.</li> <li>• Define and calibrate scenarios to examine risks and vulnerabilities.</li> <li>• Formal governance process to agree scenarios.</li> </ul>
<b>Assess impact</b>	<ul style="list-style-type: none"> <li>• Translate scenarios into risk drivers.</li> <li>• Assess impact to current and projected P&amp;L and balance sheet across NWM Group.</li> </ul>
<b>Calculate results and assess implications</b>	<ul style="list-style-type: none"> <li>• Aggregate impacts into overall results.</li> <li>• Results form part of the risk management process.</li> <li>• Scenario results are used to inform NWM Group’s business and capital plans.</li> </ul>
<b>Develop and agree management actions</b>	<ul style="list-style-type: none"> <li>• Scenario results are analysed by subject matter experts. Appropriate management actions are then developed.</li> <li>• Scenario results and management actions are reviewed by the relevant Executive Risk Committees and Board Risk Committees and agreed by the relevant Boards.</li> </ul>

Stress testing is used widely across NatWest Group, including at NWM Group level. The diagram below summarises key areas of focus.



Specific areas that involve capital management include:

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

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

#### *Capital sufficiency – going concern forward-looking view*

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

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

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

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

Under stress testing, the peak-to-trough change in CET1 may be affected by the transitions from Stage 1 to Stage 2 in stress conditions. Stress and peak-to-trough movements are used to help assess the amount of capital NWM Group needs to hold in stress conditions in accordance with the capital risk appetite framework.

#### *Internal assessment of capital adequacy*

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

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

### *Capital allocation*

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

### *Governance*

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

### **Stress testing – liquidity**

#### *Liquidity risk monitoring and contingency planning*

A suite of tools is used to monitor, limit and stress test the liquidity and funding risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk, asset and liability mismatches and funding concentrations. Liquidity and funding risks are reviewed at significant legal entity and business levels daily, with performance reported to the Assets & Liabilities 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, NWM Group maintains the Internal Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of extreme but plausible stress scenarios detailed in the following table.

Type	Description
<b>Idiosyncratic scenario</b>	The market perceives NWM Group to be suffering from a severe stress event, which results in an immediate assumption of increased credit risk or concerns over solvency.
<b>Market-wide scenario</b>	A market stress event affecting all participants in a market through contagion, potential counterparty failure and other market risks. NWM Group is affected under this scenario but no more severely than any other participants with equivalent exposure.
<b>Combined scenario</b>	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.

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

### ***Stress testing – recovery and resolution planning***

Within NWM Group, both NWM Plc and NWM N.V. each have a recovery plan explaining how they would identify and respond to a financial stress event and restore their financial position so that they remain viable on an ongoing basis.

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

- Developing a series of recovery indicators to provide early warning of potential stress events.
- Clarifying roles, responsibilities and escalation routes to minimise uncertainty or delay.

- Developing a recovery playbook to provide a concise description of the actions required during recovery.
- Detailing a range of options to address different stress conditions.
- Appointing dedicated option owners to reduce the risk of delay and capacity concerns.

The plan is intended to enable critical services and products to be maintained, as well as core business lines while operating within risk appetite and restoring financial condition. It is assessed for appropriateness on an ongoing basis and is updated annually. The NWM Plc plan is reviewed and approved by the Board prior to submission to the PRA each year.

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

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

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

### ***Stress testing – market risk***

#### *Non-traded market risk*

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

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

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

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

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



### *Traded market risk*

NWM Group carries out regular market risk stress testing to identify vulnerabilities and potential losses in excess of, or not captured in, value-at-risk. The calculated stresses measure the impact of changes in risk factors on the fair values of the trading portfolios.

NWM Group conducts historical, macroeconomic and vulnerability-based stress testing. Historical stress testing is a measure that is used for internal management. Using the historical simulation framework employed for value-at-risk, the current portfolio is stressed using historical data since 1 January 2005. This methodology simulates the impact of the 99.9 percentile loss that would be incurred by historical risk factor movements over the period, assuming variable holding periods specific to the risk factors and the businesses.

Historical stress tests form part of the market risk limit framework and their results are reported regularly to senior management. Macroeconomic stress tests are carried out periodically as part of the bank-wide, cross-risk capital planning process. The scenario narratives are translated into risk factor shocks using historical events and insights by economists, risk managers and the first line.

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

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.

### ***Internal scenarios***

During 2022, NWM Group continued to review and refine its internal scenarios where appropriate.

In addition, NWM Group vulnerabilities are considered as part of the development of all NatWest Group-wide integrated scenarios and exercises.

### ***Regulatory stress testing***

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

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

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

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

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

NWM Group also contributed to NatWest Group's submission to the Bank of England's Climate Biennial Exploratory Scenario conducted in late 2021 and early 2022.

In addition to its participation in NatWest Group's stress testing programme, NWM Group has a further regulatory commitment in relation to its traded risk model approvals for market risk (IMA) and counterparty credit risk (IMM). A robust stress testing framework is a regulatory requirement.

The purpose of this stress testing framework includes the identification of possible causes of large losses, an estimation of their size and potential impact on capital adequacy together with the identification of steps that could be taken to manage those exposures as required. Such risk management-led stress testing covers both traded market risk and counterparty credit risk and is used to monitor and set risk appetite.

The requirements of NWM Group's stress testing programme are codified in NWM Group's stress testing policy and associated mandatory procedures.

### ***Market risk (audited)***

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

Pension-related activities also give rise to market risk.

### **Traded market risk**

#### ***Definition (audited)***

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

#### ***Sources of risk (audited)***

Traded market risk mainly arises from NWM Group's trading activities. These activities provide a range of financing, risk management and investment services to clients – including corporations and financial institutions – around the world. From a market risk perspective, activities are focused on rates; currencies; and traded credit.

NWM Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

Trading activities may also give rise to counterparty credit risk. For further detail, refer to '*—Credit risk*'.

#### ***Key developments in 2022***

- The year was marked by periods of increased market volatility reflecting UK political developments, global inflationary concerns and the invasion of Ukraine.
- The significant volatility in Gilts, sterling swaps and inflation entered the rolling window for VaR calculation during 2022. However, traded VaR and SVaR remained within appetite and, on an average basis, decreased compared to 2021, aided by NWM Group's continued disciplined approach to risk-taking.

#### ***Governance (audited)***

Market risk policy statements set out the governance and risk management framework. Responsibility for identifying, measuring, monitoring and controlling market risk arising from trading activities lies with the relevant trading business. The Market Risk function independently advises on, monitors and challenges the risk-taking activities undertaken by the trading business ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

## **Risk appetite**

NWM Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement. Quantitative appetite is expressed in terms of exposure limits. The limits at NWM Group level comprise value-at-risk (VaR), stressed value-at-risk (SVaR) and stress-testing limits. More details on these are provided on the following pages.

For each trading business, a document known as a dealing authority compiles details of all applicable limits and trading restrictions. The desk-level mandates comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as exposure size, aged inventory, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments and recalibrated to ensure that they remain aligned to NWM Group RWA targets. Limit reviews focus on optimising the alignment between traded market risk exposure and capital usage.

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

### *Monitoring and mitigation*

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

Traded market risk exposures are monitored against limits and analysed daily. A daily report summarising the position of exposures against limits at desk, business and NWM Group levels is provided to senior management and market risk managers across the function. Limit reporting is supplemented with regulatory capital and stress testing information as well as ad-hoc reporting.

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

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level. In addition, regular updates on traded market risk positions are provided to NWM Group's Executive Risk Committee and Board Risk Committee.

### *Measurement (audited)*

NWM Group uses VaR, SVaR and the incremental risk charge to measure traded market risk. Risks that are not adequately captured by VaR or SVaR are captured by the Risks Not In VaR (RNIV) framework to ensure that NWM Group is adequately capitalised for market risk. In addition, stress testing is used to identify any vulnerabilities and potential losses.

The key inputs into these measurement methods are market data and risk factor sensitivities. Sensitivities refer to the changes in trade or portfolio value that result from small changes in market parameters that are subject to the market risk limit framework. Revaluation ladders are used in place of sensitivities to capture the impact of large moves in risk factors or the joint impact of two risk factors.

The suite of internal metrics used for risk management purposes at NWM Group level have been designed to capture correlation effects and to allow for an aggregated view of traded market risk across risk types, markets and business lines while also taking into account the characteristics of each risk type.

## Value-at-risk

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

The internal VaR model – which captures all trading book positions including those products approved by the regulator – is based on a historical simulation, utilising market data from the previous 500 days on an equally-weighted basis.

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

When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

The performance and adequacy of the VaR model are tested regularly through the following processes:

- **Back-testing:** Internal and regulatory back-testing is conducted on a daily basis. For further information on back-testing, refer to the following page.
- **Ongoing model validation:** VaR model performance is assessed both regularly and, on an ad-hoc basis if market conditions or portfolio profile change significantly.
- **Model Risk Management review:** As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

### One-day 99% traded internal VaR (audited)

The table below shows one-day 99% internal VaR for the trading portfolios of NWM Group, split by exposure type.

	2022				2021			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Traded internal VaR (1-day 99%)</b>								
Interest rate.....	7.3	12.6	4.1	9.0	10.4	25.3	4.5	8.9
Credit spread.....	7.8	12.0	6.0	6.4	11.3	13.4	9.4	10.7
Currency.....	3.1	8.0	1.2	1.5	3.4	9.4	1.7	2.2
Equity.....	—	0.3	—	—	0.4	0.8	—	0.2
Commodity.....	—	—	—	—	0.1	0.5	—	—
Diversification (1).....	(7.5)			(6.8)	(12.3)			(10.5)
<b>Total.....</b>	<b>10.7</b>	<b>15.1</b>	<b>7.2</b>	<b>10.1</b>	<b>13.3</b>	<b>23.9</b>	<b>9.3</b>	<b>11.5</b>

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

- On an average basis, total traded VaR was lower in 2022 than in 2021 despite the increased market volatility related to sterling Gilts, swaps and inflation entering the rolling window for VaR calculation during 2022.
- The decrease in average interest rate VaR reflected the lower tenor basis risk in sterling flow trading in 2022 than in 2021. This followed the application of a regulator-approved update to the VaR model in Q3 2021 to address the impact of the transition from LIBOR to alternative risk-free rates.
- Credit spread VaR also decreased, mainly because the heightened market volatility in March 2020, resulting from the onset of the COVID-19 crisis, dropped out of the VaR window during H1 2022.

### ***VaR back-testing***

The main approach employed to assess the VaR model's ongoing performance is back-testing, which counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.

Two types of profit and loss (P&L) are used in back-testing comparisons: Actual P&L and Hypothetical P&L. For more details on the back-testing approach and the differences between internal and regulatory VaR, refer to the Market risk section of the NatWest Group Pillar 3 Report.

The table below shows regulatory back-testing exceptions in NWM Plc for the 250-business-day period to 31 December 2022 for one-day 99% traded regulatory VaR compared with Actual and Hypothetical (Hypo) P&L.

	Back-testing exceptions	
	Actual	Hypo
NWM Plc.....	10	16

- In the 250-day rolling window to 31 December 2022, NWM Plc experienced 10 Actual and 16 Hypothetical VaR P&L back-testing exceptions.
- Most of these occurred during H1 2022, reflecting significant market volatility in sterling Gilts, swaps and inflation due to UK political developments, global inflationary concerns and the invasion of Ukraine.
- A prospective update to make the VaR model more sensitive to recent market conditions has been submitted to the PRA.

The table below shows internal back-testing exceptions in the major NWM businesses for the 250-business-day period to 31 December 2022. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypo P&L.

	Back-testing exceptions	
	Actual	Hypo
Rates.....	2	6
Currencies.....	—	7
Credit.....	—	—
xVA.....	1	1

- The exceptions in the Rates business were mainly driven by market moves in sterling, euro and US dollar rates and sterling inflation.
- The exceptions in the Currencies business were mainly driven by market moves related to sterling, the euro and the US dollar.
- The total xVA loss was driven by a loss due to the default of a counterparty.

### ***Stressed VaR (SVaR)***

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions. A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

This is in contrast with VaR, which is based on a rolling 500-day historical data set. A time horizon of ten trading days is assumed with a confidence level of 99%. NWM Group's internal traded SVaR model captures all trading book positions.

The table below analyses 10-day 99% internal SVaR for the trading portfolios of NWM Group.

	2022				2021			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£m	£m
Total internal traded SVaR.....	70	206	34	40	95	175	46	66

- Traded SVaR was, on an average basis, lower in 2022 than in 2021, following the reduction in tenor basis risk in sterling flow trading resulting from the VaR model update in Q3 2021.
- Traded market risk continued.

### ***Risks Not In VaR (RNIVs)***

The RNIV framework is used to identify and quantify market risks that are not fully captured by the internal VaR and SVaR models.

RNIV calculations form an integral part of ongoing model and data improvement efforts to capture all market risks in scope for model approval in VaR and SVaR.

For further qualitative and quantitative disclosures on RNIVs, refer to the Market risk section of the NatWest Group Pillar 3 Report.

### ***Stress testing***

For information on stress testing, please refer to ‘—*Stress testing—Stress testing – capital management*’.

### ***Incremental risk charge (IRC)***

The IRC model quantifies the impact of rating migration and default events on the market value of instruments with embedded credit risk (in particular, bonds and credit default swaps) held in the trading book. It further captures basis risk between different instruments, maturities and reference entities. For further qualitative and quantitative disclosures on the IRC, refer to the Market risk section of the NatWest Group Pillar 3 Report.

## **Non-traded market risk**

### ***Definition (audited)***

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

### ***Sources of risk (audited)***

The key sources of non-traded market risk are interest rate risk, credit spread risk, foreign exchange risk and equity risk.

For detailed qualitative and quantitative information on each of these risk types, refer to the separate sub-sections starting on the following page.

### ***Key developments in 2022***

- NWM Plc’s non-traded internal VaR decreased on an average basis compared to 2021, driven by a decrease in credit spread VaR. This was driven by the COVID-19-related market volatility in March 2020 dropping out of the VaR calculation window and by changes in fair value loan positions. Interest rate VaR increased reflecting higher volatility in interest rates, particularly in sterling, towards year-end.
- NWM Plc maintains a structural hedge of its common equity and reserves. At 31 December 2022, the notional amount of the structural hedge in place was £3.3 billion (£3.9 billion at 31 December 2021). NWM N.V. implemented a structural hedge of its common equity and reserves in 2022; at 31 December 2022, the notional amount of this hedge, in sterling equivalent terms, was £1.6 billion.

## Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by NWM Group's Non-Traded Market Risk function.

Risk positions are reported regularly to NWM Group's Executive Risk Committee and the Board Risk Committee, as well as to the NWM Plc's ALCo. Non-traded market risk policy statements set out the governance and risk management framework.

Non-traded market risk is managed separately on both sides of the ring-fence. It is aggregated and monitored against risk appetite at both NWM Plc and NatWest Group levels.

## Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. At the NWM Plc level, the Board limit comprises a VaR measure. This is supplemented with SVaR, sensitivities (including to the CET1 ratio), earnings-at-risk and economic-value-of-equity measures monitored at Executive governance level.

To ensure limits are not breached and that NWM Plc remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the business, Non-Traded Market Risk and Finance for implementation. Limits are reviewed regularly to reflect changes in risk appetite, business plans, portfolio composition and the external environment.

### Non-traded internal VaR (one-day 99%) (audited)

The market risk exposures arising as a result of banking activities are measured using a combination of value-based metrics (VaR and sensitivities) and earnings-based metrics. The following table shows NWM Plc's one-day internal banking book VaR at a 99% confidence level, split by risk type. VaR values for each year are calculated based on one-day values for each of the 12 month-end reporting dates. For NWM N.V., refer to the appropriate key point below the table.

	2022				2021			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
NWM Plc	£m	£m	£m	£m	£m	£m	£m	£m
Interest rate .....	4.1	7.0	2.3	5.8	2.8	3.4	2.1	2.6
Credit spread.....	3.5	4.7	3.0	3.9	5.8	7.8	4.4	4.9
Foreign exchange rate...	3.6	4.8	2.8	4.7	4.8	5.9	4.3	4.4
Equity risk.....	1.4	2.6	1.1	1.1	2.8	3.1	2.5	2.6
Diversification (1) .....	(5.1)			(5.6)	(7.8)			(7.0)
Total.....	7.5	9.9	5.7	9.9	8.4	10.9	6.4	7.5

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

- In NWM Plc, total non-traded internal VaR decreased on an average basis, driven by the decrease in credit spread VaR. This was driven by the COVID-19-related market volatility in March 2020 dropping out of the VaR calculation window during H1 2022, and by changes in fair value loan positions.
- Foreign exchange and equity risks also decreased, offsetting the increase in interest rate risk.
- Interest rate VaR increased reflecting higher volatility in interest rates, particularly in sterling, towards year-end.
- Equity risk VaR decreased due to disposals of legacy equity investments.
- In NWM N.V., in sterling equivalent terms, non-traded VaR was £0.6 million on an average basis (2021 - £0.9 million) and £0.4 million on a period end basis (2021 - £0.5 million).

## **Interest rate risk**

Non-traded interest rate risk (NTIRR) mainly arises from capital hedges, in portfolios held for liquidity purposes and from interest rate repricing mismatches between assets and liabilities in other portfolios. 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 the following three primary risk types:

- **Gap risk:** arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- **Basis risk:** captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- **Option risk:** arises from option derivative positions or from optional elements embedded in assets, liabilities and/or off-balance sheet items, where NWM Group or its customer can alter the level and timing of their cash flows.

To manage exposures within appetite, NWM Group aggregates its interest rate positions and hedges these externally using cash and derivatives (primarily interest rate swaps).

## **Credit spread risk**

Credit spread risk arises from the potential adverse economic impact of a change in the spread between bond (or other credit-sensitive instrument) yields and swap rates, where the portfolios are accounted at fair value through other comprehensive income. Credit risk also arises on loan portfolios classified at fair value.

To ensure NWM Group can continue to meet its obligations in the event that access to wholesale funding markets is restricted, it maintains a liquidity buffer in the form of bond portfolios – comprising primarily high-quality securities – and central bank cash.

Credit spread risk is monitored daily through sensitivities and VaR measures. Exposures and limit utilisations are reported to senior management on a regular basis. The dealing mandates in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating.

## **Foreign exchange risk**

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

- **Structural foreign exchange rate risk** – mainly arises from the capital deployed in foreign subsidiaries and branches.
- **Transactional foreign exchange rate risk** – arises from customer transactions and profits and losses that are in a currency other than the functional currency.

Structural foreign exchange rate risk is assessed and managed by NWM Plc Treasury, with the aim of reducing NWM Plc's solo CET1 ratio sensitivity to unexpected movements in spot foreign exchange rates.

The position is managed within risk appetite levels under delegated authority from NWM Plc ALCo. The sensitivity of the CET1 ratio to exchange rates is reported to NWM Plc senior management monthly.

Gains or losses arising from the retranslation of net investments in overseas operations are recognised in equity reserves and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs.

Foreign exchange exposures arising from customer transactions are hedged by businesses on a regular basis in line with NatWest Group policy.



## Foreign exchange exposures (audited)

The table below shows NWM Group's structural foreign currency exposures.

	Net investments in foreign operations	Net investment hedges	Structural foreign currency exposures	Economic hedges	Residual structural foreign currency exposures
	£m	£m	£m	£m	£m
<b>2022</b>					
US dollar (1).....	1,239	(303)	936	(936)	—
Euro .....	2,702	(420)	2,282	—	2,282
Swiss franc .....	184	(184)	—	—	—
Other non-sterling .....	390	(78)	312	—	312
	<u>4,515</u>	<u>(985)</u>	<u>3,530</u>	<u>(936)</u>	<u>2,594</u>
<b>2021</b>					
US dollar (1).....	1,250	(260)	990	(853)	137
Euro .....	2,400	(221)	2,179	—	2,179
Swiss franc .....	171	(171)	—	—	—
Other non-sterling .....	392	(69)	323	—	323
	<u>4,213</u>	<u>(721)</u>	<u>3,492</u>	<u>(853)</u>	<u>2,639</u>

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar equity securities that do not qualify as net investment hedges for accounting purposes.

- Sterling weakened against the US dollar, to 1.21 at 31 December 2022 compared to 1.35 at 31 December 2021. It also weakened against the euro, to 1.13 at 31 December 2022 compared to 1.19 at 31 December 2021.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure. For example, a 5% strengthening or weakening in foreign currencies against sterling would result in a gain or loss of £0.2 billion in equity, respectively.

## Capital, liquidity and funding risk

NWM Group continually ensures a comprehensive approach is taken to the management of capital, liquidity and funding, underpinned by frameworks, risk appetite and policies, to manage and mitigate capital, liquidity & funding risks. The framework 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 (audited)

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions are set by applicable regulations to determine capital eligibility.

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

Liquidity consists of assets that can be readily converted to cash within a short timeframe and with 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;
- Credit ratings;
- Wholesale market conditions; and
- Depositor and investor behaviour.

### **Sources (audited)**

#### *Capital*

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

- CET1 capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are perpetual in nature, with an initial call period of at least five years from issue and are written off or converted into CET1 capital if a pre-specified CET1 ratio is reached. The sum of CET1 and AT1 capital is referred to as Tier 1 capital.
- Tier 2 capital - Tier 2 capital is the bank entities' supplementary capital and provides loss absorption on a gone concern basis. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NWM Plc has failed. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum initial 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 with a residual maturity of at least one year issued by NWM Plc, may be used to cover certain gone concern capital requirements.

#### **Liquidity**

NWM Group maintains a prudent approach to the definition of liquidity resources. Liquidity resources are divided into primary and secondary liquidity as follows:

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

#### **Funding**

NWM Group's primary funding sources are as follows:

Type	Description
<b>Wholesale markets</b>	Includes:

Type	Description
	<ul style="list-style-type: none"> <li>• Short-term (less than 1 year) unsecured money market funding.</li> <li>• Commercial paper and certificates of deposit.</li> <li>• Secured repo market funding.</li> </ul>
<b>Term debt</b>	Includes: <ul style="list-style-type: none"> <li>• Long-term (typically more than 1 year) senior unsecured and secured debt securities.</li> <li>• Long-term subordinated liabilities.</li> </ul>
<b>Internal capital and MREL</b>	Includes: <ul style="list-style-type: none"> <li>• Equity, AT1, Tier 2 capital instruments and MREL issued to NatWest Group plc (under the Single Point of Entry regime).</li> </ul>

### ***Managing capital, liquidity and funding requirements: regulated entities***

In line with paragraph 135 of IAS 1 ‘Presentation of Financial Statements’, NWM Group manages capital having regard to regulatory requirements. Regulatory capital, MREL, RWA and leverage is monitored and reported on an individual regulated bank legal entity basis (‘bank entity’), which is the CRR transitional basis as relevant in the UK and EU.

Liquidity metrics including the LCR are presented for the solo legal entity as regulated by the PRA. Disclosures for funding sources and notes issued are presented for NWM Group rather than for NWM Plc.

### **Key developments in 2022**

- NWM Plc’s RWAs decreased by £1.3 billion to £21.4 billion at 31 December 2022, reflecting lower levels of counterparty credit and operational risk, partially offset by increases in credit and market risk.
- NWM Plc’s CET1 ratio decreased by 70 basis points to 17.2% at 31 December 2022, from 17.9% at 31 December 2021, largely driven by dividends paid to NatWest Group plc and other reserve movements, partially offset by the decrease in RWAs.
- The leverage ratio at 31 December 2022 of 5.4% has been calculated in accordance with changes to the UK’s leverage ratio framework introduced by the PRA which came into effect from 1 January 2022. As at 31 December 2021, the UK leverage ratio was 4.8%, which was calculated under the prior year’s UK leverage methodology.
- NWM Plc’s MREL at 31 December 2022 was £8.7 billion, or 40.4% of RWAs, compared to £9.6 billion or 42.1% of RWAs at 31 December 2021. The decrease in the year was largely due to the redemption of a €1.1 billion internal instrument and a €1.0 billion internal instrument, offset by a new internal instrument of \$1.1 billion issued to NatWest Group plc.
- The NWM Plc liquidity portfolio was £18.6 billion at 31 December 2022, an increase of £2.5 billion from £16.1 billion at the prior year end.
- The LCR for NWM Plc was 253% at 31 December 2022, compared with 205% at 31 December 2021.

### **Capital management**

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

is critical in supporting banks businesses. Capital management within NWM Group is executed in accordance with the NatWest Group-wide framework.

NWM Plc's capital plans are produced and updated by the bank on a monthly basis. This process includes integration into NatWest Group's wider annual budgeting process and is summarised below.

- |                                |   |
|--------------------------------|---|
| <b>Produce capital plans</b>   | <ul style="list-style-type: none"><li>• A capital plan is produced for NWM Plc using a five-year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing through the ICAAP or for regulatory purposes.</li><li>• A shorter term (rolling 12 month) forecast is updated frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.</li></ul> |
| <b>Assess capital adequacy</b> | <ul style="list-style-type: none"><li>• Capital plans are developed to ensure that capital of sufficient quantity and quality is planned to be available to support NWM Group's business and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements.</li><li>• Impact assessment captures input from across NWM Group including from businesses.</li></ul>  |
| <b>Inform capital actions</b>  | <ul style="list-style-type: none"><li>• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions.</li><li>• Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions.</li><li>• As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.</li></ul>                        |

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

## **Liquidity and funding management**

Liquidity and funding management follows a similar process to that outlined above for capital.

### ***Liquidity portfolio management***

The size of the portfolio is determined by reference to NWM Group's liquidity risk appetite. Consistent with NatWest Group, NWM Group retains a prudent approach to setting the composition of the liquidity portfolio, which is subject to internal policies and limits covering quality of counterparty, maturity mix and currency mix. NWM Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The majority of the NWM Plc portfolio is managed by NatWest Holdings Treasury on behalf of NWM Plc, for which the NatWest Markets Treasurer is responsible.

NatWest Markets Securities Inc. and NatWest Markets N.V., both of which are significant operating subsidiaries of NWM Plc, hold locally managed liquidity portfolios to comply with local regulations that differ from PRA rules.

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

### ***Funding risk management***

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

The long-term obligations of NWM Group must be met with diverse and stable funding sources, the behavioural maturity of these liabilities must at a minimum equal those of the assets.

## Minimum requirements

### Capital ratios

The Bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the CRR end-point minimum requirements of capital to RWAs that NWM Plc is expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements.....	4.5%	6.0%	8.0%
Capital conservation buffer (1).....	2.5%	2.5%	2.5%
Countercyclical capital buffer (1).....	0.5%	0.5%	0.5%
Total (2).....	7.5%	9.0%	11.0%

- (1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The Financial Policy Committee (FPC) increased UK countercyclical capital buffer rate from 0% to 1% from 13 December 2022, with a further increase from 1% to 2% anticipated from 5 July 2023. Foreign exposures may be subject to different countercyclical capital buffer rates dependent on the rate set in those jurisdictions. The capital conservation buffer and the countercyclical capital buffer are required to be met with CET1 capital only.
- (2) In addition, NWM Plc is subject to Pillar 2A requirements which are not disclosed publicly.

### Leverage ratio

At present, NWM Plc only has a leverage ratio reporting requirement, and not a regulatory minimum leverage requirement. Following the publication of the new UK leverage ratio framework on 8 October 2021, NWM Plc will be subject to the minimum leverage requirement from 1 January 2023.

### Liquidity ratio

NWM Plc has a minimum liquidity coverage ratio (LCR) requirement under the PRA framework of 100%.

## Measurement

### Capital, RWAs and leverage

Capital resources, RWAs and leverage based on the PRA transitional arrangements for NWM Plc are set out below. Regulatory capital is monitored and reported at legal entity level for large subsidiaries of NatWest Group.

	2022	2021
	%	%
<b>Capital adequacy ratios</b>		
CET1 .....	17.2	17.9
Tier 1 .....	20.4	21.0
Total .....	25.7	25.9
Total MREL .....	40.4	42.1
	<b>£m</b>	<b>£m</b>
<b>Capital</b>		
CET1 (1).....	3,682	4,072
Tier 1 .....	4,361	4,755
Total .....	5,502	5,870
Total MREL (2).....	8,652	9,555
<b>RWAs</b>		
Credit risk.....	7,110	6,878
Counterparty credit risk.....	5,682	6,854
Market risk .....	7,152	6,934

Operational risk .....	1,478	2,020
Total RWAs.....	<u>21,422</u>	<u>22,686</u>

- (1) CET1 includes £250 million foreseeable ordinary dividend deduction in December 2021. There is no foreseeable ordinary dividend deduction in December 2022.
- (2) Includes senior debt instruments issued to NatWest Group plc with a regulatory value of £3.2 billion (2021 - £3.7 billion).

### Leverage

The leverage ratio for December 2022 has been calculated in accordance with the Leverage Ratio (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

	<u>2022</u>	<u>2021</u>
Leverage exposure (£m) (1) .....	81,083	110,603
Tier 1 capital (£m).....	4,361	4,755
Leverage ratio (%) (2) .....	5.4	4.3

- (1) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures, subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.
- (2) Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework from 1 January 2022. The leverage ratio for 31 December 2022 in the above table reflects the UK leverage ratio for NWM Plc, as per the new framework. As at 31 December 2021, the UK leverage ratio was 4.8%, which was calculated under the prior year's PRA UK leverage methodology.

### Leverage exposure

The leverage exposure for December 2022 has been calculated in accordance with the Leverage Exposure (CRR) part of the PRA rulebook. The comparatives reflect the previous CRR framework which was applicable prior to 1 January 2022.

	<u>2022</u>	<u>2021</u>
	<u>£m</u>	<u>£m</u>
<b>Leverage</b>		
Cash and balances at central banks.....	13,467	12,294
Trading assets.....	27,301	41,222
Derivatives.....	96,258	103,042
Net loans to customers.....	27,011	21,988
Other assets.....	5,024	4,008
Total assets .....	<u>169,061</u>	<u>182,554</u>
Derivatives.....		
- netting .....	(95,223)	(106,317)
- potential future exposures .....	16,540	32,235
Securities financing transactions gross up.....	2,862	1,298
Undrawn commitments .....	5,239	4,993
Regulatory deductions and other adjustments .....	(3,077)	(3,186)
Exclusion of core UK-group exposures.....	(852)	(974)
Claims on central banks.....	(13,467)	—
Leverage exposure (1) .....	<u>81,083</u>	<u>110,603</u>

- (1) Following the Financial Policy Committee's planned review of the UK's leverage ratio framework, the PRA has introduced changes to the framework from 1 January 2022. The leverage exposure for December 2022 in the above table reflects the UK leverage exposure for NWM Plc, as per the new framework. As at 31 December 2021, the UK leverage exposure was £98,317 million which was calculated under the prior year's PRA UK leverage methodology.

## Liquidity portfolio (audited)

The table below shows the liquidity portfolio by LCR product, with the incorporation of discounts (or haircuts) used within the internal stressed outflow coverage liquidity risk measure. Secondary liquidity comprises assets eligible for discount at central banks, which do not form part of the liquid asset portfolio for LCR or stressed outflow coverage purposes.

	Liquidity value (1)	
	2022	2021
	£m	£m
<b>NatWest Markets Plc</b>		
Cash and balances at central banks.....	13,472	12,277
AAA to AA- rated governments.....	4,766	3,457
A+ and lower rated governments.....	59	18
Government guaranteed issuers, public sector entities and government sponsored entities.....	13	13
International organisations and multilateral development banks.....	182	140
LCR level 1 bonds.....	5,020	3,628
LCR level 1 assets.....	18,492	15,905
LCR level 2 assets.....	—	—
Non-LCR eligible assets.....	—	—
Primary liquidity.....	18,492	15,905
Secondary liquidity (2).....	68	190
Total liquidity value	18,560	16,095

(1) Liquidity value is aligned to the internal stressed outflow coverage, which is stated after discounts (or haircuts) are applied to the instruments.

(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

The table below shows the liquidity value of the liquidity portfolio by currency.

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
<b>Total liquidity portfolio</b>					
2022.....	8,660	3,379	6,460	61	18,560
2021.....	7,947	3,010	5,120	18	16,095

## Funding sources (audited)

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	2022			2021		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits.....	2,427	642	3,069	1,244	564	1,808
<i>of which: repos (amortised cost).....</i>	799	—	799	522	—	522
Customer deposits.....	3,353	261	3,614	2,161	107	2,268
<i>of which: repos (amortised cost).....</i>	—	254	254	—	—	—
Trading liabilities (1).....	—	—	—	—	—	—
Repos (2).....	23,740	—	23,740	19,389	—	19,389
Derivative cash collateral received.....	17,663	—	17,663	17,619	—	17,619
Other bank and customer deposits.....	414	654	1,068	832	704	1,536

	2022			2021		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Debt securities in issue.....	54	743	797	178	796	974
	41,871	1,397	43,268	38,018	1,500	39,518
Other financial liabilities .....						
Customer deposits (designated at fair value) .....	253	797	1,050	568	—	568
Debt securities in issue.....						
commercial paper and certificates of deposits .....	3,084	85	3,169	5,179	115	5,294
Medium-term notes (MTNs).....	2,368	14,050	16,418	2,693	9,737	12,430
Subordinated liabilities .....	206	260	466	275	688	963
	5,911	15,192	21,103	8,715	10,540	19,255
Amounts due to holding company and fellow subsidiaries (3) .....						
MREL .....	2,199	974	3,173	939	2,919	3,858
Other bank and customer deposits .....	1,288	—	1,288	623	—	623
Subordinated liabilities .....	—	1,519	1,519	—	1,464	1,464
	3,487	2,493	5,980	1,562	4,383	5,945
Total funding.....	57,049	19,985	77,034	51,700	17,094	68,794
<i>Of which: available in resolution (4) ...</i>			2,753			6,010

- (1) Funding sources excludes short positions of £9,524 million (2021 - £24,964 million) reflected as trading liabilities on the balance sheet.
- (2) Comprises Central and other bank repos of £1,642 million (2021 - £827 million), other financial institution repos of £19,354 million (2021 - £16,935 million) and other corporate repos of £2,744 million (2021 - £1,627 million).
- (3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £211 million (2021 - £181 million) and intercompany settlement balances of £26 million (2021 - Nil) have been excluded from the table.
- (4) Eligible liabilities (as defined in the Banking Act 2009 as amended from time to time) that meet the eligibility criteria set out in the regulations, rules, policies, guidelines, or statements of the Bank of England including the Statement of Policy published in December 2021 (updating June 2018).

### Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

The table below shows NWM Group's debt securities in issue, subordinated liabilities and internal resolution instruments by residual maturity.

	Trading liabilities	Other financial liabilities				Amounts due to holding company and fellow subsidiaries		
		Debt securities in issue				Internal MREL	Subordinated liabilities	Total notes in issue
	Debt securities in issue MTNs	Commercial paper and CDs	MTNs	Subordinated liabilities	Total			
	£m	£m	£m	£m	£m	£m	£m	£m
<b>2022</b>								
Less than 1 year .....	54	3,084	2,368	206	5,658	2,199	—	7,911
1-3 years.....	474	73	9,011	—	9,084	974	830	11,362
3-5 years.....	37	12	4,403	18	4,433	—	—	4,470
More than 5 years .....	232	—	636	242	878	—	689	1,799
Total.....	797	3,169	16,418	466	20,053	3,173	1,519	25,542
<b>2021</b>								
Less than 1 year .....	178	5,179	2,693	275	8,147	939	—	9,264
1-3 years.....	335	105	4,907	222	5,234	2,919	824	9,312
3-5 years.....	112	10	4,425	21	4,456	—	—	4,568
More than 5 years .....	349	—	405	445	850	—	640	1,839
Total.....	974	5,294	12,430	963	18,687	3,858	1,464	24,983



The table below shows the currency breakdown of total notes in issue.

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
<b>2022</b>					
Commercial paper and CDs.....	496	679	1,994	—	3,169
MTNs .....	1,301	5,249	7,991	2,674	17,215
External subordinated liabilities .....	19	102	345	—	466
Internal MREL due to NatWest Group plc.....	—	3,173	—	—	3,173
Subordinated liabilities due to NatWest Group plc .....	—	689	830	—	1,519
Total .....	<u>1,816</u>	<u>9,892</u>	<u>11,160</u>	<u>2,674</u>	<u>25,542</u>
2021 Total .....	<u>853</u>	<u>9,156</u>	<u>13,467</u>	<u>1,507</u>	<u>24,983</u>

## Credit risk

### Definition (audited)

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

### Sources of risk (audited)

The principal sources of credit risk for NWM Group are lending, off-balance sheet products, derivatives and securities financing, debt securities, and settlement risk through trading activities.

### Key developments in 2022 (audited)

- The credit profile remained stable, but the outlook is uncertain from inflationary pressure, compounded by rising interest rates and geopolitical tension. NWM Group has yet to see signs of financial stress materially affect customers' ability to repay.
- Expected credit loss (ECL) reduced during 2022, primarily reflecting a fall in Stage 3 cases. Overall ECL coverage decreased for the same reason.
- Current and potential credit exposure increased in context of business growth. The effect of inflation on customers continues to be assessed. Sector appetite is reviewed regularly and where appropriate adjusted for those sectors most effected by current economic and geopolitical conditions.
- NWM Group continued to progress embedding climate change considerations in credit assessment and monitoring, including scenario analysis to assess the materiality of climate change risks.

### Governance (audited)

The Credit Risk function provides oversight and challenge of frontline credit risk management activities. Authority is delegated to credit risk officers who operate within designated limits set at a customer level and a portfolio level.

Governance activities include:

- Defining credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for business segments and credit limits for customers.

- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of ECL provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through provisions and model committees.
- Development and approval of credit grading models.

A Credit Risk Committee provides oversight of the overall credit risk profile and sector/product/asset class concentrations.

## **Risk appetite**

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

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

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

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

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

## **Identification and measurement**

### ***Credit stewardship (audited)***

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

### ***Asset quality (audited)***

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

### ***Counterparty credit risk***

Counterparty credit risk arises from the obligations of customers under derivative and securities financing transactions. It is a material part of NWM Group's credit risk.

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

## **Mitigation**

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

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

### **Assessment and monitoring**

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

### **Credit risk continued**

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

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

For lower risk transactions below specific thresholds, credit decisions can be approved through self-sanctioning within the business. This process is facilitated through systems, strategies and policy rules.

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

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

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

### **Problem debt management**

#### ***Early problem identification***

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

### ***The aligned Risk of Credit Loss and viability framework***

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

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

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

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

### ***Restructuring***

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team in NWB as a service to NWM Group. The team protects NWM Group’s capital by working with corporate and commercial customers to support their turnaround and recovery strategies and enable them to return to mainstream banking.

### **Forbearance (audited)**

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

### **Credit grading models**

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

Credit grading models are designed to provide:

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

## **Impairment, provisioning and write-offs (audited)**

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

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

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

### ***Model build:***

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

### ***Model application:***

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

Refer to Note 9 to the 2022 Financial Statements for further details.

## **IFRS 9 ECL model design principles (audited)**

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

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

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

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

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

### ***PD estimates***

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

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

### ***LGD estimates***

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

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

### ***EAD estimates***

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

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

### ***Governance and post model adjustments (audited)***

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

*Deferred model calibrations* – ECL adjustments where PD model monitoring indicated that actual defaults were below estimated levels but where it was judged that an implied ECL release was not supportable due to the influence of government support schemes on default levels in the past two years. As a consequence, any potential ECL release was deferred and retained on the balance sheet until modelled ECL levels are affirmed by new model parallel runs or similar analyses.

*Economic uncertainty* – ECL adjustments primarily arising from uncertainties associated with the high inflation environment as well as supply chain disruption, along with the residual effect of COVID-19 and government support schemes. In all cases, management judged that additional ECL was required until further credit performance data became available as the full effects of these issues matures.

*Other adjustments* – ECL adjustments where it was judged that the modelled ECL required amendment.

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

### **ECL post model adjustments (audited)**

The table below shows ECL post model adjustments.

	2022	2021
	£m	£m
Deferred model calibrations .....	—	—
Economic uncertainty .....	1	2
Other adjustments .....	—	—
Total .....	<u>1</u>	<u>2</u>
Of which: .....		
- Stage 1 .....	—	—
- Stage 2 .....	1	2
- Stage 3 .....	—	—

### Significant increase in credit risk (SICR) (audited)

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

The framework comprises the following elements:

- *IFRS 9 lifetime PD assessment (the primary driver)* – on modelled portfolios, the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition) is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount, deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. In broad terms, a doubling of PD would indicate a SICR. However, the PD uplift must be at least 0.1%.
- *Qualitative high-risk backstops* – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support and exposures managed within the Risk of Credit Loss framework.

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

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

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

### Provisioning for forbearance

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.

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

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

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

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

### **Asset lifetimes (audited)**

The choice of initial recognition and asset duration is another critical 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 prepayment and amortisation).
- Revolving facilities – asset duration is based on annual customer review schedules and will be set to the next review date.

### **Economic loss drivers (audited)**

#### ***Introduction***

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

The most material economic loss drivers for the UK portfolios include UK gross domestic product (GDP), world GDP, the unemployment rate, the house price index, and the Bank of England base rate. Similar metrics are used for other key country exposures in NWM Group.

#### ***Economic scenarios***

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

### **Economic loss drivers (audited)**

For 2022, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.



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

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

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

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

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

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

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

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

#### Main macroeconomic variables

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

(1) The five year period starts after Q3 2022 for 31 December 2022 and Q3 2021 for 31 December 2021.

(2) CAGR and total change figures are not comparable with 31 December 2021 data, as the starting quarters are different.

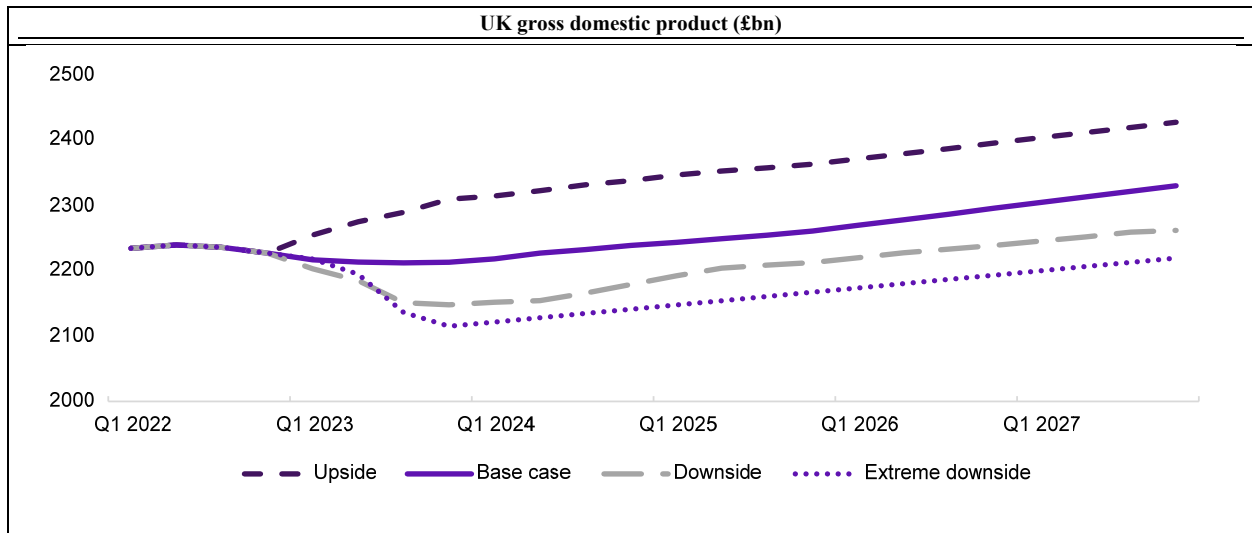
**Probability weightings of scenarios**

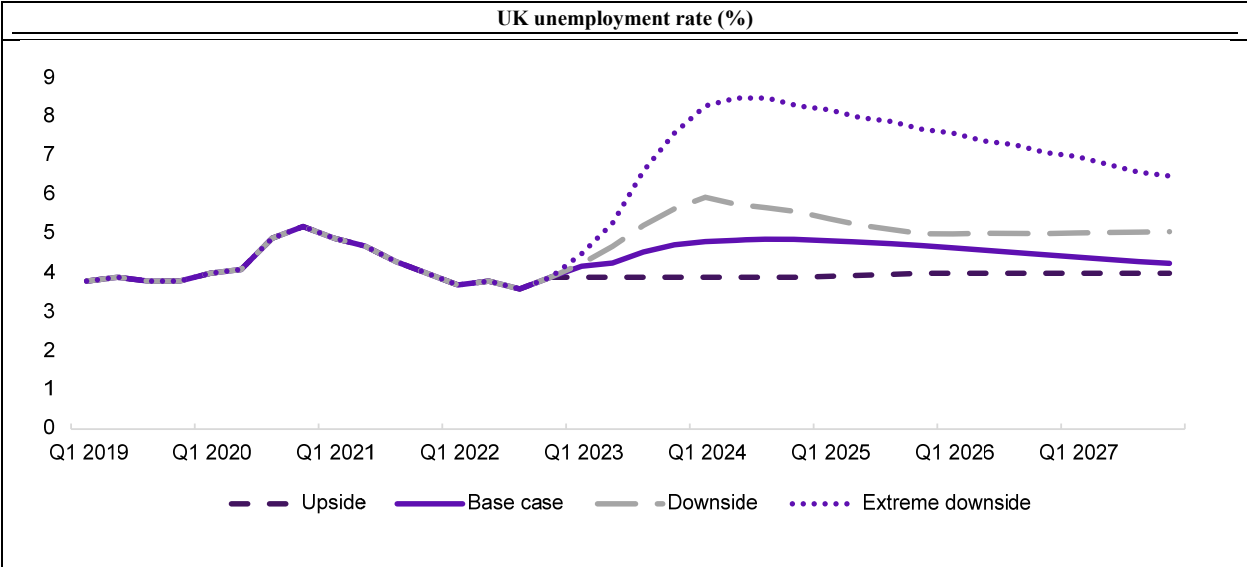
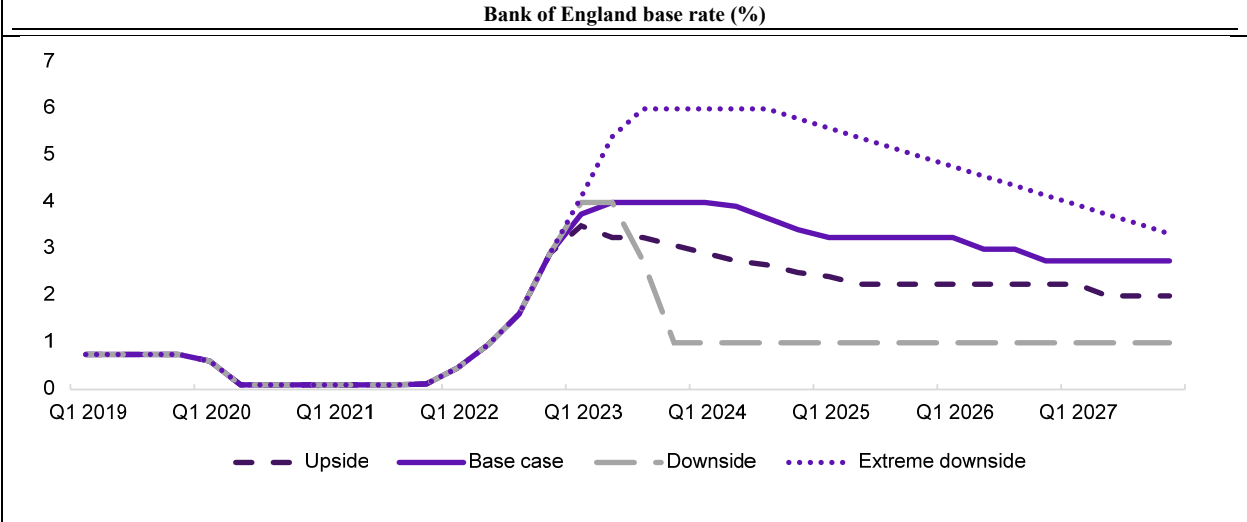
A subjective approach for assigning probability weight was used during COVID-19 due to the scale of the economic effect of COVID-19 and the range of recovery paths. Similarly, a subjective approach was used up to 30 September 2022, to reflect the deteriorating outlook and shifting balance of risks in the given set of scenarios. However, NWM Group’s quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach has been reinstated and is used for 31 December 2022.

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

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

**Economic loss drivers**





**Annual figures**

	GDP - annual growth					Commercial real estate price - four quarter change				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%	%	%	%	%	%
2022	4.4	4.4	4.4	4.4	4.4	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
2023	2.2	(0.9)	(2.8)	(3.1)	(1.1)	2.1	(8.4)	(19.7)	(22.4)	(11.0)
2024	1.9	0.7	(0.4)	(1.6)	0.4	1.9	(0.5)	2.8	(29.1)	(3.2)
2025	1.2	1.0	1.9	1.2	1.3	2.7	1.3	3.7	6.7	2.6
2026	1.2	1.4	1.2	1.2	1.3	2.2	1.0	3.8	8.5	2.6
2027	1.4	1.5	1.1	1.2	1.4	0.6	1.0	2.3	8.6	2.0
	Unemployment rate - annual average					Consumer price index - four quarter change				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%	%	%	%	%	%
2022	3.8	3.8	3.8	3.8	3.8	11.2	11.2	11.2	11.2	11.2
2023	3.9	4.4	5.0	6.0	4.7	2.2	3.7	6.0	17.0	6.0
2024	3.9	4.9	5.7	8.4	5.4	1.0	2.7	1.0	8.8	3.1
2025	4.0	4.8	5.2	8.0	5.2	2.0	2.0	2.0	2.7	2.1
2026	4.0	4.6	5.0	7.4	5.0	2.0	1.9	2.0	2.3	2.0

GDP - annual growth					Commercial real estate price - four quarter change						
	Upside	Base case	Downside	Extreme downside	Weighted average		Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%		%	%	%	%	%
2027	4.0	4.3	5.1	6.7	4.8	2027	2.0	1.9	2.0	2.0	2.0
House price index - four quarter change					UK stock price index - four quarter change						
	Upside	Base case	Downside	Extreme downside	Weighted average		Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%		%	%	%	%	%
2022	6.9	6.9	6.9	6.9	6.9	2022	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
2023	7.5	(7.8)	(13.7)	(10.4)	(6.6)	2023	9.1	4.1	(20.6)	(45.0)	(7.8)
2024	4.5	(0.9)	(7.7)	(15.2)	(3.2)	2024	4.0	1.9	9.7	24.9	5.9
2025	3.0	2.9	4.8	(8.3)	1.8	2025	4.5	4.0	8.8	16.7	6.4
2026	3.5	3.4	8.3	7.2	4.8	2026	4.9	4.4	7.0	11.0	5.8
2027	3.4	3.4	6.3	6.6	4.3	2027	4.0	4.3	6.6	9.9	5.4
Bank of England base rate - annual average											
	Upside	Base case	Downside	Extreme downside	Weighted average		Upside	Base case	Downside	Extreme downside	Weighted average
	%	%	%	%	%		%	%	%	%	%
2022	1.49	1.49	1.49	1.49	1.49						
2023	3.27	3.94	2.94	5.38	3.83						
2024	2.71	3.75	1.00	5.95	3.33						
2025	2.29	3.25	1.00	5.28	2.92						
2026	2.25	3.00	1.00	4.46	2.67						
2027	2.06	2.75	1.00	3.64	2.40						

### Worst points

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

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

## Economic loss drivers (audited)

### Use of the scenarios in lending

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

The individual economic scenarios are translated into forward-looking projections of CCIs using a set of econometric models. Subsequently the CCI projections for the individual scenarios are averaged into a single central CCI projection according to the given scenario probabilities. The central CCI projection is then overlaid with an

additional mean reversion assumption to gradually revert to the long-run average CCI value of zero in the outer years of the projection horizon.

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

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

### ***UK economic uncertainty***

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

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

### ***Model monitoring and enhancement***

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

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

The effect of inflation is deemed to be partially reflected through other drivers present in the models, especially in lending, where new models with a higher weight on stock price indices were introduced for the most material portfolios.

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

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

### **Measurement uncertainty and ECL sensitivity analysis (audited)**

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.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2022. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

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

<b>31 December 2022</b>	<b>Actual</b>	<b>Base scenario</b>	<b>Moderate upside scenario</b>	<b>Moderate downside scenario</b>	<b>Extreme downside scenario</b>
Stage 1 modelled loans (£m) .....	10,941	11,054	11,159	10,566	9,622
Stage 1 modelled ECL (£m) .....	20	17	13	24	30
Stage 1 coverage (%) .....	0.18%	0.15%	0.12%	0.23%	0.31%
Stage 2 modelled loans (£m) .....	490	377	272	865	1,809
Stage 2 modelled ECL (£m) .....	8	4	4	12	38
Stage 2 coverage (%) .....	1.63%	1.06%	1.47%	1.39%	2.10%
Stage 1 and Stage 2 modelled loans (£m) .....	11,431	11,431	11,431	11,431	11,431
Stage 1 and Stage 2 modelled ECL (£m) .....	28	21	17	36	68
Stage 1 and Stage 2 coverage (%) .....	0.24%	0.18%	0.15%	0.31%	0.59%
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL (£m) .....		(7)	(11)	8	40
Reconciliation to Stage 1 and Stage 2 flow exposure (£m) .....					
Modelled loans .....	11,431	11,431	11,431	11,431	11,431
Other asset classes .....	28,935	28,935	28,935	28,935	28,935

- (1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2022 and therefore does not include variation in future undrawn exposure values.
- (2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposures relating to bonds and cash.
- (3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2022. The simulations change the composition of Stage 1 and Stage 2 exposure, but total exposure is unchanged under each scenario as the loan population is static.
- (4) Refer to the Economic loss drivers' section for details of economic scenarios.
- (5) Refer to the NWM Group 2021 Annual Report and Accounts for 2021 comparatives.

### Measurement uncertainty and ECL adequacy (audited)

The changes in the economic outlook and scenarios used in the IFRS 9 MES framework at 31 December 2022 resulted in an increase in modelled ECL. Given that continued uncertainty remains due to the high inflation environment and supply chain disruption, NWM Group utilised a framework of quantitative and qualitative measures to support the directional change and levels of ECL coverage, including economic data, credit

performance insights and problem debt trends. This was particularly important for consideration of post model adjustments.

As the effects of the high inflation environment and supply chain disruption evolve during 2022 and into 2023 and government support schemes have to be serviced, there is a risk of credit deterioration. However, the income statement effect of this will be mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2022. There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors would include an adverse deterioration in GDP and unemployment in the economies in which NWM Group operates.

### Credit risk – Trading activities

This section details the credit risk profile of NWM Group’s trading activities.

### Securities financing transactions and collateral (audited)

The table below shows securities financing transactions in NWM Group. Balance sheet captions include balances held at all classifications under IFRS.

	Reverse repos			Repos		
	Total	Of which: can be offset	Outside netting arrangements	Total	Of which: can be offset	Outside netting arrangements
	£m	£m	£m	£m	£m	£m
<b>2022</b>						
Gross .....	36,945	36,411	534	39,340	34,857	4,483
IFRS offset .....	(14,547)	(14,547)	—	(14,547)	(14,547)	—
Carrying value .....	22,398	21,864	534	24,793	20,310	4,483
Master netting arrangements.....	(2,445)	(2,445)	—	(2,445)	(2,445)	—
Securities collateral .....	(19,221)	(19,221)	—	(17,865)	(17,865)	—
Potential for offset not recognised under IFRS .....	(21,666)	(21,666)	—	(20,310)	(20,310)	—
Net .....	732	198	534	4,483	—	4,483
<b>2021</b>						
Gross .....	45,511	44,861	650	44,333	43,186	1,147
IFRS offset .....	(24,422)	(24,422)	—	(24,422)	(24,422)	—
Carrying value .....	21,089	20,439	650	19,911	18,764	1,147
Master netting arrangements.....	(900)	(900)	—	(900)	(900)	—
Securities collateral .....	(19,467)	(19,467)	—	(17,863)	(17,863)	—
Potential for offset not recognised under IFRS .....	(20,367)	(20,367)	—	(18,763)	(18,763)	—
Net .....	722	72	650	1,148	1	1,147

### Debt securities (audited)

The table below shows debt securities held at mandatory fair value through profit or loss by issuer as well as ratings based on the lowest of Standard & Poor’s, Moody’s and Fitch.

	Central and local government			Financial institutions	Corporate	Total
	UK	US	Other			
	£m	£m	£m			
<b>2022</b>						
AAA .....	—	—	469	766	3	1,238
AA to AA+ .....	—	2,345	1,042	1,114	21	4,522
A to AA- .....	2,205	—	372	77	29	2,683
BBB- to A- .....	—	—	916	149	296	1,361
Non-investment grade .....	—	—	—	65	49	114
Unrated .....	—	—	—	1	3	4

	Central and local government			Financial institutions	Corporate	Total
	UK	US	Other			
	£m	£m	£m			
Total .....	2,205	2,345	2,799	2,172	401	9,922
Short positions .....	(2,313)	(1,293)	(3,936)	(1,875)	(107)	(9,524)
<b>2021</b>						
AAA .....	—	—	2,011	838	—	2,849
AA to AA+ .....	—	3,329	3,145	1,401	62	7,937
A to AA- .....	6,919	—	1,950	308	57	9,234
BBB- to A- .....	—	—	3,792	346	513	4,651
Non-investment grade .....	—	—	31	163	82	276
Unrated .....	—	—	—	3	3	6
Total .....	6,919	3,329	10,929	3,059	717	24,953
Short positions .....	(9,790)	(56)	(12,907)	(2,074)	(137)	(24,964)

## Derivatives (audited)

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

	2022					2021				
	Notional					Assets	Liabilities	Notional	Assets	Liabilities
	GBP	USD	EUR	Other	Total					
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m
Gross exposure						101,020	95,478		104,614	97,500
IFRS offset						(2,509)	(2,509)		—	—
Carrying value	2,574	4,238	5,475	1,183	13,470	98,511	92,969	11,718	104,614	97,500
Of which:										
Interest rate (1) .....	2,276	2,843	4,922	278	10,319	52,529	47,873	8,558	66,091	57,955
Exchange rate .....	296	1,390	545	905	3,136	45,746	44,821	3,146	38,369	39,202
Credit .....	2	5	8	—	15	236	275	14	154	343
Carrying value .....					13,470	98,511	92,969	11,718	104,614	97,500
Counterparty mark-to-market netting .....						(76,722)	(76,722)		(83,633)	(83,633)
Cash collateral .....						(14,064)	(9,480)		(14,938)	(9,902)
Securities collateral .....						(4,210)	(1,185)		(2,428)	(1,070)
Net exposure .....						3,515	5,582		3,615	2,895
Banks (2) .....						647	669		314	404
Other financial institutions (3) .....						1,724	1,936		1,549	1,515
Corporate (4) .....						1,062	2,890		1,683	905
Government (5) .....						82	87		69	71
Net exposure .....						3,515	5,582		3,615	2,895
UK .....						1,257	2,753		1,940	1,030
Europe .....						1,195	1,990		709	1,008
US .....						753	626		645	653
RoW .....						310	213		321	204
Net exposure .....						3,515	5,582		3,615	2,895
Asset quality of uncollateralised derivative assets .....										
AQ1-AQ4 .....						3,001			2,909	
AQ5-AQ8 .....						498			649	
AQ9-AQ10 .....						16			57	
Net exposure .....						3,515			3,615	

- (1) The notional amount of interest rate derivatives includes £7,651 billion (2021 – £5,830 billion) in respect of contracts cleared through central clearing counterparties.
- (2) Transactions with certain counterparties with which NWM Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions where the collateral agreements are not deemed to be legally enforceable.



- (3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM Group's external rating.
- (4) Mainly large corporates with which NWM Group may have netting arrangements in place, but operational capability does not support collateral posting.
- (5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

### Derivatives: settlement basis and central counterparties (audited)

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

	Notional				Asset		Liability	
	Notional				Traded on recognised exchanges	Traded over the counter	Traded on recognised exchanges	Traded over the counter
	Traded on recognised exchanges	Settled by central counterparties	Not settled by central counterparties	Total				
	£bn	£bn	£bn	£bn	£m	£m	£m	£m
<b>2022</b>								
Interest rate.....	707	7,651	1,961	10,319	113	52,416	33	47,840
Exchange rate.....	2	—	3,134	3,136	—	45,746	—	44,821
Credit.....	—	—	15	15	—	236	—	275
Equity and commodity.....	—	—	—	—	—	—	—	—
Total .....	<u>709</u>	<u>7,651</u>	<u>5,110</u>	<u>13,470</u>	<u>113</u>	<u>98,398</u>	<u>33</u>	<u>92,936</u>
<b>2021</b>								
Interest rate.....	723	5,830	2,005	8,558	—	66,091	—	57,955
Exchange rate.....	2	—	3,144	3,146	—	38,369	—	39,202
Credit.....	—	—	14	14	—	154	—	343
Equity and commodity.....	—	—	—	—	—	—	—	—
Total .....	<u>725</u>	<u>5,830</u>	<u>5,163</u>	<u>11,718</u>	<u>—</u>	<u>104,614</u>	<u>—</u>	<u>97,500</u>

### Credit risk – Net credit exposures for banking and trading activities

#### Asset quality (audited)

The table below shows the current and potential exposure by high-level asset class and asset quality. It represents total credit risk for assets held in the banking book in addition to counterparty credit risk for traded products.

	Cash & balances at central banks	Sovereign debt securities	Loans and other lending	Other debt securities	Collateralised rate risk management	Uncollateralised rate risk management	Repo and reverse repo	Off-balance sheet items	Leasing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>2022</b>										
AQ1-AQ4.....	17,007	5,695	9,987	5,538	2,360	1,964	1,659	596	29	44,835
AQ5-AQ8.....	—	—	687	305	164	327	25	21	—	1,529
AQ9.....	—	—	23	—	2	13	—	—	—	38
AQ10.....	—	—	47	1	—	—	—	—	—	48
Current exposure.....	17,007	5,695	10,744	5,844	2,526	2,304	1,684	617	29	46,450
Potential exposure.....	17,007	5,695	24,235	5,844	11,488	4,749	2,206	1,715	29	72,968
<b>2021</b>										
AQ1-AQ4.....	16,645	5,176	6,998	3,060	2,355	1,520	510	669	49	36,982
AQ5-AQ8.....	—	—	534	238	327	428	10	29	—	1,566
AQ9.....	—	—	23	—	2	52	—	—	—	77
AQ10.....	—	—	21	1	—	2	—	—	—	24
Current exposure.....	16,645	5,176	7,576	3,299	2,684	2,002	520	698	49	38,649
Potential exposure.....	16,645	5,176	18,065	3,299	10,493	3,865	1,590	2,014	49	61,196

- Measured against NWM Group's asset quality scale, 96% (2021 – 96%) of total current exposure was rated in the AQ1-AQ4 bands, which in the context of external credit ratings was equivalent to an investment grade rating of BBB- or better.
- The increase in total current and potential credit exposure reflected increased business volumes.

## Credit risk – Banking activities

### Introduction

This section details the credit risk profile of NWM Group's banking activities. Refer to Notes 2.3 and 2.10 to the 2022 Financial Statements for policies and critical judgements relating to impairment loss determination.

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

Refer to Note 9 to the 2022 Financial Statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

### Financial assets

	31 December 2022			31 December 2021		
	Gross	ECL	Net	Gross	ECL	Net
	£bn	£bn	£bn	£bn	£bn	£bn
Balance sheet total gross amortised cost and FVOCI.....	42.8			36.0		
In scope of IFRS 9 ECL framework.....	40.1			33.6		
% in scope.....	94%			93%		
Loans to customers - in scope - amortised cost.....	10.2	—	10.2	7.5	0.1	7.4
Loans to customers - in scope – FVOCI.....	0.1	—	0.1	0.1	—	0.1
Loans to banks - in scope - amortised cost....	1.0	—	1.0	0.9	—	0.9
Total loans - in scope.....	11.3	—	11.3	8.5	0.1	8.4
Stage 1.....	10.8	—	10.8	8.3	—	8.3
Stage 2.....	0.5	—	0.5	0.1	—	0.1
Stage 3.....	—	—	—	0.1	0.1	—
Other financial assets - in scope - amortised cost.....	22.8	—	22.8	19.8	—	19.8
Other financial assets - in scope – FVOCI.....	6.0	—	6.0	5.3	—	5.3
Total other financial assets - in scope.....	28.8	—	28.8	25.1	—	25.1
Stage 1.....	28.8	—	28.8	25.0	—	25.0
Stage 2.....	—	—	—	0.1	—	0.1
Stage 3.....	—	—	—	—	—	—
Out of scope of IFRS 9 ECL framework.....	2.7	na	2.7	2.4	na	2.4
Loans to customers - out of scope - amortised cost.....	—	na	—	—	na	—
Loans to banks - out of scope - amortised cost.....	0.2	na	0.2	—	na	—
Other financial assets - out of scope - amortised cost.....	2.6	na	2.6	2.2	na	2.2
Other financial assets - out of scope – FVOCI.....	(0.1)	na	(0.1)	0.2	na	0.2

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £2.7 billion (2021 – £2.2 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.1 billion (2021 – £0.1 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans and debt securities hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £(0.2) billion (2021 – £0.1 billion).

In scope assets also include an additional £0.4 billion (2021 – £0.7 billion) of inter-Group assets not shown in the table above.

### **Contingent liabilities and commitments**

In addition to contingent liabilities and commitments disclosed in Note 25 to the 2022 Financial Statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by £0.2 billion (2021 – £0.2 billion) out of scope balances 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 of £14.7 billion (2021 – £11.7 billion) comprised Stage 1 £13.3 billion (2021 – £11.4 billion); Stage 2 £1.4 billion (2021 – £0.3 billion); and Stage 3 nil (2021 – nil).

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

## Portfolio summary (audited)

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

	2022	2021
	£m	£m
Loans - amortised cost and FVOCI.....		
Stage 1.....	10,791	8,301
Stage 2.....	497	147
Stage 3.....	49	99
<i>Of which: individual</i> .....	37	91
<i>Of which: collective</i> .....	12	8
Inter-Group (1).....	434	731
<b>Total</b> .....	<b>11,771</b>	<b>9,278</b>
ECL provisions.....		
Stage 1.....	20	6
Stage 2.....	8	3
Stage 3.....	26	75
<i>Of which: individual</i> .....	15	68
<i>Of which: collective</i> .....	11	7
<b>Total</b> .....	<b>54</b>	<b>84</b>
ECL provisions coverage (2).....		
Stage 1 (%).....	0.19	0.07
Stage 2 (%).....	1.61	2.04
Stage 3 (%).....	53.06	75.76
<b>Total</b> .....	<b>0.48</b>	<b>0.98</b>
Impairment (releases)/losses.....		
ECL (release)/charge.....		
Stage 1.....	8	(14)
Stage 2.....	14	(11)
Stage 3.....	(14)	(9)
<i>Of which: individual</i> .....	(15)	(6)
<i>Of which: collective</i> .....	1	(3)
Third party.....	8	(34)
Inter-Group.....	—	(1)
<b>Total</b> .....	<b>8</b>	<b>(35)</b>
Amounts written-off.....	55	67
<i>Of which: individual</i> .....	55	43

- (1) NWM Group's intercompany assets were classified in Stage 1. The ECL for these loans was £0.4 million (2021 – £0.2 million).
- (2) ECL provisions coverage is calculated as ECL provisions divided by loans - amortised cost and FVOCI. It is calculated on third party loans and total ECL provisions.
- (3) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £17.0 billion (2021 – £16.6 billion) and debt securities of £11.8 billion (2021 – £8.4 billion).
- (4) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

## Sector analysis – portfolio summary (audited)

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

	Property	Corporate	FI (1)	Sovereign	Total
	£m	£m	£m	£m	£m
<b>2022</b>					
Loans by geography .....	201	853	9,913	370	11,337
- UK .....	48	239	3,564	72	3,923
- Other Europe .....	153	468	2,706	202	3,529
- RoW .....	—	146	3,643	96	3,885
Loans by stage .....	201	853	9,913	370	11,337
- Stage 1 .....	35	592	9,797	367	10,791
- Stage 2 .....	151	230	116	—	497
- Stage 3 .....	15	31	—	3	49
<i>of which: individual</i> .....	12	22	—	3	37
<i>of which: collective</i> .....	3	9	—	—	12
Weighted average life*					
- ECL measurement (years) .....	2	3	3	—	3
Weighted average 12 months PDs*					
- IFRS 9 (%) .....	2.64	2.75	0.20	0.04	0.41
- Basel (%) .....	0.68	1.49	0.13	0.03	0.22
ECL provisions by geography .....	10	26	14	4	54
- UK .....	4	8	9	1	22
- Other Europe .....	6	9	2	—	17
- RoW .....	—	9	3	3	15
ECL provisions by stage .....	10	26	14	4	54
- Stage 1 .....	1	5	12	2	20
- Stage 2 .....	1	5	2	—	8
- Stage 3 .....	8	16	—	2	26
<i>of which: individual</i> .....	5	8	—	2	15
<i>of which: collective</i> .....	3	8	—	—	11
ECL provisions coverage (%) .....	4.98	3.05	0.14	1.08	0.48
- Stage 1 (%) .....	2.86	0.84	0.12	0.54	0.19
- Stage 2 (%) .....	0.66	2.17	1.72	—	1.61
- Stage 3 (%) .....	53.33	51.61	—	66.67	53.06
ECL (release)/charge - Third party .....	(5)	5	7	1	8
Amounts written-off .....	—	55	—	—	55
Other financial assets by asset quality (2) .....	49	14	6,097	22,619	28,779
- AQ1-AQ4 .....	—	—	5,777	22,619	28,396
- AQ5-AQ8 .....	49	14	320	—	383
- AQ9 .....	—	—	—	—	—
Off-balance sheet .....	204	7,204	7,067	59	14,534
- Loan commitments .....	190	7,180	6,481	59	13,910
- Financial guarantees .....	14	24	586	—	624
Off-balance sheet by asset quality (2) .....	204	7,204	7,067	59	14,534
- AQ1-AQ4 .....	168	6,620	6,864	59	13,711
- AQ5-AQ8 .....	34	582	203	—	819
- AQ9 .....	—	—	—	—	—
- AQ10 .....	2	2	—	—	4

\*Not within audit scope.

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

## Sector analysis – portfolio summary (audited)

	Property	Corporate	FI (1)	Sovereign	Total
	£m	£m	£m	£m	£m
<b>2022</b>					
Loans by geography .....	122	773	7,353	299	8,547
- UK .....	43	172	2,780	54	3,049
- Other Europe .....	78	447	1,374	174	2,073
- RoW .....	1	154	3,199	71	3,425
Loans by stage .....	122	773	7,353	299	8,547
- Stage 1 .....	107	614	7,284	296	8,301
- Stage 2 .....	—	81	66	—	147
- Stage 3 .....	15	78	3	3	99
of which: individual .....	12	73	3	3	91
of which: collective .....	3	5	—	—	8
Weighted average life* .....					
- ECL measurement (years) .....	1	4	4	1	3
Weighted average 12 months PDs* .....					
- IFRS 9 (%) .....	0.20	0.97	0.12	0.02	0.18
- Basel (%) .....	0.66	1.83	0.15	0.02	0.28
ECL provisions by geography .....	9	65	7	3	84
- UK .....	6	10	3	1	20
- Other Europe .....	3	5	2	—	10
- RoW .....	—	50	2	2	54
ECL provisions by stage .....	9	65	7	3	84
- Stage 1 .....	—	—	5	1	6
- Stage 2 .....	—	1	2	—	3
- Stage 3 .....	9	64	—	2	75
of which: individual .....	7	59	—	2	68
of which: collective .....	2	5	—	—	7
ECL provisions coverage (%) .....	7.38	8.41	0.10	1.00	0.98
- Stage 1 (%) .....	—	—	0.07	0.34	0.07
- Stage 2 (%) .....	—	1.23	3.03	—	2.04
- Stage 3 (%) .....	60.00	82.05	—	66.67	75.76
ECL (release)/charge - Third party .....	—	(8)	(25)	(1)	(34)
Amounts written-off .....	—	39	28	—	67
Other financial assets by asset quality (2) .....	55	—	3,563	21,465	25,083
- AQ1-AQ4 .....	—	—	3,181	21,465	24,646
- AQ5-AQ8 .....	55	—	382	—	437
- AQ9 .....	—	—	—	—	—
Off-balance sheet .....	270	4,954	6,453	37	11,714
- Loan commitments .....	251	4,857	5,864	37	11,009
- Financial guarantees .....	19	97	589	—	705
Off-balance sheet by asset quality (2) .....	270	4,954	6,453	37	11,714
- AQ1-AQ4 .....	190	4,204	6,102	37	10,533
- AQ5-AQ8 .....	78	737	348	—	1,163
- AQ9 .....	—	—	—	—	—
- AQ10 .....	2	13	3	—	18

\*Not within audit scope.

- (1) Financial institutions (FI) include transactions, such as securitisations, where the underlying assets may be in other sectors.
- (2) AQ bandings are based on Basel PDs and mapping is as follows:

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

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ9 .....	17.222% - 100%	CCC to C
AQ10 .....	100%	D

## Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for selected sectors of the Wholesale portfolios.

	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
	£m	£m	£m	£m			£m	£m	£m	£m
<b>2022</b>										
Property* .....	35	151	15	201	190	14	1	1	8	10
Financial institutions.....	9,797	116	—	9,913	6,481	586	12	2	—	14
Sovereign .....	367	—	3	370	59	—	2	—	2	4
Corporate.....	592	230	31	853	7,180	24	5	5	16	26
<i>Of which:</i>										
<i>Agriculture*</i> .....	—	2	—	2	1	—	—	—	—	—
<i>Airlines and aerospace*</i> .....	—	22	1	23	412	—	—	1	1	2
<i>Automotive*</i> .....	2	43	—	45	623	2	—	1	—	1
<i>Chemicals*</i> .....	13	—	—	13	64	—	—	—	—	—
<i>Health</i> .....	41	2	1	44	—	—	—	—	1	1
<i>Industrials*</i> .....	34	56	—	90	271	5	1	—	—	1
<i>Land transport and logistics*</i> .....	18	53	—	71	314	1	—	1	—	1
<i>Leisure*</i> .....	1	—	—	1	158	—	—	—	—	—
<i>Mining &amp; metals*</i> .....	—	—	3	3	—	—	—	—	3	3
<i>Oil and gas*</i> .....	3	—	20	23	549	1	—	—	2	2
<i>Power Utilities*</i> .....	118	—	—	118	2,595	2	1	—	—	1
<i>Retail*</i> .....	9	—	—	9	518	4	—	—	—	—
<i>Shipping*</i> .....	2	—	—	2	14	—	—	—	—	—
<i>Water &amp; Waste*</i> .....	32	—	—	32	256	—	—	—	—	—
<b>Total</b> .....	<b>10,791</b>	<b>497</b>	<b>49</b>	<b>11,337</b>	<b>13,910</b>	<b>624</b>	<b>20</b>	<b>8</b>	<b>26</b>	<b>54</b>
<b>2021</b>										
Property* .....	107	—	15	122	251	19	—	—	9	9
Financial institutions.....	7,284	66	3	7,353	5,864	589	5	2	—	7
Sovereign .....	296	—	3	299	37	—	1	—	2	3
Corporate .....	614	81	78	773	4,857	97	—	1	64	65
<i>Of which:</i>										
<i>Agriculture*</i> .....	—	—	40	40	1	—	—	—	40	40
<i>Airlines and aerospace*</i> .....	—	—	7	7	163	44	—	—	6	6
<i>Chemicals*</i> .....	—	—	—	—	62	—	—	—	—	—
<i>Automotive*</i> .....	10	39	—	49	686	—	—	1	—	1
<i>Health</i> .....	27	—	2	29	150	—	—	—	1	1
<i>Industrials*</i> .....	5	—	—	5	229	34	—	—	—	—
<i>Land transport and logistics*</i> .....	74	1	—	75	230	1	—	—	—	—
<i>Leisure*</i> .....	—	3	—	3	304	—	—	—	—	—
<i>Mining &amp; metals*</i> .....	—	—	3	3	—	—	—	—	3	3
<i>Oil and gas*</i> .....	252	—	17	269	39	1	—	—	4	4
<i>Power Utilities*</i> .....	87	—	1	88	1,396	2	—	—	1	1
<i>Retail*</i> .....	—	—	—	—	289	4	—	—	—	—
<i>Shipping*</i> .....	—	—	—	—	—	1	—	—	—	—
<i>Water &amp; Waste Shipping*</i> .....	55	—	—	55	209	—	—	—	—	—
<b>Total</b> .....	<b>8,301</b>	<b>147</b>	<b>99</b>	<b>8,547</b>	<b>11,009</b>	<b>705</b>	<b>6</b>	<b>3</b>	<b>75</b>	<b>84</b>

(1) Financial institutions (FI) include transactions, such as securitisations, where the underlying assets may be in other sectors.

\* Wholesale sectors marked with an asterisk contain an element of exposure classified as heightened climate-related risk – refer to the 2022 NWG Climate-related Disclosures Report for further information.

## Forbearance

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

	FI	Property	Sovereign	Other corporate	Total
	£m	£m	£m	£m	£m
<b>2022</b>					
Forbearance (flow) .....	—	—	—	20	20
Forbearance (stock) .....	—	—	—	45	45
Heightened Monitoring and Risk of Credit Loss .....	—	—	—	7	7
<b>2021</b>					
Forbearance (flow) .....	1	5	—	5	11
Forbearance (stock) .....	1	5	—	62	68
Heightened Monitoring and Risk of Credit Loss .....	15	22	—	5	42

## Credit risk enhancement and mitigation (audited)

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

	Gross exposure		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	£bn	ECL £bn	Total £bn	Stage 3 £bn	Financial	Property £bn	Other (2) £bn	Total £bn	Stage 3 £bn	Total £bn	Stage 3 £bn
					(1) £bn						
<b>2022</b>											
Financial assets											
Cash and balances at central banks.....	17.0	—	17.0	—	—	—	—	—	—	17.0	—
Loans - amortised cost (3).....	11.3	—	11.3	—	1.1	—	—	1.1	—	10.2	—
Debt securities.....	11.8	—	11.8	—	—	—	—	—	—	11.8	—
Total financial assets.....	40.1	—	40.1	—	1.1	—	—	1.1	—	39.0	—
Contingent liabilities and commitments.....	14.5	—	14.5	—	1.6	0.1	—	1.7	—	12.8	—
Total off-balance sheet ...	14.5	—	14.5	—	1.6	0.1	—	1.7	—	12.8	—
Total exposure.....	54.6	—	54.6	—	2.7	0.1	—	2.8	—	51.8	—
<b>2021</b>											
Financial assets											
Cash and balances at central banks.....	16.6	—	16.6	—	—	—	—	—	—	16.6	—
Loans - amortised cost (3).....	8.5	0.1	8.4	—	0.7	—	—	0.7	—	7.7	—
Debt securities.....	8.4	—	8.4	—	—	—	—	—	—	8.4	—
Total financial assets.....	33.5	0.1	33.4	—	0.7	—	—	0.7	—	32.7	—
Contingent liabilities and commitments.....	11.7	—	11.7	—	1.3	—	—	1.3	—	10.4	—
Total off-balance sheet ...	11.7	—	11.7	—	1.3	—	—	1.3	—	10.4	—
Total exposure.....	45.2	0.1	45.1	—	2.0	—	—	2.0	—	43.1	—

(1) Includes cash and securities collateral.

(2) Includes guarantees and charges over trade debtors.

(3) NWM Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property; charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWM Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.



## Flow statement (audited)

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

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (P&L only items) includes any subsequent changes in the value of written-down assets along with other direct write-off items such as direct recovery costs. Other (P&L only items) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
NWM Group								
At 1 January 2022 .....	33,383	6	197	3	95	75		
Currency translation and other adjustments .....	1,632	—	12	—	3	1		
Inter-Group transfers .....	65	—	—	—	—	—		
Transfers from Stage 1 to Stage 2 .....	(1,353)	(2)	1,353	2	—	—		
Transfers from Stage 2 to Stage 1 .....	824	7	(824)	(7)	—	—		
Net re-measurement of ECL on stage transfer ..		(6)		12				
Changes in risk parameters		7		1				
Other changes in net exposure	5,324	8	(243)	1	11	1		
Other (P&L only items) .....		(1)		—		(15)		
Income statement (releases)/charges .....		8		14		(14)		
Amounts written-off .....	—	—	(4)	(4)	(51)	(51)		
At 31 December 2022 .....	39,875	20	491	8	58	26		
Net carrying amount .....	39,855		483		32			
At 1 January 2021 .....	33,327	12	1,671	49	167	132		
2021 movements .....	56	(6)	(1,474)	(46)	(72)	(57)		
At 31 December 2021 .....	33,383	6	197	3	95	75		
Net carrying amount .....	33,377		194		20			

- Stage 1 and Stage 2 combined ECL increased due to business growth and economic outlook. Stage 3 declined due to write offs.

## Pension risk

### Definition

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

## Sources of risk

NWM Group has exposure to pension risk through its defined benefit schemes worldwide. The two largest NWM Group schemes are the AA and the NatWest Markets sections of The NatWest Group Pension Fund with a combined £0.9 billion of assets and £0.6 billion of liabilities at 31 December 2022 (2021 – £1.4 billion of assets and £1.1 billion of liabilities). Refer to Note 5 to the 2022 Financial Statements, for further details on NWM Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NWM 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, NWM Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

## Key developments in 2022

- There have been no material changes to NWM Group's exposure to pension risk during the year. Despite market volatility through the year, the AA and NatWest Markets sections remained resilient, primarily due to their interest rate and inflation hedging strategy, as well as limited exposure to equities. Furthermore, the AA and NatWest Markets sections held sufficient collateral through the year in relation to their liability hedging portfolios, without the need to sell assets to meet collateral requirements.

## Governance

The Pension Committee, chaired by the Chief Financial Officer, reviews and monitors risk management, asset and liability strategy and financing issues on behalf of NWM Group. As part of its remit, the Committee:

- Considers the financial strategy, risk management and policy implications of NWM Group pension schemes.
- Reviews and recommends NWM Group pension risk appetite to the NWM Group Executive Risk Committee and the NWM Group Board Risk Committee.
- Reviews the pension impact on the capital plan for NWM Group and escalates any concerns to the NWM Group Assets & Liabilities Committee.

The performance of NatWest Group's material pension funds (including those sponsored by NWM Group) is reviewed by NatWest Group's Assets & Liabilities Committee.

## Risk appetite

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

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

## Monitoring and measurement

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

Stress tests are carried out each year on NWM Group's material defined benefit pension schemes. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

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

## **Mitigation**

Following risk mitigation measures taken by the Trustee in recent years, the AA and the NatWest Markets sections of the NatWest Group Pension Fund are now well protected against interest rate and inflation risks and are being run on a low investment risk basis with relatively small equity risk exposure. The AA and the NatWest Markets sections of the NatWest Group Pension Fund also use derivatives to manage the allocation of the portfolio to different asset classes and to manage risk within asset classes.

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

## **Compliance and conduct risk**

### **Definition**

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

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

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

### **Sources of risk**

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

As set out in Note 25 to the 2022 Financial Statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

### **Key developments in 2022**

- Further progress was made on the compliance agenda during 2022. The first line of defence ring-fencing hub – which was established to provide an aggregated view of ring-fencing compliance and risk management – continues to work across business segments, functions and legal entities.
- From a conduct risk perspective, the focus on consumer protection increased significantly during 2022, given the cost-of-living challenges and their impact on customers in vulnerable situations. The FCA's increased expectations under its consumer duty initiative was also a key development, and the establishment of the consumer duty 'One Bank' programme will ensure continued focus upon the required 'paradigm shift' in the levels of consumer protection required.
- In December 2021, NatWest Markets Plc pled guilty to one count of wire fraud and one count of securities fraud, related to historical spoofing conduct by former employees in US Treasuries markets, between 2008 and 2014 and, separately, during approximately three months in 2018. In line with the plea agreement with DOJ, an

independent monitor was appointed in 2022. The monitor will be engaged in working with NatWest Markets over a three-year period.

- More generally, work is also ongoing to further enhance the conduct and compliance risk framework so that it is aligned to a wider programme of work on the overall risk management framework.

## **Governance**

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

## **Risk appetite**

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

A range of controls are operated to ensure the business delivers good customer outcomes and is conducted in accordance with legal and regulatory requirements. A suite of policies addressing compliance and conduct risks set appropriate standards across NWM Group including some NatWest Group policies and procedures. Ongoing monitoring and targeted assurance are carried out as appropriate.

## **Monitoring and measurement**

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

## **Mitigation**

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

## **Financial crime risk**

### **Definition**

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

### **Sources of risk**

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

### **Key developments in 2022**

- As part of customer due diligence remediation, priority cohorts were remediated in both NWM Group and NWM N.V. Group.

- The implementation of release five of the transaction monitoring system Quantexa Fusion, which brought trade and incoming payment data into scope of monitoring.
- The preparation and support for regulatory assessments and visits.
- The publication of refreshed global NWM Group financial crime standards, implementing the new requirements in the Group-wide L2 Standards, revised local uplifts and general enhancements.

## **Governance**

The Financial Crime Risk Committee (FCRC), which is chaired by the Head of Compliance & Financial Crime, is NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks and issues across NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally, NWM Group is represented on NatWest Group's Financial Crime Executive Steering Group, which oversees financial crime risk management, operational performance, and transformation matters across NatWest Group.

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

## **Risk appetite**

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

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

## **Monitoring and measurement**

Financial crime risks are identified and reported through continuous risk management and regular reporting to NWM Group's senior risk committees and the NatWest Group Board. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

## **Mitigation**

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

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

## **Climate risk**

### **Definition**

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

### **Sources of risk**

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms and sea level rises. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. NWM Group could be exposed to physical risks directly by the effects on its asset values, operational

costs and business models, and indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

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

### **Key developments in 2022**

- The enhancement of scenario generation capability, building on that developed by NatWest Group and utilised in response to the PRA Climate Biennial Exploratory Exercise and utilised to improve the identification process for heightened climate risk sectors.
- Improved oversight of management of climate-related risk through more regular reporting and the introduction of key risk indicators.
- Completed the development and launch of qualitative climate risk scorecards, which now covers the majority of Wholesale exposures, with the exception of sovereign exposure, where the country climate change vulnerability index, to assess the level of climate risk, is applied.
- Climate change considerations further incorporated into NWM Group's product, reputational and non-financial risk assessment processes.
- Contributed to the preparation of the initial iteration of the NatWest Group Climate Transition plan including identification and analysis of potential impacts associated with proposed actions.

### **Governance**

The NWM Plc Board is responsible for monitoring and overseeing climate-related risk within NWM Group's overall business strategy and risk appetite. This includes progress towards delivering on NatWest Group's strategy, including climate ambitions and targets. The potential impact, likelihood and preparedness of climate-related risk are reported regularly to NatWest Group's Board Risk Committee and NatWest Group Board.

As part of the integrated cross-bank approach, the NWM Group CEO has been designated to support the NatWest Group CEO in discharging the Senior Management Function (SMF) 1 accountability for identifying and managing the risk and opportunities from climate change. The NWM Climate & Sustainability Committee (CSC) is the senior NWM Group forum which has the objective of assessing and managing climate-related risks and opportunities. This forum supports the NWM Group CEO to discharge the delegated SMF accountability.

A Climate Change Executive Steering Group is in place at NatWest Group and is responsible for overseeing the direction of and progress against climate-related commitments, including activities in NWM Group. During 2022, the Executive Steering Group focused on overseeing the preparation of the initial iteration of NatWest Group's Climate Transition Plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target and ensuring the effective management of climate-related risks. The NatWest Group Climate Centre of Excellence supports the Executive Steering Group as it supervises strategic implementation and delivery, including within NWM Group.

### **Risk appetite**

NatWest Group's climate ambition is underpinned by activity to reduce the climate impact of financing activity by at least 50% by 2030 and to achieve net zero by 2050.

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

NWM Group due to the nature and composition of its balance sheet, and may be supplemented by further key risk indicators and operational limits. NWM Group started to use a number of key risk indicators to provide CSC with regular base-level information on exposure to climate risk in 2022.

### **Monitoring and measurement**

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

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

NWM Group regularly considers existing and emerging regulatory requirements related to climate change. It continues to participate in several industry-wide initiatives to develop consistent risk measurement methodologies including the Partnership for Carbon Accounting Financials facilitated emissions working group.

### **Operational risk**

#### **Definition**

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

#### **Sources of risk**

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

Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

#### **Key developments in 2022**

- A review of the NatWest Group Risk Directory was completed, allowing greater risk visibility and improved risk reporting.
- The NatWest Group Impact Classification Matrix was updated to align to industry materiality, ensuring focus on the most material risks.
- An Early Event Escalation Process was implemented to ensure material events are escalated in a timely manner.
- A Risk & Control Self-Assessment approach was developed to identify risks across end-to-end processes, refocusing existing risk assessment, towards materiality.
- Included in the above, was an ongoing focus on the rationalisation and optimisation of controls, which will facilitate more rigorous testing of effectiveness and better management information.
- NWM Group continued to prioritise the development of more preventative and automated controls, specifically in the trading environment.
- Increased focus on more effective cross border controls reflected the rise in operational risk associated with the evolution of the NWM Group strategy.
- A payments review has been initiated by NatWest Group in late 2022 to assess control enhancements in response to manual payment risk.

## **Governance**

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

The Operating Committee discusses operational risk matters relating to the control environment, NWM's implementation of the enterprise-wide risk management framework, risk identification and oversight of return-to-appetite plans. Significant issues are escalated to the Board Risk Committee.

## **Risk appetite**

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

## **Mitigation**

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

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

## **Operational risk continued**

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting, and certain requirements of the UK Corporate Governance Code.

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

## **Monitoring and measurement**

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

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

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

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



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

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

## **Operational resilience**

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

## **Event and loss data management**

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

All financial impacts associated with an operational risk event are reported in NatWest Group's Annual Report and Accounts.

A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2022 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance against specific losses and to comply with statutory or contractual requirements.

## **Model risk**

### **Definition**

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

### **Sources of risk**

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

### **Key developments in 2022**

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

established in 2023 to continue to evolve the bank's model risk management framework in line with regulatory expectations and industry best practice.

- NWM Group breached a model risk appetite measure during 2022, primarily due to a deterioration in model predictive ability caused by volatile economic conditions. The overall NWM Group model risk assessment is currently assessed as in-appetite but 'on-watch'.

## **Governance**

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

## **Model risk continued**

Model risk matters are escalated to senior management through the NWM Group Model Risk Committee. The committee also considers whether a model can be approved for use. Models used for regulatory reporting may additionally require regulatory approval before implementation. Further escalation can also be made to the NatWest Group Model Risk Oversight Committee.

## **Risk appetite**

Model risk appetite is set in order to limit the level of model risk that NWM Group is willing to accept in the course of its business activities. NWM Group has defined limits and triggers that align with the NatWest Group's model risk appetite statement. The first line is responsible for monitoring performance against appetite, reporting on the model population and carrying out any necessary remediation for positions outside appetite.

## **Monitoring and measurement**

Policies and procedures related to the development, validation, approval, implementation and use and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model.

Validation of material models is conducted by an independent risk function comprising of skilled, well-informed subject matter experts. This is completed for new models or amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic validation is aligned to the risk rating of the model. The independent validation focuses on a variety of model features, including modelling approach, the nature of the assumptions used, the model's predictive ability and complexity, the data used in the model, its implementation and its compliance with regulation.

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

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

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

## **Mitigation**

By their nature – as approximations of reality – Model risk is inherent in the use of models. It is managed by refining or redeveloping models where appropriate – either due to changes in market conditions, business assumptions or processes – and by applying adjustments to model outputs (either quantitative or based on expert

opinion). Enhancements may also be made to the process within which the model output is used in order to further limit risk levels.

## **Reputational risk**

### **Definition**

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

### **Sources of risk**

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

### **Key developments in 2022**

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

### **Governance**

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

### **Risk appetite**

NWM Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures. NWM Group seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in NWM 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 NWM Group Reputational Risk Committee and escalated, where appropriate, to the NatWest Group Reputational Risk Committee or the NatWest Group Board Risk Committee.

### **Mitigation**

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

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

## REGULATION AND SUPERVISION

### The UK Financial Services Regulatory System

The UK financial services regulatory system is comprised of three main regulatory bodies: the FPC, which is a committee of the BoE; the PRA, a subsidiary of the BoE; and the FCA. Separately, the BoE has responsibility for the regulation of certain financial market infrastructures such as central securities depositories and central counterparties, as well as for taking action to manage the failure of financial institutions as the UK resolution authority.

#### *FPC*

The FPC was established in 2013 as part of an overhaul of the UK regulatory system to improve financial stability following the financial crisis. The FPC is responsible for macro-prudential regulation, meaning that it monitors the stability and resilience of the UK financial system as a whole, identifying and taking action where necessary in order to reduce systemic risk. The FPC can direct the PRA and FCA to take certain actions to reduce systemic risk but it does not have direct regulatory responsibility for UK authorised firms.

#### *PRA*

The PRA has responsibility for the authorisation, prudential regulation and supervision of firms such as banks, building societies, insurers and systemically important investment firms. Firms that are subject to regulation by the PRA are referred to as PRA-authorised firms, or dual-regulated firms, as the FCA has responsibility for regulating the conduct of such firms. The PRA's general objective is to promote the safety and soundness of PRA-authorised firms.

#### *FCA*

The FCA is responsible for the authorisation, prudential regulation and supervision of all other authorised firms in the UK and it is the conduct regulator of firms authorised by the PRA. In discharging its responsibilities, the FCA must have regard to its strategic objective and its operational objectives. The FCA's strategic objective is to ensure that financial markets in the UK function well. Its strategic objectives include the protection of consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers. The FCA also oversees the Payment Systems Regulator, which is an operationally independent subsidiary of the FCA that regulates payment systems in the UK.

#### *UK regulatory legislation*

UK banking and financial services firms were previously subject to both domestic and EU-derived regulation. Following the UK's withdrawal from the EU, UK banking and financial services firms are subject to domestic regulation, although much of the EU-derived regulation that applied previously has been incorporated into UK domestic law through the European Union (Withdrawal) Act 2018, as amended. EU-derived legislation which now forms part of UK domestic law is referred to as retained EU law. The primary UK financial services statute is the FSMA, as amended, and its subordinate legislation. The FSMA provides that no person can perform a regulated activity without being authorised or exempt. A regulated activity is a specific activity that relates to a specified type of investment. The FSMA (Regulated Activities) Order 2001, as amended, which is a statutory instrument made under the FSMA, specifies the types of activities that, when performed in relation to specified products or investments, are regulated activities in the UK. These activities include: dealing in investments as agent and as principal, deposit taking, issuing electronic money, insurance related activities, advising on investments and managing investments.

The PRA and FCA rules establish criteria for the authorisation of banks and other financial services firms that carry on regulated activities in the UK. Any person holding or proposing to hold 10 per cent or more of the shares or voting power of a bank or other financial services firm, or of its parent undertaking, are subject to prior approval by the PRA or FCA. The threshold is 20 per cent in respect of certain types of financial services firms. The PRA or FCA may object on the basis of reputation or prudential considerations. The PRA is the competent authority of

NWM Plc and of NatWest Group plc, and receives information on the capital adequacy of NatWest Group as a whole.

### ***The Capital Requirements Directive and Capital Requirements Regulation***

Banks in the UK are subject to prudential framework set out in the CRD IV and the CRR, as amended by the CRD V and the CRR II, as well as EU Commission Delegated and Implementing Regulations, in each case to the extent that they form part of UK domestic law and as amended. The prudential framework is collectively referred to as the CRD V framework. Prudential standards and rules applicable to UK banks are also set out in the PRA Rulebook, UK primary legislation such as Part 9D of the FSMA, and statutory instruments. Each of the CRR and the CRD, which implemented, among other things, Basel III in the UK and EU, cover a wide range of prudential requirements for banks across EU Member States, including capital requirements, the large exposures framework and liquidity and funding requirements. Subject to certain modifications, many of these requirements continue to apply to UK banks.

The Financial Services Act, which came into force in 2021, makes extensive reforms to the UK financial services regulatory framework, including to the prudential regime applicable to UK banks. In particular, it amends the retained EU law version of the CRR so that it will no longer apply to investment firms other than certain PRA-designated investment firms. The Financial Services Act also provides a mechanism for HM Treasury and the PRA to implement into UK law provisions of the CRR II (discussed below) that give effect to certain Basel standards as well as the final Basel III standards that are not covered in the CRR II.

The Financial Services Act amended the FSMA by inserting a new Part 9D, noted above, on the prudential regulation of credit institutions. The provision of Part 9D FSMA apply to the making of “CRR Rules”; that is, the rules that apply to banks and certain firms in their groups that relate to the implementation of the CRR Basel standards. MH Treasury and the PRA have implemented the CRR Basel standards through a combination of secondary legislation (Capital Requirements Regulation (Amendment) Regulations 2021 (SI 2021/1078) and the Financial Services Act 2021 (Prudential Regulation of Credit Institutions and Investment Firms) (Consequential Amendments and Miscellaneous Provisions) Regulations 2021 (SI 2021/1376)), updates to the PRA Rulebook and through PRA and FPC supervisory materials.

The CRD IV and the regulations issued pursuant thereto set up safeguards to protect depositors by establishing total capital ratios that require banks to have sufficient own funds such as common equity or subordinated debt in relation to assets. In addition, liquidity rules require banks to maintain sufficient liquid assets to meet depositor claims on demand or otherwise. The CRD IV was subject to extensive amendments as a result of the CRD V. EU Member States were required to adopt and publish the measures necessary to comply with the CRD V by 28 December 2020 and to apply the many of those measures from 29 December 2020. During the post-Brexit transition period agreed between the UK and EU, the UK was required to apply new EU legislation where the application date for that legislation fell within the transition period, which ended on 31 December 2020. For that reason, the UK was required to transpose and implement the CRD V.

The CRR was also subject to extensive amendments as a result of the CRR II. These amendments reflect reforms made by the BCBS relating to the leverage ratio and the net stable funding ratio, as well as provisions implementing the FSB’s TLAC standard. Although the CRR II applied from June 2019, many of the changes it makes to the CRR did not come into force until June 2021, after the end of the transition period agreed between the UK and EU. The UK has therefore exercised its discretion not to apply all of those provisions of the CRR II and instead proposed to introduce a revised prudential regime for UK credit institutions that is similar to the CRR II. The detailed regulatory capital rules are primarily set out in the CRR, which is directly applicable in each EU Member State and, as noted above, has been incorporated into UK domestic law following the UK’s withdrawal from the EU. The PRA implemented many of the governance requirements impacting banks contained in the CRD IV by incorporating these provisions into its Rulebook. Amendments to the governance requirements introduced by the CRD V have also been implemented through updates to the PRA’s Rulebook.

Under the CRR, banks must calculate and hold capital against credit risk, market risk and operational risk.

The standard method for credit risk assessment is based on the defined credit risks of various groups of assets, taking into consideration the nature of the counterparty and the counterparty’s obligation. The CRR allows a bank to apply a standard method or an advanced method to calculate credit risks. According to the standard method, claims

on OECD governments and UK local authorities are given a risk weighting of zero, whereas unsecured claims on corporate and private customers are typically risk weighted within a range of 20 per cent to 150 per cent. The advanced method normally varies between these two extremes.

Market risk arises from changes in interest rates, exchange rates and share prices. Market risks include the risk of loss with respect to on- and off-balance sheet positions resulting from market price movements involving debt instruments and equity securities in a bank's trading portfolio, as well as foreign exchange risk and commodities risk incurred by such bank.

Banks must also maintain capital with respect to operational risk, which is the risk of losses resulting from internal process or systems failures as well as from external events.

The total capital requirement applicable to a bank is established by measuring all exposures weighted according to credit, market, and operational risk against the capital of the relevant bank. Accordingly, the capital of a bank must amount to a certain minimum percentage (as described below) of the risk-weighted exposure amount (which includes the calculated items associated with market risk) of such bank (see below).

For purposes of complying with the capital requirements of the CRR, the capital base is divided into three main categories: common equity tier 1 (CET1) capital, additional tier 1 (AT1) capital and tier 2 capital. CET1 capital consists of equity capital adjusted for statutory deductions whereas the tier 1 capital consists of CET1 capital plus additional tier 1 capital adjusted for statutory deductions. CET1 capital primarily includes paid-up share capital and reserves (excluding revaluation reserves), and is reduced by, among other items, losses (if any) incurred during the current financial year and the Issuer's holdings of its own shares. Certain capital interests in other financial institutions in excess of certain limited amounts have to be deducted from the total amount of CET1 capital, additional tier 1 capital and tier 2 capital.

Tier 2 capital for banks consists of subordinated debt instruments issued by a bank. Subordinated debt instruments are debt obligations, which, in case of a bankruptcy or liquidation, are subordinated to ordinary claims on the issuing bank (which in turn are at least equal to the claims of depositors). Subordinated debt instruments must include interest deferral and principal reduction features, and can, therefore, be applied towards covering losses of the issuing bank even if that bank is allowed to carry on its business. However, the subordinated debt instruments may not contain any incentive to redeem or repurchase before five years after the date of issuance. In addition, the instrument must be amortised beginning on the first day of the final five-year period of the contractual maturity. The CRD IV provided for another form of capital, denominated additional tier 1 capital instruments, which may be included in tier 1 capital to meet the solvency/TCR, subject to certain conditions and limitations. The limitations and conditions are that additional tier 1 capital must be converted during emergency situations and may be converted at the initiative of the competent authority or if a certain contractual capital trigger is reached. Additionally, additional tier 1 capital instruments may not contain any incentive for the credit institution to redeem and must be perpetual.

Under the CRR, institutions are required to hold a minimum amount of regulatory capital equal to 8 per cent of risk-weighted assets. In addition to these so-called the minimum own funds Pillar I requirements, the CRD (including, but not limited to, Article 104(1)(a), as amended, and Article 104a which was introduced by the CRD V) contemplates that competent authorities may require additional Pillar II capital to be maintained by an institution relating to elements of risks which are not fully captured by the minimum own funds Pillar I requirements or to address macro-prudential requirements.

The board of directors and management of a bank must ensure that the Issuer has adequate base capital and has internal procedures for risk measurement and risk management for regular assessments and maintenance of a base capital of a size, type and distribution adequate to cover the risks of the institution.

The board of directors and management of a bank must, on the basis of the above-mentioned assessment, calculate the individual solvency need of the Issuer (ICAAP procedure). The solvency need shall be expressed as the adequate base capital as a percentage of the risk-weighted assets. The solvency need may not be less than the solvency requirement and the minimum capital requirement.

CRD IV introduced a combined buffer that applies in addition to the Pillar I and Pillar II capital requirements. The combined buffer consists of a countercyclical buffer, a capital conservation buffer and a SIFI buffer.

The capital conservation buffer and the countercyclical capital buffer are designed to ensure that credit institutions accumulate a sufficient capital base during periods of economic growth to absorb losses during periods of stress. The capital conservation buffer was phased into a final level of 2.5 per cent in 2019. The countercyclical buffer requirement is calculated as a weighted average of the national buffers in effect in the jurisdictions in which a bank has credit exposures.

Under Article 141 of the CRD, Member States required institutions that fail to meet the combined buffer requirement to be subject to restrictions on ‘**discretionary payments**’ (which are defined broadly by the CRD as distributions in connection with CET1 capital, payments on additional tier 1 instruments and payments of variable remuneration). The restrictions are scaled according to the extent of the breach of the combined buffer requirement.

According to the implementation of the CRD IV in the UK, the combined buffer requirement is stacked on top of the Pillar II capital requirements. If the combined buffer requirement is breached, the institution must submit a capital conservation plan for approval by the PRA. However, for the purpose of determining automatic restrictions on discretionary payments (i.e. the maximum distributable amount or MDA), Pillar II capital requirements should not be taken into account. Nonetheless, the PRA may choose to impose restrictions on discretionary payments on the basis of the submitted capital conservation plan. There can be no assurance as to the relationship between any of the aforementioned or future incremental own funds requirements, any combined buffer requirement and the associated restrictions on discretionary payments. Under the amendments made by the CRD V, it will be easier for firms to use the combined buffer. The Pillar II capital requirements should be taken into account when the combined buffer requirement is breached and the MDA is determined. Furthermore, the combined buffer is also stacked on top of the MREL requirement. Consequently, MREL also needs to be taken into account in the calculation of the MDA, subject to a six-month grace period in case of inability to issue eligible debt, during which restrictions relating to MDA would not be triggered, but authorities would be able to take other appropriate measures.

In addition, the CRD IV included a requirement for credit institutions to calculate, report, monitor and publish their leverage ratios, defined as their tier 1 capital as a percentage of their total exposure measure. According to the rules defined in the CRR, the Issuer had a leverage ratio of 4.3 per cent as at 31 December 2021. A minimum leverage ratio requirement will be implemented at the EU level with the implementation of the EU Banking Reform package. Specifically, since June 2021, the CRD V has imposed a leverage ratio requirement of 3 per cent of tier 1 capital that firms must meet in addition to their risk-based requirements. In the UK, the risk of excessive leverage is addressed as part of the Pillar II capital requirements.

As regards liquidity, the CRR imposes two liquidity ratios: the LCR and the NSFR. The LCR stipulates that banks must have a liquidity buffer that ensures a survival horizon of at least 30 calendar days in the case of a seriously stressed liquidity situation. The PRA began to phase in the LCR in October 2015. As required by the CRR, the LCR reached 100 per cent on 1 January 2018. The NSFR is intended to ensure a sound funding structure by promoting an increase in long-dated funding. The CRR does not currently impose any binding requirements relating to the NSFR, although there is a general requirement that firms should ensure that long-term obligations are adequately met with a diversity of stable funding requirements under both normal and stressed conditions. However, from 28 June 2021, amendments introduced by the CRR II impose a binding NSFR that requires credit institutions and systemic investment firms to finance their long-term activities with stable sources of funding.

As at 31 December 2021, the Issuer complies with all liquidity requirements.

NWM Group is subject to similar regulation in jurisdictions other than the UK, including EU Member States that have also implemented the EU directives mentioned above. Typically, NWM Group is subject to stand-alone requirements in each of the jurisdictions in which it operates, but according to the co-operation agreement between EU regulators, the Issuer is primarily regulated by the PRA.

Other changes made by the CRD V and CRR II include, inter alia:

- changes to the market risk by implementing the FRTB standards as a reporting requirement;
- changes to the counterparty credit risk framework to introduce the Basel Committee on Banking Supervision’s standardised approach for the calculation of the exposures value of derivatives contracts;

- revisions to the Pillar II framework including the introduction of the concept of Pillar II guidance and setting out the conditions under which competent authorities can impose additional Pillar II capital requirements;
- revisions to the framework concerning interest rate risk in the banking book (IRRBB), including the introduction of a standardised methodology; and
- the introduction of a requirement for non-EU financial groups to establish an IPU where (i) two or more institutions (including credit institutions and investment firms) established in the EU have the same ultimate parent undertaking in a third country and (ii) NWM Group has been identified as a non-EU global systemically important institution ('G-SII') or has entities in the EU with total assets of at least EUR 40 billion.

NWM Group does not expect these changes to have any significant effect on its overall capital requirements.

### ***The Bank Recovery and Resolution Directive***

At the EU level, the BRRD, as amended by the BRRD II, provides a framework for the recovery and resolution of credit institutions, including requirements for banks, in addition to the quantitative capital requirements under the amended CRD and CRR, to maintain at all times a sufficient aggregate amount of own funds and eligible liabilities that are capable of being bailed-in known as MREL. The phase in period for the current UK MREL regime ran until 1 January 2022. It took effect on 1 January 2019 for material subsidiaries of G-SIIs and on 1 January 2020 for all other firms. The UK MREL regime has been designed to be broadly compatible with the term sheet published by the FSB on TLAC requirements for global systemically important banks (referred to as G-SIIs under the EU proposals).

The BRRD as well as certain amendments made by the BRRD II have been implemented in the UK primarily through the Banking Act 2009, as amended, the PRA Rulebook, and various statutory instruments, including the Bank Recovery and Resolution (Amendment) (EU Exit) Regulations 2020 (SI 2020/1350). The UK BRRD framework also includes EU Commission Delegated Regulations made pursuant to the BRRD, to the extent they form part of UK domestic law and as amended. The Banking Act creates the SRR. Under the SRR, HM Treasury, the BoE and the PRA and FCA are granted substantial powers to resolve and stabilise UK-incorporated financial institutions that are failing or likely to fail. Specifically, there are five options available to regulatory authorities under the current SRR to stabilise a failing financial institution: (i) transfer all of the business of the failing institution or the shares of the failing institution to a private sector purchaser; (ii) transfer all or part of the business of the failing institution to a bridge bank that is wholly-owned by the BoE; (iii) transfer part of the assets, rights or liabilities of the failing institution to one or more asset management vehicles; (iv) write-down, conversion, transfer, modification, or suspension of the failing institution's equity, capital instruments and liabilities; and (v) temporary public ownership of the failing institution.

These tools may be applied to NatWest Group plc as the parent company or to NWM Group, as an affiliate, where certain conditions are met (such as, whether the firm is failing or likely to fail, or whether it is reasonably likely that action will be taken (outside of resolution) that will result in the firm no longer failing or being likely to fail). Moreover, the SRR provides for modified insolvency and administration procedures for relevant entities, and confers ancillary powers on UK regulatory authorities, including the power to modify or override certain contractual arrangements in certain circumstances. Regulatory authorities are also empowered to amend the law for the purpose of enabling the powers under the SRR to be used effectively. Such orders may apply retrospectively.

UK regulatory authorities are generally required to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard contained in the Banking Act, under which creditors should not incur losses greater than they would have incurred had the failing institution been wound-up under normal insolvency proceedings, may not apply to the application of the separate write-down and conversion power relating to capital instruments under the Banking Act, in circumstances where a stabilisation power is not also used. However, holders of debt instruments which are subject to the power may have ordinary shares transferred to or issued to them by way of compensation.



As noted above, the BRRD was amended by the BRRD II, which entered into force along with CRD V in June 2019. The amendments under BRRD II include, inter alia:

- enhancing the stabilisation tools in the BRRD with the introduction of a moratorium tool, whereby resolution authorities will have the power, when certain conditions are met, to suspend the payment or delivery obligations pursuant to any contract to which an institution that is subject to the BRRD is a party;
- a revised MREL framework which aligns the existing MREL requirements in the BRRD with the FSB's TLAC standard; and
- the integration of the minimum total TLAC standard into EU legislation.

EU Member States were required to publish the measures necessary to comply with BRRD II by 28 December 2020 and to apply those measures from that date, with certain exceptions.

During the transition period agreed between the UK and EU, the UK was required to implement EU directives where the application date for those directives fell within the transition period, which ended on 31 December 2020. Consequently, the UK was required to implement the majority of BRRD II requirements.

However, the UK had the discretion not to transpose those requirements in the BRRD II that did not require compliance by firms until after the end of the transition period. HM Treasury decided not to transpose Article 1(17) of the BRRD II, which inserted new Articles 45 to 45m into the BRRD concerning MREL, as the deadline for compliance with the revised end-state MREL requirements is 1 January 2024. The decision was based on the fact that the UK already has an MREL framework that applies the FSB's TLAC standard.

### ***The Markets in Financial Instruments Directive and Regulation***

In January 2018 the Markets in Financial Instruments Directive was replaced by the recast MiFID II and the MiFIR. MiFID II and MiFIR set out the licensing requirements, conduct of business rules and organisational standards with which firms providing investment services and activities must comply. MiFID II has been implemented into UK law by way of various statutory instruments and updates to the FCA Rulebook (and to a lesser extent the PRA Rulebook). MiFIR has been incorporated into UK law as retained EU law. Although MiFID II and MiFIR primarily apply to investment firms, credit institutions such as the Issuer are subject to certain provisions when providing one or more investment services and/or performing investment activities.

### **Forthcoming Regulatory Changes and Relevant Regulatory Initiatives**

The UK Government introduced the Financial Services Bill ('FSM Bill') in 2022 as a major piece of UK primary legislation intended to bring about significant changes to the regulation of financial services in the UK following the UK's withdrawal from the EU. The FSM Bill revokes most retained EU law as it relates to financial services, including the CRR, EMIR, the Prospectus Regulation, the Market Abuse Regulation and the Markets in Financial Instruments Regulation (MiFIR). It also provides UK financial services regulators with significant rule-making powers to consult on, and implement, rules to replace repealed EU law.

In addition, the FSM Bill:

- establishes a new regulatory gateway through which authorised firms must pass before they are able to approve financial promotions of unauthorised firms;
- provides HM Treasury with power to designate critical third party service providers and gives the BoE, PRA and FCA the ability to directly oversee critical services provided to regulated firms and market infrastructures by designated critical third parties;
- provides a framework for the regulation of digital settlement assets (stablecoins) that are used as a form of payment; and

- makes changes to a number of requirements introduced into UK law by MiFID II and MiFIR, such as the share trading obligation, the pre- and post- trade transparency regime and the derivatives trading obligation.

The FSM Bill represents a significant shift in approach to financial services regulation in the UK and also a move away from EU-derived regulatory rules and standards. The FSM Bill is expected to enter into force in early 2023.

The FCA has published its final rules relating to the implementation of a new wide-ranging consumer duty applicable to UK authorised firms. The FCA's new consumer duty consists of a new consumer principle that requires firms to act to deliver good outcomes for retail clients. It is supported by cross-cutting rules that aim to provide clarity to the FCA's expectations under the consumer principle. The cross-cutting rules require firms to act in good faith, avoid causing foreseeable harm and enable and support retail customers to pursue their financial objectives.

Firms that conduct regulated activities in the UK, including firms in the temporary permissions regime, are potentially subject to the new consumer duty. In particular, the consumer duty applies to firms that can determine or materially influence retail customer outcomes. This includes firms that can influence material aspects of, or determine: (i) the design or operation of retail products or services, including their price and value; (ii) the distribution of retail products or services; (iii) the preparation and approval of communications that are to be issued to retail customers; and (iv) engaging in customer support for retail customers. The FCA has confirmed that the consumer duty applies in a proportionate manner to customers with whom a firm does not have a direct relationship (e.g. where the firm designs a product that is sold to retail customers by another firm).

Firms are required to apply the consumer duty to new and existing products and services that are open to sale or renewal from 31 July 2023. For closed products which are no longer on sale, the Consumer Duty applies from 31 July 2024.

### *AML Initiatives and Countries Subject to Sanctions*

In recent years, combating money laundering and terrorist financing has been a major focus of governmental policy towards financial institutions. Applicable bank regulatory authorities are imposing, and industry groups and participants are adopting, heightened standards, and law enforcement authorities have been taking a more active role in prosecuting potential violations. If a financial institution would fail to comply with relevant regulations or to maintain and implement adequate and appropriate programs to that end, this could have serious legal and reputational consequences for that institution.

Significant changes were made to the UK's AML and terrorist financing regime in the year ended 31 December 2017. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 replaced the Money Laundering Regulations 2007 and the Transfer of Funds (Information on the Payer) Regulations 2007 with provisions that implemented the EU Fourth Anti-Money Laundering Directive and the EU Funds Transfer Regulation.

In the EU, the MLD5 entered into force in July 2018, with a requirement for Member States, including the UK, to transpose it by 10 January 2020. A key change in MLD5 is a requirement on entities to take steps to mitigate the risks arising from their business relationships with persons in certain designated 'high risk' jurisdictions, including by undertaking prescribed enhanced due diligence measures and by limiting business relationships and transactions with such persons. This may impact the amount of business that the Issuer can conduct in these jurisdictions. MLD5 has been implemented in the UK by the Money Laundering and Terrorist Financing (Amendment) Regulations 2019 which amend the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. The MLD6 came into effect on 3 December 2020, with EU member states required to implement the new measures by 3 June 2021. It expands the scope of existing EU anti-money laundering legislation and toughens criminal sanctions across the EU. The UK did not incorporate MLD6 into law as the implementation period was after the end of the post-Brexit transition period agreed between the UK and EU.

The Issuer's AML policy directly reflects relevant national and international laws, regulations and industry standards. All client engagements, products and services are in scope of this policy.

The requirements in the Issuer's AML policy cover minimum standards and controls related to: money laundering, terrorist financing, export trade controls, proliferation financing, sanctions (economic, financial and trade) and countries designated by the Issuer as UHRC. The effectiveness of those controls is reviewed periodically.

The Issuer complies with sanctions laws and regulations of the UK, EU, United Nations and US, as well as other applicable sanctions laws and regulations in the jurisdictions in which the Issuer operates.

The Issuer continues to improve its sanctions compliance controls to respond to risks of new or expanding sanctions regimes.

## MANAGEMENT AND SHAREHOLDINGS

### Board of Directors

The Board is the main decision-making body for the Issuer. It has overall responsibility for the management of the business and affairs of the Issuer and supervises the Executive Management, whereas the Executive Management is in charge of the day-to-day management observing the guidelines issued by the Board of Directors. Please refer to ‘*Management and Shareholdings—Executive Management.*’ Under the current governance structure, the Board of Directors sets the strategic targets of the Issuer and its subsidiaries, ensures that the necessary resources are in place for the Issuer to meet its obligations, is responsible for approving the capital and funding plans and reviews the operational and financial performance of the Issuer. The Board of Directors monitors and maintains the consistency of the Issuer’s activities within the strategic direction of NatWest Group, and ensures the Issuer manages risk effectively through approving and monitoring the Issuer’s risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer-term strategic threats to the Issuer’s business operations. The Board of Directors’ Terms of Reference includes key aspects of the Issuer’s affairs reserved for the Board of Directors’ decision and are reviewed at least annually. The Board of Directors is collectively responsible for the long-term success of NWM Plc and the delivery of sustainable value to its shareholders.

Other than the matters reserved specifically for the Board, the Board has delegated responsibility to the Chief Executive Officer. This includes responsibility for the operational management of the Issuer’s businesses, as well as reviewing high-level strategic issues and considering risk appetite, risk policies and risk management strategies in advance of these being considered by the Board of Directors and/or its Committees. Specific delegated authorities are also in place in relation to business commitments across NWM Group. The Board of Directors appoints and dismisses the Chief Executive Officer.

The members of the Board of Directors as at the date of this Registration Document are as follows:

	<b>First elected to the Board of Directors</b>
<b><i>Non-Executive Directors</i></b>	
Frank Dangeard, <i>Chairman</i> .....	2016
Vivek Ahuja .....	2018
Tamsin Rowe.....	2019
Anne Simpson .....	2020
<b><i>Executive Directors</i></b>	
Robert Begbie, <i>Chief Executive Officer</i> .....	2019
Simon Lowe, <i>Chief Financial Officer</i> .....	2022

The business address for the current members of the Board of Directors is NWM Plc, 250 Bishopsgate, London EC2M 4AA, United Kingdom.

#### ***Mr. Frank Dangeard***

As well as being Chairman of the Issuer, Mr. Dangeard is Chairman of Gen Digital Inc. and serves on the boards of NatWest Group plc, HIS Holding Limited and SPEAR Investments I B.V.. He is an ‘advisory’ board member of various listed and non-listed companies, principally in the technology/telecom, finance and energy industries.

Mr. Dangeard is also a Director-in-Residence at INSEAD and Co-Chairman of the Advisory Board of Hawkamah, the corporate governance institute of the MENA region, based in Dubai.

In the financial industry, Mr. Dangeard has served on the boards of Crédit Agricole CIB (France) and Home Credit (Czech Republic). In the technology/telecom industry, he has served on the boards of Orange, Equant and Wanadoo (France Télécom/Orange Group), Eutelsat (France), Sonaecom (Portugal), and has served as Deputy Chairman and Acting Chairman of Telenor (Norway). In the energy industry, he has served on the boards of EDF (France) and Hindustan Power (India). He has also chaired the Strategy Board of PwC (France), and has been a member of the Advisory Boards of the Harvard Business School (US) and of École des Hautes Études Commerciales (France).

From 2004 to 2008, Mr. Dangeard served as Chairman and CEO of Thomson SA (France) and prior to that as Deputy CEO of France Télécom. Mr. Dangeard earlier career was predominantly spent in investment banking, where he served as a Managing Director of SG Warburg & Co in London and Madrid, and latterly as Chairman of SG Warburg France. From 1986 to 1988, he was with Sullivan & Cromwell LLP, a US law firm, in New York and London.

Mr. Dangeard serves on the following principal Committees of the Issuer:

- Nominations Committee (Chair)

***Mr. Vivek Ahuja***

Mr. Ahuja is presently Group CEO & Partner at Terra Firma Capital Partners Limited. He has significant experience working in global finance with over 20 years in senior CFO leadership roles.

Prior to joining Terra Firma, he was most recently with Standard Chartered Bank, where he was the Deputy Group CFO and prior to that Group CFO (Wholesale Banking) and Regional CFO (Middle East & South Asia). He has also worked with other top-tier global financial institutions in a variety of roles spanning finance, strategy, and corporate & institutional banking.

Mr. Ahuja is a Fellow of the Institute of Chartered Accountants in England & Wales and has also been a member of Council and the Financial Services Faculty Board.

Mr. Ahuja serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee (Chair)
- Audit Committee
- Performance & Remuneration Committee
- Nominations Committee

***Ms. Tamsin Rowe***

Ms. Rowe joined the NatWest Markets Board following her retirement in 2019 from Morgan Stanley, where she spent 31 years and was most recently Head of International HR.

During her time at Morgan Stanley, Tamsin was a sounding board and counsellor for the international business and led the HR department to support the business to deliver a range of projects including driving excellence in talent management; conduct and culture; assessing and supporting acquisitions, integrations and divestures; and remuneration.

Tamsin began her career in HR with Thomson Travel, prior to joining Morgan Stanley. Tamsin is a graduate of the University of Kent and London School of Economics and is a member of the Guild of Human Resources Professionals and the Institute of Personnel and Development.

Ms. Rowe serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee
- Performance & Remuneration Committee (Chair)
- Nominations Committee

***Ms. Anne Simpson***

Anne Simpson joined the NWM Board in September 2020. Ms Simpson is a Chartered Accountant and spent her career with PwC working across audit, accounting consultancy, regulatory and governance roles advising major international banks. She also led a number of high profile reviews on behalf of the UK regulators covering a wide range of topics including IT, governance and regulatory reporting. Most recently, she was Senior Partner in the firm's Banking & Capital Markets Regulatory team and Chair of the firm's UK Supervisory Board. She was a member of the ICAEW Risk and Regulatory Committee from 2009-2017.

Ms. Simpson serves as a member of the following principal Committees of the Issuer:

- Board Risk Committee
- Audit Committee (Chair)
- Performance & Remuneration Committee
- Nominations Committee

***Mr. Robert Begbie***

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

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

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

***Mr. Simon Lowe***

Mr Lowe joined NatWest in 2005 and has undertaken a number of previous roles: Head of Finance for Credit Markets, Head of Markets Decision Support, Financial Controller, NWM Plc and, most recently, Director of Finance, NWM Plc. In his current role as Chief Financial Officer he advocates purposeful behavior, looking at all areas of inclusion, wellbeing, recognition and connectivity.

Between 1992 and 2005 he held a variety of senior finance positions at J.P. Morgan, UBS and Lehman Brothers, where he held the role of Head of Fixed Income Product Control, Europe.

He graduated with a BSc from the University of Bradford and is qualified as a Chartered Accountant.

**Executive Management**

The Executive Directors of NWM Plc act as the Executive Management and have responsibility for the day-to-day management of the Issuer.

The members of the Executive Management as at the date of this Registration Document are as follows:

	<b>Position</b>	<b>Year of birth</b>	<b>Appointed on the Executive Management</b>
Robert Begbie	Chief Executive Officer	1961	2019
Simon Lowe	Chief Financial Officer	1966	2022

**Conflict of Interest**

The Issuer has procedures in place to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. On appointment, each director is provided with the Issuer's guidelines for referring conflicts of interest to the Board. Each director is required to notify the Board of any actual or potential situational or transactional conflicts of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts.

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

Except as set out in the biographies listed in this disclosure, no potential conflicts of interest exist between any duties to the Issuer of the directors listed above and their private interests and/or other duties.

## Remuneration and Benefits

### *Remuneration of the Board of Directors*

	<u>2022</u>	<u>2021</u>
	£	
<b>Directors' remuneration</b>		
Non-Executive Directors emoluments.....	315	394
Chairman and executive directors – emoluments .....	<u>2,481</u>	<u>2,268</u>
Amounts receivable under LTIPs, share option and other plans .....	249	271
Total .....	<u>3,045</u>	<u>2,933</u>

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £ £1,946,000 (2021 - £1,662,000).

Simon Lowe was appointed Chief Financial Officer of NWM Plc on 29 July 2022. Mr Lowe is employed and remunerated by NWM Plc for his service to NWM Group as a whole.

Non-executive directors receive a basic fixed fee for service on the Board. They are not eligible to participate in the Issuer's incentive programs and do not receive performance-based remuneration. The fixed fee is determined in accordance with market standard and reflects the qualifications and competencies required in view of the Issuer's size and complexity, the responsibilities and the time non-executive directors are expected to allocate to discharge their obligations as Board members. The Chairman of the Board receives an annual fixed fee.

In addition to the base fixed fee, non-executive directors receive additional compensation if they also serve as members of one or more of the Board Committees. The Chairman of a Board Committee also receives an additional fee.

For information on the remuneration for Executive directors, as well as for other members of the Board of Directors, see Note 28 to the 2022 Financial Statements incorporated by reference into this Registration Document.

### *Remuneration of the Executive Management*

The compensation of the key management is outlined in the table below.

	<u>2022</u>	<u>2021</u>
	£	
Short term benefits .....	14,532	14,756
Post-employment benefits .....	557	573
Share based payments.....	<u>4,729</u>	<u>3,892</u>
	<u>19,818</u>	<u>19,221</u>

Short term benefits include benefits expected to be settled wholly within twelve months of balance sheet date. Post-employment benefits include defined benefit contributions for active members and pension funding to support contributions to the defined contribution schemes. Share-based payments include awards vesting under rewards schemes.

For additional information regarding remuneration of the members of the Executive Management, see Notes 28 and 29 to the 2022 Financial Statements incorporated by reference into this Registration Document.

### ***Severance Terms for the Executive Management***

Mr. Begbie and Mr. Lowe may terminate their service contracts by giving 6 months' notice. The Issuer may terminate the service contract of Mr Begbie and Mr. Lowe with 6 months' notice. Members of the Executive Management are not entitled to any severance pay other than salary while under notice.

### ***Performance-based Share Remuneration Program***

Mr Begbie and Mr. Lowe may participate in NatWest Group's long-term incentive plans and share save schemes and details of the interests in NatWest Group plc's shares arising from their participation are given in the Directors' remuneration report in the Report and Accounts of NatWest Group plc.

### **Board Practices**

An Annual General Board Meeting shall be held once every year, at such time (subject to statutes) and place as may be determined by the Board. The directors may whenever they think fit, and shall on requisition in accordance with the statutes, proceed to convene a General Board Meeting.

The quorum necessary to proceed with a General Board Meeting may be fixed by the Board and unless so fixed at any other number shall be three. A meeting of the Board at which a quorum is present shall be competent to exercise all powers and discretions for the time being exercisable by the Board. The external auditors and the Chief Internal Auditor are invited to participate in meetings of the Board where matters relevant to the auditing or the financial reporting of the Issuer are considered.

The Board may delegate any of its powers, authorities or discretions (including, for the avoidance of doubt, any powers, authorities or discretions relating to the remuneration of directors, the varying of directors' terms and conditions of employment or the conferring of any benefit on directors) to committees consisting of such directors, or any other person, as the directors think fit.

### **Committees**

#### ***General***

The Board has established four committees: the Risk Committee, the Audit Committee, the Performance & Remuneration Committee, and the Nomination Committee. The tasks of the committees are laid out in the Terms of Reference for each committee, which are reviewed at least once a year.

*The Audit Committee* comprises at least two independent non-executive directors and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Issuer. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Issuer, the Issuer's system and standards of internal controls, and monitors the Issuer's processes for internal audit and external audit and reviews the practices of the segmental Risk and Audit Committees.

*The Board Risk Committee* comprises at least two independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Issuer and risk strategy. It reviews the Issuer's performance on risk appetite and oversees the operation of the Issuer's Policy Framework.

*The Performance & Remuneration Committee* comprises at least four independent non-executive directors and oversees the implementation of NatWest Group's policy on remuneration. It also considers and makes recommendations on remuneration arrangements for senior executives of the Issuer.

*The Nominations Committee* comprises four non-executive directors, and is chaired by the Chairman of the Issuer. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees.

### **Declaration on Corporate Governance**

By adhering to sound principles of corporate governance, the Issuer wishes to maintain the confidence of investors, achieve its financial objectives and act with integrity towards all its stakeholders. The Issuer aims to create



transparency for shareholders and other stakeholders by describing aspects of its organisation and processes through its annual report and accounts approved by the Board.

### **Shareholdings**

NatWest Group plc owns 100 per cent of the shares in the Issuer and therefore controls the entity, including the election of members of the Board.

## RELATED PARTY TRANSACTIONS

Pursuant to IFRS, a related party to NWM Group is either a party over which NWM Group has control or significant influence or a party that has control or significant influence over NWM Group. All entities over which NWM Group has control are consolidated and are therefore not considered a related party in relation to NWM Group.

NWM Group has a number of transactions and other commercial activities with NatWest Group entities. Certain significant contractual and other relationships with NatWest Group entities are described, amongst others, in *‘Operating and Financial Review – Primary Factors Affecting NWM Group’s Results of Operations – Relationship with NatWest Group’* and *‘Operating and Financial Review—Primary Factors Affecting NWM Group’s Results of Operations—Recent Changes to NWM Group’s Scope of Activities Relating to the UK’s Exit From The EU.’*

### UK government

On 1 December 2008, the UK government through HM Treasury became the ultimate controlling party of NatWest Group plc. The UK government’s shareholding is managed by UKGI, a company wholly owned by the UK government. As a result, the UK government and UK government controlled bodies became related parties of NWM Group.

In 2015, HM Treasury sold 630 million of NatWest Group plc’s ordinary shares and a further 925 million in June 2018. As of the date hereof, HM Treasury’s holding in NatWest Group plc’s ordinary shares was 42.95 per cent.

NWM Group enters into transactions with many of these bodies on an arm’s-length basis. Transactions include the payment of: taxes principally UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

### BoE Facilities

NWM Group may participate in a number of schemes operated by the BoE in the normal course of business.

Members of NWM Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the BoE amounting to 0.403 per cent of their average eligible liabilities in excess of £600 million. They also have access to BoE reserve accounts: sterling current accounts that earn interest at the BoE Base Rate.

### Other Related Parties

- (a) In their roles as providers of finance, NWM Group companies provide development and other types of capital support to businesses.
- (b) To further strategic partnerships, NWM Group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NWM Group. We disclose as related parties where stakes of 10 per cent or more are held. Ongoing business transactions with these entities are on normal commercial terms.
- (c) In accordance with IAS 24, transactions, or balances between NWM Group entities that have been eliminated on consolidation are not reported.
- (d) NWM Group is recharged from other NatWest Group entities, mainly NWB Plc which provides the majority of shared services (including technology) and operational processes.
- (e) The primary financial statements include transactions and balances with subsidiaries which have been further disclosed in the relevant parent company notes.

## **THE ISSUER**

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