Dated 18 March 2024

NatWest Markets Plc

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

2024 Registration Document

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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of the European Union (Withdrawal) Act 2018 (the '**EUWA**') and the regulations made under the EUWA, as amended or superseded (the '**UK Prospectus Regulation**'), and has been prepared for the purpose of giving information with respect to NatWest Markets Plc which, according to the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 2023, set forth in the section 'Financial Statements' on pages 79 to 164 and the section 'Risk and Capital Management' on pages 24 to 73 (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 16 February 2024 (the '**2023 Financial Statements**'); and

(c) 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 80 (only where the information is identified as 'audited') of the Issuer's annual report which was published via RNS on 17 February 2023 (the '**2022 Financial Statements**' and, together with the 2023 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 sustainability-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 and NWM Group's strategy (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 GDP growth, inflation and interest rates, supply chain disruption, and geopolitical developments;
  - 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 strategy and NatWest Group's creation of its Commercial & Institutional segment (of which NWM Group forms part); and
  - NatWest Group's transfer of the Western European Portfolio;

- financial resilience risk, including in respect of:
  - NWM Group's ability to meet targets, generate returns or implement its strategy effectively;
  - NWM Group's prudential regulatory requirements for capital and MREL;
  - NWM Group's reliance on access to capital markets directly or indirectly through its parent (NatWest Group);
  - NWM Group's capital, funding and liquidity risk;
  - reductions in the credit ratings;

- the competitive environment;
- the requirements of regulatory stress tests;
- NWM Group's counterparty and borrower risk;
- NWM Group's model risk;
- NWM Group's sensitivity to accounting policies, judgements, estimates and assumptions (and the economic, climate, competitive and other forward looking information affecting those judgements, estimates and assumptions);
- changes in applicable accounting standards;
- the adequacy of NatWest Group's resolution plans; and
- the application of UK statutory stabilisation or resolution powers to NatWest Group;

- climate and sustainability risk, including in respect of:
  - risks relating to climate change and sustainability-related risks;
  - both the execution and reputational risk relating to NatWest Group's climate change-related strategy, ambitions, targets and transition plan;
  - climate and sustainability-related data and model risk;
  - the failure to implement climate change resilient governance, procedures, systems and controls;
  - increasing levels of climate, environmental, human rights and other sustainability-related laws, regulation and oversight;
  - increasing anti-greenwashing regulations;
  - climate, environmental, human rights and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk; and
  - reductions in ESG ratings;

- operational and IT resilience risk, including in respect of:
  - NWM Group's operational risks (including reliance on third party suppliers);
  - 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
  - NWM Group's 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 as well as remedial undertakings; 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 sustainability-related disclosures in this Registration Document are not measures within the scope of International Financial Reporting Standards ('IFRS'), and 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 in accordance with IFRS. These judgements, assumptions and estimates are highly likely to change materially over time, and, when coupled with the longer time frames used in these disclosures, make any assessment of materiality inherently uncertain. In addition, climate risk analysis, net zero strategy, including the implementation of the climate transition plan, remain under development, and the data underlying its analysis and strategy remain subject to evolution over time. The process adopted to define, gather and report data on performance on climate and sustainability-related measures is not subject to the formal processes adopted for financial reporting in accordance with IFRS and there are currently limited industry standards or globally recognised established practices for measuring and defining climate and sustainability-related metrics. As a result, it is expected that certain climate and sustainability-related 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:

'**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 information is identified as 'audited').
'**2023 Financial Statements**'	the audited consolidated financial statements of NWM Group as at and for the year ended 31 December 2023 as well as the 'Capital and Risk Management' section (only where the information is identified as 'audited').
'**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.
'**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.
'**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.
'**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 '*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.'*
'**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 2022 Financial Statements and the 2023 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 *'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.'*
'**FVOCI**'	fair value through other comprehensive income.
'**FX**'	foreign exchange.
'**G-SII**'	non-EU global systemically important institution.
'**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.
‘**Moody’s**’	Moody’s Investors Service Limited or successors thereto.
‘**MREL**’	the minimum requirement for own funds and eligible liabilities.
‘**MTNs**’	medium-term notes.
‘**NatWest Group**’	NatWest Group plc together with its subsidiary and associated undertakings.
‘**NatWest Holdings Group**’	NWH Ltd and its subsidiaries.
‘**nm**’	not meaningful.

'**NPA**'..	non-prosecution agreement.
'**NPS**'	Net Promotor Score.
'**NSFR**'..	net stable funding ratio.
'**NTIRR**'	non-traded interest rate risk.
'**NV Transfer**'	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.'*
'**NWB**'	National Westminster Bank Plc.
'**NWH Ltd**'...	NatWest Holdings Limited.
'**NWM Group**'	the Issuer and its consolidated subsidiaries.
'**NWM N.V.**'...	NatWest Markets N.V.
'**NWMSI**'..	NatWest Markets Securities Inc.
'OCA'	Own credit adjustments.
'**P&L**'	profit & loss.
'**PD**'..	probability of default.
'**pounds sterling**', **'£'** or **'sterling'**	the currency of the United Kingdom.
'**PRA**'..	the Prudential Regulation Authority.
'**RBS Plc**'..	The Royal Bank of Scotland Plc.
'**RBSH**'	RBS Holdings N.V.
'**RBSI**'...	RBS International Limited.
'**repo**'	repurchase agreement.
'**Revenue Share Agreements**'	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.'*
'**Revenue Sharing Entities**'...	has the meaning assigned thereto in the section '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements.'*
'**RFB Entities**'..	NWB, The Royal Bank of Scotland Plc and Ulster Bank Ireland DAC, collectively.
'**RFRs**'	risk free rates.

'**RNIV**'	risks not in VaR.
'**RNS**'	regulated news service of the London Stock Exchange.
'**ROI**'	Republic of Ireland.
'**RSAs**'	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.'*
'**RWAs**'	the risk weighted assets.
'**S&P**'	S&P Global Ratings UK Limited or successors thereto.
'**SEC**'	the US Securities and Exchange Commission.
'**Securities Act**'	the United States Securities Act of 1933, as amended.
'**SICR**'	significant increase in credit risk.
'**SIFI**'	systemically important financial institution.
'**SMF**'	the Sterling Monetary Framework.
'**SOC**'	the stressed outflow coverage.
'**SRR**'	the special resolution regime.
'**SVaR**'	Stressed value-at-risk.
'**TCA**'	the 2020 EU-UK Trade and Cooperation Agreement.
'**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 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 2023 Financial Statements and the 2022 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 2023, 2022 and 2021 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2023 Financial Statements and the 2022 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 previously separate 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 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 2023 and 2022*.'

NWM Group presents a management view of income by business, including separate itemisation of transfer pricing arrangements with fellow NatWest Group subsidiaries; own credit adjustments ('**OCA**'); income including shared revenue and before OCA; and income excluding OCA.

Transfer pricing arrangements with fellow NatWest Group subsidiaries include:

- Revenue share arrangements pursuant to which a proportion of the income generated by NWM Group products from customers that have their primary relationship with other NatWest Group subsidiaries is shared between NWM Group and those subsidiaries.

- A profit share arrangement that was entered into during 2023 between NWM Group and fellow NatWest Group subsidiaries to reward NWM Group on an arm's length basis for its contribution to the performance of the NatWest Group Commercial & Institutional business segment, of which NWM Group forms part (the "**Profit Share Arrangement**"). The profit share is not allocated to individual NWM Group product areas.

OCA's are applied to positions for which NWM Group believes that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

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, geopolitical developments, armed conflict, 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 inflation and interest rates, supply chain disruption, and geopolitical developments.

NWM Group is affected by global economic and market conditions, particularly those in the UK. Uncertain and volatile economic conditions can create a challenging operating environment for financial services companies such as NWM Group. The outlook for the UK and the global economy is affected by many factors including: GDP growth, inflation and changing interest rates, changing asset prices (including residential and commercial property), energy prices, supply chain disruption, and changes to monetary and fiscal policy.

These conditions could be exacerbated by a number of factors including: instability in the UK and/or global financial systems, market volatility and change, fluctuations in the value of the pound sterling, new or extended economic sanctions, economic volatility in the UK or globally, volatility in commodity prices, political uncertainty or instability (for example the upcoming US presidential election and the UK general election to take place before February 2025), or concerns regarding sovereign debt or sovereign credit ratings, changing demographics in the markets that NWM Group and its customers serve, increasing social and other inequalities, rapid changes to the economic environment due to the adoption of technology, automation, artificial intelligence, or due to climate change, and/or other sustainability-related risks. See also '*— Changes in interest rates will continue to affect NWM Group's business and results*' and '*— Fluctuations in currency exchange rates may adversely affect NWM Group's results and financial condition*'.

NWM Group is also exposed to risks arising out of geopolitical events or political developments that may hinder economic or financial activity levels. Political, military or diplomatic events, geopolitical tensions armed conflict (for example the Russia-Ukraine and Israel-Hamas conflicts), terrorist acts or threats, protectionist policies or trade barriers, widespread public health crises, related potential adverse effects on supply chains and the responses to any of the above scenarios by various governments and markets, could negatively affect the business and performance of NWM Group, including as a result of the direct or indirect impact on UK, regional or global trade and/or NWM Group's customers and counterparties.

In recent years, the UK has experienced significant political uncertainty and a general election will take place before February 2025. Heightened political uncertainty could lead to a loss of confidence in the UK, that could in turn, negatively impact the economy and companies operating in the UK. NatWest Group also faces political uncertainty in Scotland as a result of a possible Scottish independence referendum. Scottish independence may adversely affect NWM Group plc 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 plc 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 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 financial markets may make it very 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, 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, or resulting in, 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 often automatically) 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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, such as USD, that assist in meeting NWM Group's MREL requirements. In addition, NWM Group conducts banking activity in non-sterling currencies (for example, loans, deposits and dealing activity) which affect its revenue. NWM Group also uses service providers based outside of the United Kingdom for certain services and as a result certain operating expenses are subject to fluctuations in currency exchange rate. NWM Group maintains policies and procedures designed to manage the impact of its exposure to fluctuations in currency exchange rates. Nevertheless, changes in currency exchange rates, particularly in the sterling-US dollar and sterling-euro rates, may adversely affect various accounting and financial metrics including the value of assets, liabilities (including the total amount of MREL-eligible instruments), income and expenses, RWAs and hence the reported earnings and financial condition of NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, reputation, and/or its ability to meet regulatory capital adequacy requirements.

Changes in interest rates 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 2023, although forward rates at 31 December 2023 suggested interest rates may begin to fall in 2024.

Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates may adversely affect NWM Group.

Further, volatility in interest rates may 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 may, in turn, affect liquidity portfolio valuations. In addition, unexpected sharp rises in rates may also have negative impacts on some asset and derivative valuations. Furthermore, customer and investor responses to rapid changes in interest rates can have an adverse effect on NWM Group. For example, customers may make deposit choices that provide them with higher returns than those then being offered by NWM Group, and NWM Group may not respond with competitive products as rapidly, for example following an interest rate change which may in turn decrease NWM Group's net interest income.

Movements in interest rates also influence and reflect the macroeconomic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans, customer behaviour, and other indicators that may indirectly affect NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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.

As a result of the UK's withdrawal from the EU, certain aspects of the services provided by NatWest Group require local licences or individual equivalence decisions (temporary or otherwise) by relevant regulators. 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. When these proposals become law all 'banking services' provided by NatWest Group (of which NWM Group forms part) in the EU may be licensable activities in each EU member state in which it provides such services and member states may not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide such 'banking services' except in limited circumstances. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may adversely affect customer engagement and/or may significantly negatively impact the operating model and business operations of NWM Group.

NatWest Group continues to evaluate its EU operating model, making adaptations as necessary. Changes to NatWest Group's and NWM Group's EU operating model have been, and may continue to be, costly and failure to receive regulatory permissions and/or further changes to its business operations, product offering, customer engagement, and regulatory requirements could result in further costs and/or regulatory sanction.

Furthermore, transferring business to an EEA based subsidiary, including in connection with NatWest Group's Western European corporate portfolio, 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 (see also, '— *The transfer of NatWest Group's Western European corporate portfolio involves certain risks.*'). Any of the above could, in turn, adversely affect NWM Group.

On 13 November 2023, the European Central Bank ('**ECB**') confirmed that RBS Holdings N.V. and its subsidiary NatWest Markets NV (both subsidiaries of NWM Group) were classified as a "significant supervised group". As a result, the ECB assumed direct supervision of both subsidiaries on 1 January 2024. Direct ECB supervision could have an adverse effect on NWM Group's business strategy, operating model and prudential requirements.

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 macroeconomic 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 following the enactment of the Financial Services and Markets Act 2023 ('**FSMA 2023'**) and the Retained EU Law (Revocation and Reform) Act 2023. In particular, FSMA 2023 provides for the revocation of Retained EU Law relating to financial services regulation but sets out that this process will likely take a number of years and that the intention is that specific retained EU laws will not be revoked until such time as replacement regulatory rules are in place. 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 Autumn Statement 2023 (presented on 22 November 2023), the UK Government confirmed its commitment to exiting its shareholding in NatWest Group plc, subject to market conditions. It also stated that it "intends to fully exit by 2025-26 utilising a range of disposal methods" and "will explore options to launch a share sale to retail investors in the next twelve months, subject to supportive market conditions".

NatWest Group plc has most recently: (i) carried out a directed buyback of NatWest Group plc ordinary shares from HM Treasury in May 2023, and (ii) made purchases under NatWest Group plc's on-market buyback programmes announced in July 2023 and February 2024. NatWest Group plc may participate in similar directed or on-market buybacks in the near- and medium-term future. As at 15 March 2024, HM Treasury held 30.98% of the ordinary share capital with voting rights of NatWest Group plc.

Achievement of the UK Government's Spring Budget 2024 objective is likely to entail it selling a significant number of NatWest Group plc's shares. The precise timing, method and extent of further HM Treasury's disposal of NatWest Group plc's shares may be driven by economic as well as other considerations and is uncertain, which could result in a prolonged period of price volatility for NatWest Group plc's ordinary shares and its (and NatWest Group's (including NWM Group) other securities.

Any offers or sales of a substantial number of ordinary shares in NatWest Group plc by HM Treasury (including at a discount or with other incentives), market expectations about these offers or sales, or perceptions about the success or failure of any offers or sales (including for example, media or public attention on any such offering or post-offer share price performance), and any directed, on- or off-market buyback activity by NatWest Group plc, could affect the prevailing market price for the outstanding ordinary shares of NatWest Group plc, and, in the case of a directed, on- or off-market buyback, could reduce NatWest Group plc's capital and liquidity, which may have an adverse effect on NWM Group.

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 their own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's largest single shareholder, HM Treasury and UK Government Investments Limited ('**UKGI**') (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over NatWest Group (including NWM Group) including: the election or removal of directors, the appointment or removal 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 largely 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 Plc's board of directors and NWM Group's 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 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

Strategic Risk

NWM Group has been in a period of significant structural and other change, including as a result of NatWest Group's strategy and NatWest Group's 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.

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 via the creation of NatWest Group's C&I business segment (which combines the previously separately reporting NatWest Group's Commercial, NatWest Markets and RBS International businesses). Since the quarter ending 30 March 2022, NatWest Group plc has been reporting its results under the C&I operating segment structure, although NWM Plc continues to also report on a standalone legal entity basis.

The C&I business segment was created to promote closer operational and strategic alignment to support NatWest Group growth, with more integrated services to customers across NatWest Group entities, within and outside the ring-fenced banks with the potential increased risk of breach of the UK ring-fencing regime requiring effective 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 and its C&I business segment in particular.

NWM Group's ability to serve its customers may be adversely affected 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: 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 macroeconomic environment, political and regulatory uncertainty, market volatility and change, uncertainties regarding the senior leadership of NatWest Group, 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. NWM Group has implemented a shared services model and transfer pricing arrangements with some entities within NatWest Group's ring-fenced sub-group (including NatWest Bank Plc 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 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, cybersecurity, 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 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 as 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, and may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

The transfer of NatWest Group's Western European corporate portfolio involves certain risks.

To improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group (including NatWest Group's Western European corporate portfolio principally consisting of term funding and revolving credit facilities) (the '**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 results of operations. As a result, this may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

Financial Resilience Risk

NWM Group may not achieve its ambitions, targets and guidance 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 and guidance 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 climate strategy (including its climate and sustainable funding and financing targets) and customer satisfaction targets.

NWM Group's ability to meet its ambitions, targets and guidance and make discretionary capital distributions is subject to various internal and external factors, risks and uncertainties. These include but are not limited to: UK and global macroeconomic, political, market and regulatory uncertainties, operational risks and risks relating to NWM Group's business model and strategy (including risks associated with climate 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 inflation and interest rates, supply chain disruption, and geopolitical developments.*'

A number of factors may impact NWM Plc and NWM N.V.'s abilities to maintain their respective CET1 ratio targets, including the macroeconomic environment, 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 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 guidance and execute its strategy. Furthermore, NWM Group's strategy may not be successfully executed or it may not meet its ambitions, targets, guidance and expectations.

Any of the above may lead to NWM Group not being a viable, competitive or profitable banking business and may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 and management actions (see the targets set forth in each respective entity's Outlook section) that rely on internal modelling and risk appetite (including under stress). As at 31 December 2023, NWM Plc's solo CET1 ratio was 17.1%. 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, 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 required 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 European Central Bank and De Nederlandsche Bank, including Pillar 2 requirements and regulatory buffers as well as any applicable scalars;

- further developments of prudential regulation (for example, finalisation of Basel 3.1 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 including on 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 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*,' '*— 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', and NWM Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests.'

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 anticipates that in 2024, it will issue £3 to 5 billion of public benchmark issuance, 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 influenced 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, 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

NWM Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options.

Liquidity and the ability to raise funds continues to be a key area of focus for NWM Group and the industry as a whole. NatWest Group and NWM Plc (on a standalone basis) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate liquidity and funding resources. To satisfy its liquidity and funding requirements, NWM Group may therefore 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 2023, NWM Group held £9.3 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, changes in customer behaviour, loss of clients and/or 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 an 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.

Macroeconomic developments, political uncertainty, changes in interest rates, and market volatility, could affect NWM Group's ability to access sources of liquidity and funding on satisfactory terms, or at all. This 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 change their funding plans and/or their funding 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 2023, NWM Group reported a liquidity coverage ratio of 183%. If its liquidity position and/or funding were to come under stress and if NWM Group is unable to raise funds through deposits, wholesale funding sources or other reliable funding sources, on acceptable terms, or at all, its liquidity position would likely 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.

If, under a stress scenario, the level of liquidity falls outside of NWM Group's risk appetite, there are a range of recovery management actions that NWM Group could take to manage its liquidity levels, but any such actions may not be sufficient to restore adequate liquidity levels, and the related implementation may have adverse consequences for NWM Group. 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 Group's applicable liquidity requirements would trigger consideration of NWM Plc's recovery plan, and in turn may prompt consideration and execution of NatWest Group's recovery plan, to attempt to remediate a deficient liquidity position.

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.

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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 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 and execution 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: 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, which may adversely affect NWM Group's operating performance.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 and funding position and increase the cost of funding.

Rating agencies regularly review NatWest Group plc, NWM Plc and other NatWest Group entities' credit ratings and outlooks. NWM Group entities' credit ratings and outlooks, could be negatively affected (directly and indirectly) by a number of factors that can change over time, including, without limitation: 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, and risk management practices; the level of political support for the sectors 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, geopolitical and economic conditions in NWM

Group’s key markets (including inflation and interest rates, supply chain disruptions and the outcome of any further Scottish independence referendum); any reduction of the UK’s sovereign credit rating and market uncertainty. In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions.

See also ‘*— A reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group may 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, any downgrade 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) liquidity and funding position, 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), on favourable terms, or at all. This may in turn adversely affect NWM Group’s competitive position and threaten its prospects.

Any of the above may have a material adverse effect on NWM Group’s future results, financial condition, prospects, and/or reputation.

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

The markets within which NWM Group operates are highly competitive, and NWM Group expects competition to continue and intensify in response to various changes including: 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 (including non-traditional financial services providers who may have competitive advantages in scale, technology and consumer engagement), competitive foreign exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new (or more competitive) banking and lending products and services offered by rapidly evolving incumbents, challengers (including shadow banks and alternative lenders, i.e. entities which carry out activities of a similar nature to banks but without the same regulatory oversight) and new entrants such as technology companies (which may result in a shift in customer behaviour) and the introduction of disruptive technology, may impede NWM Group’s ability to grow or retain its market share and impact its revenues and profitability. Moreover, innovations such as biometrics, artificial intelligence (including generative 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 digital solutions (which also comply with applicable and evolving regulations) and their integration in NWM Group’s systems and controls has become increasingly important to retaining and growing NWM Group’s competitiveness, market share and customer business-facing businesses across its geographical footprint.

There is a risk 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 strategic partnerships with third party technology providers) will not be successful or that it will not allow NWM Group to maintain or grow such innovative products and services in the future. For example, NWM Group’s current or future competitors may be more successful than NWM Group in implementing technologies for delivering products or services to their clients, which may adversely affect its competitive position. NWM Group may also fail to identify future opportunities or fail to derive benefits from technologies in a context of technological innovation, changing customer behaviour and changing regulatory demands, resulting in increased competition from traditional banking businesses as well as new providers of financial services, including technology conglomerates with strong brand recognition, that may be able to develop financial services at a lower cost base. NWM Group's competitors may also be better able to attract and retain clients and key employees, may have more effective 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 efficiencies. This could affect NWM Group's ability to offer innovative products or technologies for delivering products or services to clients, in turn affecting its competitive position. NWM Group may also fail to identify future opportunities or fail to derive benefits from technologies in a context of technological innovation, changing customer behaviour and changing regulatory demands.

Furthermore, the development of innovative products depends on NWM Group's ability to effectively produce, acquire, or manage 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 rolled out in a timely manner, it will lose market 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 automated processes and artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is not used appropriately, is defective, inadequate or is not fully integrated into NWM Group's current solutions, systems and controls. There can be no certainty that such initiatives will deliver the expected cost savings and investment in technology (including automated processes and artificial intelligence) will likely also result in increased costs for NWM Group.

In addition, the implementation of NatWest Group's strategy (including in relation to acquisitions, divestments, reorganisations and/or partnerships), delivery on its climate ambition, cost-controlling measures, as well as employee remuneration constraints, may also have an impact on NWM Group's ability to compete effectively. Intensified competition from incumbents, challengers and new entrants as well as disintermediation by large technology companies could affect NWM Group's ability to provide satisfactory returns. Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's (and NWM Group's) strategic initiatives.

Furthermore, continued consolidation or technological or other developments in the financial services industry could result in NWM Group's competitors gaining greater capital and other resources, including the ability to offer a broader and more attractive or better value range of products and services and geographic diversity, or the emergence of new competitors.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NatWest Group is subject to annual and other stress tests by its regulator in the UK. Stress tests are designed to assess the resilience of banks such as NWM Group 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 have a material adverse effect on NatWest Group's (and NWM Group's) future results, financial condition, prospects, and/or reputation.

NWM Group has significant exposure to counterparty and borrower risk including credit losses, which may have an adverse effect on NWM Group.

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 sectors, 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 (see '*The transfer of NatWest Group's Western European corporate portfolio involves certain risks*').

The credit quality of NWM Group's borrowers and other counterparties may be affected by UK and global macroeconomic and political uncertainties, prevailing economic and market conditions. These include factors relating to interest rates and inflation, changing asset prices (including residential and commercial property), energy prices, supply chain disruption, changes to monetary and fiscal policy, the impact of armed conflict, and 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, increasing credit risk. NWM Group is exposed to the financial sector, including sovereign debt securities, financial institutions, 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 or intermediary could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions and intermediaries 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 regular 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*.' and '*NWM Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options*.'

As a result, adverse changes in borrower and counterparty credit risk may cause additional 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 2023 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 without the same regulatory oversight). 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, and/or ensure effective reporting and governance in respect of shadow banking exposure, this may adversely affect NWM Group.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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). 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 external or internal fraud (collectively, 'financial crime')).

NWM Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

As model outputs are imperfect representations of real-world phenomena or simplifications of complex real-world systems and processes, and are based on a limited set of observations, model outputs therefore remain uncertain. NWM Group may face adverse consequences as a result of actions or decisions based on models that are poorly developed, incorrectly implemented, outdated or used inappropriately. This includes models that are based on inaccurate or non-representative data (for example, where there have been changes in the micro or macroeconomic environment in which NWM Group operates) or as a result of the modelled outcome being misunderstood, or by such information being used for purposes for which it was not designed. This could result in findings of deficiencies by NatWest Group's (and in particular, NWM Group's) regulators (including as part of NatWest Group's mandated stress testing) and increased capital requirements, may render some business lines uneconomic, may require management action or may subject NWM Group to regulatory sanction, any of which in turn may also have an adverse effect on NWM Group and its customers.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 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 2023, 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–Critical accounting policies*'.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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.

NWM Group's trading assets amounted to £45.3 billion as at 31 December 2023. 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 an 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 '*Operating and Financial Review – Recent Accounting Policies*'.

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 does 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 its legal or operational structure, a requirement to cease carrying out certain activities and/or to maintain a specified amount of MREL.

Any of the above may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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, the PRA and the 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 options may be applied to NatWest Group plc as the parent company or to NWM Group, as a subsidiary, 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 within NatWest Group, 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 and European regulatory authorities.

Under the UK Banking Act 2009 (the '**Banking Act'**), the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the UK 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 provides that where resolution action is taken, the Authorities are required to ensure that no creditor is in a worse position than if the bank had entered into normal insolvency proceedings. Although, this safeguard may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments in circumstances where a stabilisation power is not also used, the UK Banking Act still requires the Authorities to respect the hierarchy on insolvency when using the write-down and conversion power. Further, 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 UK 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 such that regulatory intervention is required, there may correspondingly be a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

Climate and Sustainability-Related Risks

NWM Group and its value chain face climate-related and sustainability-related risk that may adversely affect NWM Group.

NWM Group and its value chain (including its investors, customers, counterparties (including its suppliers) and employees) may face financial and non-financial risks arising from sustainability-related risks, including climate-related risks.

Climate and sustainability-related risks may:

- adversely affect asset pricing and valuations of NWM Group's own and other securities and, in turn, the wider financial system;
- adversely affect economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- adversely 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 losses stemming directly or indirectly from liability risks, and/or reputational damage, including as a result of adverse media coverage, activists, the public, customers, counterparties (including suppliers) and/or investors associating NWM Group or its customers with adverse climate and sustainability-related issues;
- adversely affect NWM Group's ability to contribute to deliver on NatWest Group's strategy, including contributing to achieve NatWest Group's climate ambitions and targets;
- exacerbate other risk categories to which NWM Group is exposed, 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), reputational risk, pension risk, regulatory compliance risk and conduct risk; and
- may have a material adverse effect on NWM Group's reputation, future results, financial condition and/or prospects (including cash flows, access to finance or cost of capital over the short, medium or long term).

Climate and sustainability matters are becoming increasingly political and polarised. Some customers, counterparties (including suppliers) and investors may decide not to do business with NWM Group because, according to their own assessment, NatWest Group (including NWM Group) strategy, ambitions and targets related to climate and sustainability do not meet their expectations, whereas others may decide not to do business with NWM Group for failing to progress to contribute to NatWest Group's climate and sustainability-related strategy, ambitions and targets or if they are of the view that they lack credibility.

If NWM Group fails to identify, assess, prioritise, monitor and react appropriately to climate and sustainability-related risks, in a timely manner or at all, climate and sustainability-related physical, transition and liability risks and opportunities, changing regulatory and market expectations and societal preferences that NWM Group, its customers, counterparties (including suppliers) face, this may have a material adverse effect on NWM Group's business, future results, financial condition, prospects, reputation or the price of its securities.

Climate-related risks may adversely affect the global financial system, NWM Group or its value chain.

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 and may disrupt the orderly functioning of financial markets and have an adverse effect on financial institutions, including NWM Group.

There are significant uncertainties as to the location, extent and timing of the manifestation of the physical impacts of climate change, such as more severe and frequent extreme weather events (storms, flooding, subsidence, heat waves, droughts and wildfires), rising average global temperatures and sea levels, nature loss, declining food yields, destruction of critical infrastructure, supply chain disruption and resource scarcity. Damage to NWM Group customers' and counterparties' (including suppliers') properties and operations could disrupt business, result in the deterioration of the value of collateral or insurance shortfalls, impair asset values and negatively impact the creditworthiness of customers and their ability and/or willingness to pay fees, afford new products or repay their debts, leading to increased default rates, delinquencies, write-offs and impairment charges in NWM Group's portfolios. In addition, NWM Group's premises and operations, or those of its critical outsourced functions may experience damage or disruption leading to increased costs. Any of these may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

To meet the goals of the UK's Net Zero Strategy will require a net-zero transition across all sectors of the UK economy.

The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve this 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 in a timely manner, or at all. NWM Group's business and customers in some sectors, including but not limited to, residential mortgages, commercial real estate, agriculture (primary farming), automotive manufacturing, aviation, shipping, land transport and logistics (freight road, passenger rail and road), electricity generation and oil and gas are expected to be particularly impacted. The timing and pace of the net-zero transition 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.

Climate-related risks may exacerbate the impact of financial and non-financial risks and they may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation, including as a result of financial losses caused directly or indirectly by climate-related litigation and conduct matters (referred to as '**liability risk**'). See also, *'— NWM Group may be subject to potential climate and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.'*

NWM Group and its value chain may, face other sustainability-related risks that may adversely affect NWM Group.

NWM Group and its value chain (including its investors, customers, counterparties (including its suppliers) and employees) may face financial and non-financial risks arising from broader (i.e. non-climate-related) sustainability issues. These include: (i) risks relating to nature loss (such as the loss and/or decline of the state of nature including but not limited to, the reduction of any aspect of biological diversity and other forms of environmental degradation such as air, water and land pollution, soil quality degradation and water stress); (ii) risks related to societal (including human rights) matters, for example, climate change and environmental degradation negatively impacting people's standard of living and health, geopolitical tensions and conflict endangering people's lives and security, the displacement of communities, the violation of indigenous people's rights, unjust working conditions and labour rights breaches (including discrimination, lack of diversity and inclusion, inequality, gender/ethnicity pay gap and payments under the minimum wage), modern slavery, financial crime, data privacy breaches and lack of support for the vulnerable; and (iii) governance-related risks (including board diversity, ethics, executive compensation and management structure).

NWM Group is directly and indirectly exposed to multiple types of nature-related risks through the breadth of its activities, products and services offering, including through the risk of default by customers whose businesses are exposed to nature-related risks. In 2021, NatWest Group (including NWM Group) first classified 'Biodiversity and Nature Loss' as an emerging risk for NatWest Group (including NWM Group) within its Risk Management Framework. From January 2024, NatWest Group (including NWM Group) has expanded its key risk definition from climate risk to climate and nature risk and updated its climate risk policy to reflect emerging nature-related risks and to capture requirements that go beyond climate risk.

NatWest Group (including NWM Group) supports the aims of the Task Force on Nature Related Financial Disclosure and continues to enhance its reporting and measurement capabilities, acknowledging challenges associated with data availability, while continuing to review evolving disclosure standards and framework. NatWest Group's (including NWM Group) approach is to integrate nature its existing strategy on climate, recognising there is still, much to do in understanding its impacts and dependencies on nature as well as its nature-related risks and opportunities.

There is also increased scrutiny from NWM Group's investors, customers, counterparties (including its suppliers), employees, communities, regulators, the media and other stakeholders on how NWM Group addresses societal and governance related matters, including unjust working conditions and labour rights breaches, resilience in the workplace, safety and wellbeing, data protection and management, workforce management, human rights and value chain management. For example, NatWest Group's (including NWM Group) ambition is to support decarbonisation while promoting energy security, may lead to continued exposure to carbon-intensive activities and sectors regarded as posing high climate and nature-related and societal (including human rights) risks, (such as the textiles, agriculture and mining sectors) each of which may impact NWM Group's employees, customers, counterparties (including suppliers) and stakeholders and their business activities and/or the communities in which they operate and, in turn, result in reputational risk for NWM Group.

There is also growing expectation of the need for a 'just transition' and 'energy justice' – in recognition that the transition to net zero should happen in a way that is as fair and inclusive as possible to everyone concerned. Although NatWest Group (including NWM Group) continues to evaluate and assess how it integrates 'just transition' considerations into its climate and sustainability strategy, a failure (or perception of failure) by NatWest Group (including NWM Group) to sufficiently factor these considerations into existing products and service offerings may adversely affect NatWest Group's (including NWM Group) reputation.

In 2023, NatWest Group (including NWM Group) published its initial assessment of its 'salient human rights issues'. Human rights saliency assessments are high-level scoping exercises based on internal and external stakeholder engagement and involve subjective materiality and other judgements including as to severity and likelihood of human rights impacts. Failure by NatWest Group (including NWM Group) to identify, assess, prioritise and monitor any actual or potential adverse human rights issues that NatWest Group (including NWM Group) contributes to, or is directly linked to, may adversely impact people and communities, which in turn may have a material adverse effect on NWM Group's future results, financial condition, prospects and/or reputation.

Sustainability-related risks may have the potential to cause or stress other financial and non-financial risks, including climate-related risks, and they may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation, including as a result of financial losses caused directly or indirectly by sustainability-related litigation and conduct matters (referred to as '**liability risk**'). See also, '*— NWM Group may be subject to potential climate and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk*'.

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

NatWest Group has an ambition to become a leading bank in the UK, helping to address the climate challenge.

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 strategic direction on 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 across its financed emissions, assets under management and operational value chain by 2050. Further, in December 2022, NatWest Group published its science-based targets validated by Science Based Target Initiative for 79% of its lending book as at 31 December 2019 and 57% of debt securities and equity shares, excluding sovereign debt securities.

NatWest Group has also announced and in the future it may also announce other climate ambitions, targets and initiatives which support its aim to help addressing the climate challenge.

Making the changes necessary to contribute to achieving NatWest Group's strategic direction on climate change, including contributing to achieve NatWest Group's climate ambitions and targets and contributing to execute NatWest Group's transition plan, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material 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). NWM Group may be required to (i) significantly reduce its financed emissions and its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place, and (ii) divest or discontinue certain activities for regulatory or legal reasons or in response to the transition to a less carbon-dependent economy. 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.

Making the necessary changes (or not making the necessary changes in a timely manner, or at all) may have a material adverse effect on NWM Group's business and operations, financial condition, prospects and competitive position and NWM Group's ability to contribute to achieving NatWest Group's climate and financial ambitions and targets, take advantage of climate change-related opportunities and generate sustainable returns.

NWM Group's ability to contribute to achieving NatWest Group's strategy, including contributing to achieve NatWest Group's climate ambitions and targets, will significantly depend on many factors and uncertainties beyond NWM Group's control. These include (i) the extent and pace of climate change, including the timing and manifestation of physical and transition risks; (ii) the macroeconomic environment; (iii) the effectiveness of actions of governments, legislators, regulators and businesses; (iv) the response of the wider society, investors, customers, suppliers and other stakeholders to mitigate the impact of climate and sustainability-related risks; (v) changes in customer behaviour and demand; (vi) appetite for new markets, credit appetite, concentration risk appetite, lending and underwriting opportunities; (vii) developments in the available technology; (viii) the roll-out of low carbon infrastructure; and (ix) the availability of accurate, verifiable, reliable, auditable, consistent and comparable data. These external factors and other uncertainties will make it challenging for NWM Group to contribute to achieving NatWest Group's climate ambitions and targets and there is a significant risk that all or some of these ambitions and targets will not be achieved or not achieved within the intended timescales.

NWM Group's ability to contribute to achieving NatWest Group's climate ambitions and targets depends to a significant extent on the timely implementation and integration of appropriate government policies.

The UK CCC June 2023 Progress Report to the UK Parliament states that the rate of emissions reduction will need to significantly increase for the UK to meet its 2030 commitments and continued delays in policy development and implementation mean achievement is increasingly challenging. On 20 September 2023, the UK Government announced its revised plans on reducing emissions to reach net zero, including (i) delaying the proposed ban on the sale of petrol and diesel cars to 2035; (ii) not proceeding with new policies forcing landlords to upgrade the energy efficiency of their properties; and (iii) delaying the ban on new fossil fuel boilers for certain households. Accordingly, NatWest Group (including NWM Group) considers achievement of the following ambitions increasingly challenging (i) 50% of NatWest Group's mortgage portfolio to have an EPC rating of C or above by 2030; and (ii) to at least halve the climate impact of NatWest Group's financing activity by 2030, against a 2019 baseline.

NatWest Group (including NWM Group) has also stated that it plans to phase-out 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. Data challenges, particularly the lack of granular customer information, creates challenges in identifying customers with 'coal related infrastructure' (e.g. transportation and storage) and other customers with 'coal- related operations' within NatWest Group's (including NWM Group) large and diversified customer portfolios. Therefore, there is a risk that some customers with UK-based coal activities may not have been identified and that NatWest Group (including NWM Group) will not be able to identify all relevant activities to achieve these coal phase-out plans.

Any delay or failure by NWM Group in contributing to set, make progress against or meet NatWest Group's climate-related ambitions, targets and plans may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation and may increase the climate and sustainability-related risks NWM Group faces.

There are significant limitations related to accessing accurate, reliable, verifiable, auditable, consistent and comparable climate and other sustainability-related data that 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, verifiable, auditable, consistent and comparable climate and sustainability-related data from counterparties (including suppliers) or customers. Data may not be generally available or, if available, may not be accurate, reliable, verifiable, auditable, consistent, or comparable. Any failure of NWM Group to proportionately collect or develop accurate, reliable, verifiable, auditable, consistent and comparable counterparty (including supplier) and customer data, may adversely affect NWM Group's ability to prepare meaningful reporting which is relevant, represented in an accurate, verifiable, comparable and understandable way of the climate and sustainability-related risks and opportunities, which may adversely affect NWM Group's ability to meet external disclosure obligations and its reputation, business and its competitive position.

In the absence of other sources, reporting of financed emissions, facilitated emissions and other sustainability data 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, judgements and estimates than many of its financial disclosures.

These assumptions, judgements and estimates are highly likely to change materially 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 sector and other assumptions that may not be accurate for a given counterparty (including supplier) or customer. There may also be data gaps that are filled using proxy data, such as sectoral averages or use of emissions estimated by a third party, again developed in a variety of ways and in some cases not in a timely manner causing data to be potentially outdated at the time when they are used.

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate and sustainability-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 world's transition to a net-zero economy will unfold over time and how and when climate and sustainability-related risks will manifest. These timeframes are considerably longer than NWM Group's historical and current strategic, financial, resilience and investment planning horizons.

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 may have a material impact on NWM Group's ability to make effective business decisions about climate and sustainability-related risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions, targets and pathways.

Climate-related risks are challenging to model due to their forward-looking nature, the lack of and/or quality of historical testing capabilities, lack of accuracy, standardisation and incompleteness of emissions and other climate and sub-sector related data and the immature nature of risk measurement and modelling methodologies. As a result, it is very difficult to predict and model the impact of climate-related risks into precise financial and economic outcomes.

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 NWM 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 NWM Group that 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 presumably evolve rapidly in the coming years;

- the number of variables and the 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 continue to evolve 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 financed emissions.

The calculation method for facilitated emissions in respect of capital markets activities is still in the process of developing and to date there is no unified industry approach. Therefore, measuring, monitoring and reporting on facilitated emissions will present similar data and modelling challenges as described above for on balance sheet financed emissions.

Accordingly, these risks and uncertainties coupled with significantly long timeframes make the outputs of climate-related risk modelling, climate-related targets (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 climate-related risks and the monitoring and mitigation of these risks in the economy and financial system.

There is increasing industry concern (acknowledged by the Network for Greening the Financial System) that model scenarios, including those provided by central banks and supervisory bodies and are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible ‘tipping points’ that could lead to large, irreversible changes in the climate system (for example the melting of permafrost or the Greenland and Antarctic ice sheets).

Capabilities within NWM Group to appropriately assess, model, report and manage climate-related risks and impacts and the suitability of the assumptions required to model and manage climate-related risks appropriately continue to develop. But such development is still in its early stages. Even when those capabilities are appropriately 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 or regulatory non-compliance all of which may have a material adverse effect on NWM Group’s business, future results, financial condition, prospects, reputation and the price of its securities.

Failure to implement effective governance, procedures, systems and controls in compliance with legal, regulatory requirements and societal expectations to manage climate and sustainability-related risks and opportunities could adversely affect NWM Group.

The UK’s prudential regulation of climate-related risk management is an important driver in how NatWest Group (including NWM Group) develops its associated risk framework for financing activities or engaging with counterparties (including suppliers). Legislative and regulatory authorities are publishing expectations as to how banks should prudently manage and transparently disclose climate and sustainability-related risks. In the UK this includes the Bank of England’s Supervisory Statement 3/19 on the management of climate-related financial risks, covering governance, risk management, scenario analysis and disclosure which sets out expectations that firms, such as NatWest Group (including NWM Group), take a strategic approach to managing climate-related financial risks, identifying current risks and those that can plausibly arise in the future, and appropriate actions to mitigate those risks.

In March 2023 the Bank of England published a report setting out its latest thinking on climate-related risks and regulatory capital frameworks. It found there to be uncertainty over whether banks are sufficiently capitalised for future climate-related losses, and it stated that it will undertake further analysis to explore whether changes to the regulatory capital frameworks may be required.

Any failure of NatWest Group (including NWM Group) to fully and timely embed climate and other sustainability-related risks into its risk management practices and framework to appropriately identify, assess, prioritise and monitor the various climate-related physical and transition risks and other sustainability-related risks and apply the appropriate product governance process in line with applicable legal and regulatory requirements and expectations, may adversely affect NWM Group's regulatory compliance, prudential capital requirements, liquidity position and this may have a material adverse effect on NWM Group's business, future results, financial condition, prospects, reputation or the price of its securities.

Increasing levels of climate and other sustainability-related laws, regulation and oversight may adversely affect NWM Group.

NatWest Group as well as its subsidiaries in the UK, EU and elsewhere are increasingly becoming subject to more extensive climate and sustainability-related legal and regulatory requirements. In the UK, these include mandatory requirements by the FCA and under the Companies Act 2006 to make climate-related disclosures consistent with the recommendations of the Task Force on Climate related Financial Disclosures. In addition, in August 2023 the FCA set out its intention to consult in 2024 on rules and guidance for listed companies to disclose in line with the UK-endorsed ISSB standards and the Transition Plan Taskforce Disclosure Framework published in October 2023 as a complementary package. Further regulatory requirements may emerge as part of the developing UK sustainability-related disclosure requirements. In the EU, these climate and sustainability-related legal and regulatory requirements include the EU Taxonomy, the EU Corporate Sustainability Reporting Directive ('**CSRD**'), the EU Green Bond Standard and proposed EU Corporate Sustainability Due Diligence Directive ('**CSDDD**').

Certain non-UK subsidiaries of NatWest Group in the EU and elsewhere may also be subject to EU, national and other climate and sustainability laws and regulations which in some cases may differ.

For example, NatWest Group's Dutch subsidiary, NWM N.V., is subject to the EU Taxonomy, CSRD, the proposed CSDDD and other legal, regulatory and supervisory expectations relating to climate-related and environmental risk management and disclosure. A failure of NWM Group or any of its subsidiaries including NWM N.V., to comply with these regulations, whether through insufficient resources, expertise, support, customer and counterparty data challenges or otherwise may have an adverse effect on NWM Group's reputation and the successful contribution to the implementation of NatWest Group's strategy.

In some jurisdictions, particularly the United States, regulatory and enforcement activity around climate and sustainability initiatives is becoming increasingly politicised. This has resulted in a polarisation between promoting more extensive climate and sustainability-related requirements, such as the SEC climate disclosure rules, and challenging climate and sustainability-related initiatives on the basis of allegations that they could breach applicable laws.

Divergence between UK, EU, US and other climate and sustainability-related legal and regulatory requirements and their interpretation may increase the cost of doing business (including increased operating costs), may result in contentious regulatory and litigation risk, may require changes to NWM Group's business and may restrict NWM Group's access to the EU/EEA and US capital markets.

Failure to comply with these divergent legal and regulatory requirements which are applicable to NWM Group may result in NWM Group and/or its subsidiaries not meeting applicable regulatory requirements or investors' expectations. Compliance with these complex and evolving climate and sustainability-related legal and regulatory requirements and voluntary standards and initiatives is likely to require NWM Group to implement significant changes to its business models, IT systems, products, governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, result in higher capital requirements and entail additional change risk and increased compliance, regulatory sanctions, conduct and litigation (including settlements) costs.

Failure to implement and comply with these requirements, standards and initiatives may also result in investigations and/or regulatory sanctions, reputational damage and investor disapproval each of which may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

Increasing regulation of "greenwashing" is likely to increase the risk of regulatory enforcement and investigation and litigation.

Misrepresenting or over-emphasising the extent to which an investment or other type of product takes into account 'green', '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 investigation and/or sanction, claims and/or litigation and/or reputational damage.

This risk is likely to increase as the UK and other jurisdictions implement and enforce new anti-greenwashing regulations. For example, the FCA's Sustainability Disclosure Requirements and investment labels policy statement (PS 23/16) published in November 2023 includes a general anti-greenwashing rule that requires regulated firms (such as NWM Plc) to ensure that sustainability claims in financial promotions of their products and services are consistent with the sustainability characteristics of the product or service and are fair, clear and not misleading. The FCA has stated that it would publish guidance as to how regulated firms should comply with its anti-greenwashing rule including the requirements for sustainability claims that will become effective on 31 May 2024 (currently the subject of FCA consultation paper (GC23/3)). In the EU the European Commission has proposed a Green Claims Directive which will address false environmental claims and the proliferation of environmental labels by requiring certain claims to be substantiated with scientific evidence and independently verified.

NatWest Group (including NWM Group) plans to invest in voluntary carbon credits to mitigate emissions beyond its own value chain whilst transitioning towards a state of net zero emissions by 2050. NatWest Group (including NWM Group) may also be involved in trading voluntary carbon credits with its clients, or facilitating clients to trade these credits. Financial market and platform regulators are increasingly taking an interest in the voluntary carbon market and voluntary carbon credits retired, sold or traded by financial institutions or used by them as part of their own emissions reduction plans. NWM Group could potentially be exposed to financial, litigation, regulatory enforcement and reputational risk where it retires, facilitates or is otherwise associated with voluntary carbon credit transactions or use (including use to offset own emissions). This includes where voluntary carbon credits are not of sufficient quality, potential issues or risks with respect to such carbon credits (or projects through which they are generated) are not adequately disclosed or stated benefits are exaggerated or misleading and/or such carbon credits are used either by NWM Group or by a third party organisation (such as a customer) as a substitute for achieving appropriate emissions reductions in their own operations.

Any failure of NWM Group to implement robust and effective climate and sustainability-related disclosure, communications and 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 adversely affect NWM Group's regulatory compliance, future results, financial condition, prospects and/or reputation and could give rise to increased regulatory enforcement, investigation and litigation.

NWM Group may be subject to potential climate 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, nature-related degradation, human rights violations and other social, governance and sustainability-related issues.

These risks may arise, for example, from claims pertaining to:

- 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 appropriate, balanced, clear, complete, correct, fair, meaningful, understandable disclosure (which is capable of being substantiated) to investors, customers, counterparties (including suppliers) and other stakeholders;

- 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;

- marketing that portrays products, securities, activities or policies as having positive climate, nature-related 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;

- damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks;

- 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;

- changes in the understanding of what constitutes positive climate, nature-related 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;

- any weaknesses or failures in specific systems or processes associated particularly with climate, nature-related 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;

- counterparties, collaborators, customers to whom 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 NWM Group's reputation or sustainability credentials; or

- NWM Group's or its customers', counterparties' (including suppliers') involvement in, or decision not to participate in, certain industries or projects associated with causing or exacerbating climate change and nature-related degradation.

Furthermore, there is a risk that shareholders, campaign groups, customers and activist groups could seek to take legal action against NWM Group for financing or contributing to climate change, nature-related degradation and human rights violations, failure to implement or follow adequate governance procedures 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 an increase in the number of legal, conduct and regulatory claims, as well as an increase in the variety of legal bases being alleged, remedies sought and amount of damages awarded in legal, conduct and regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions for climate and sustainability matters. There is a risk that as climate, nature-related and environmental science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate and the broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NWM Group. There is also an increase in enforcement and litigation focusing on challenging public and private sector sustainability policies and initiatives intended to address climate change and nature-related degradation. 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.*' In addition, supervisors and regulators are increasing their enforcement focus on climate and sustainability-related matters. For example, the ECB has stated that enforcement measures in the form of periodic penalty payments may be imposed on banks that do not fully align with ECB supervisory expectations of sound practices for managing climate and environmental risks.

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

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

ESG ratings from agencies and data providers which rate how NatWest Group (including NWM Group) or NWM Group manages environmental, social and governance risks are increasingly influencing investment decisions pertaining to NatWest Group's and/or NWM 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 often (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 and certain of its subsidiaries offer and sell products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency or data providers. 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 second party opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. Any material reduction in the ESG ratings of NatWest Group (including NWM Group) or NWM Group may 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 potentially affect the pricing of securities issued by NWM Group and/or its subsidiaries and could affect a customer's willingness to deal with NWM Group. A regulatory sanction or enforcement action involving an ESG rating agency used by a NatWest Group or NWM Group entity could also have a negative impact on NWM Group's reputation, future results, financial condition, prospects, and/or reputation.

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, third party processes, procedures, people or systems. 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 strategy, and the organisational and operational changes involved, including NatWest Group's phased withdrawal from ROI; NatWest Group's current cost-controlling measures; the progression towards working as One Bank across NatWest Group to serve customers; and conditions affecting the financial services industry generally (including macroeconomic and other geopolitical developments) as well as the legal and regulatory uncertainty resulting from these conditions. It is unclear as to how the future ways of working may further 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 place significant pressure on NWM Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group has 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, legal, risk, regulatory compliance and reporting, financial crime, human resources, and certain other support and administrative functions. A failure by NatWest Bank Plc 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.

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, prospects, and/or reputation.

NWM Group is subject to 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 and 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 2023, NatWest Group and its supply chain were subjected to a small number of Distributed Denial of Service and ransomware attacks, which are a pervasive threat to the financial services industry (including NWM Group). The focus is to manage the impact of the attacks and sustain availability of services for NWM Group's customers. Consequently, NWM Group continues to invest significant resources in developing and evolving of cybersecurity controls that are designed to minimise the potential effect of such attacks. Third parties continue to make hostile attempts to gain access to, introduce malware (including ransomware) into and exploit potential vulnerabilities of NWM Group's IT systems.

NWM Group has information and cybersecurity controls that seek to minimise the impact of any such attacks, which are subject to review on a regular basis, but given the nature of the threat, there can be no assurance that such measures will prevent the potential adverse effect of an attack 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 information and cybersecurity policies, procedures or controls, may result in significant financial losses, major business disruption, inability to deliver customer services, or loss of, or ability to access, 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 (including for example, the new SEC cybersecurity requirements). Furthermore, cyberattacks on NWM Group's counterparties and suppliers may also have an adverse effect on NWM Group's operations.

Additionally, third parties may induce employees, customers, third party providers or other users with access to NWM Group's systems to wrongfully disclose sensitive information 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.

NWM Group expects greater regulatory engagement, supervision and enforcement to continue 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. 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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, innovate its products offering, meet its regulatory obligations, and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around ethical data usage (for example, in relation to the use of artificial intelligence) 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.

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 (including for technology and data focused roles), in a highly competitive market, in an era of strategic change and under internal cost-reduction pressures. In February 2024, NatWest Group plc (NWM Group's parent entity) appointed a new CEO with immediate effect. This followed a prior appointment on an initial 12-month basis in July 2023.

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, may 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.

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 may 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.

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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 system failure, loss of service availability or breach of data security could potentially 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 and talent.

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 remote 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 NWM Group or 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 2023, NWM Group made 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 cybersecurity. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, may adversely affect 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 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 delivery of 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 inaccurate adherence to agreed risk appetite statements and accurate risk reporting of 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 commence or 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/or reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyberattacks or other criminal activity. These risks are exacerbated as NWM Group continues to innovate its product offering and increasingly offers digital solutions to its customers. NatWest Group (including 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, inappropriate behaviour towards customers, customer outcomes, 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, contractor, or service providers 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 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 and increase operational risk. 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 seeks to embed a risk awareness 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 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 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's future results, financial condition, prospects, and/or reputation and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

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 strategy and related targets, NWM Group's strategy, 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, stakeholders and regulators, 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, or regulatory or press scrutiny, and may adversely affect NWM Group's ability to attract and retain clients. In particular, NWM Group's ability to attract and retain clients, and talent, and engage with counterparties 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.

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 identify, measure and manage material reputational risk exposures, NWM Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

Any of the above aspects of reputational risk may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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.

Regulators and governments continue to focus 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, through initiatives such as the Basel 3.1 standards implementation (and any resulting effect on RWAs and models), the UK ring-fencing regime, the 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 the FSM Act 2023), LIBOR transition, corporate governance requirements, rules relating to the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms, enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection (such as the FCA's Consumer Duty) in retail or other financial markets, 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 also looking at and focusing more on how they can support competition and innovation in digital and other markets.

Recent regulatory changes 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 may 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 or appropriation 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 (No 2) and in India, the Digital Personal Data Protection Bill 2022;

- the introduction of, and changes to, taxes, levies or fees applicable to NWM Group's operations, such as the 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;

- 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 ongoing regulatory scrutiny; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group (of which NWM Group is a part of);

- 'Dear CEO' letters issued by the Bank of England from time to time;

- recent or proposed US regulations around cybersecurity incidents, climate disclosures, and other climate and sustainability-related rules;

- new or increased regulations relating to financial crime (including the new criminal offence of failure to prevent fraud); and

- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act).

Any of these developments (including any failure to comply with new rules and regulations) could also have an adverse effect 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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

NWM Group is, has recently been or 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 that was agreed with the US Department of Justice ('**DOJ**'), and involves a multi-year period of probation, an independent corporate monitor and the ongoing implementation of recommendations made by it, and commitments to compliance programme reviews and improvements and reporting obligations. In the event that NWM Plc does not meet its obligations to the DOJ, this may lead to adverse consequences such as increased costs from any extension of monitorship and/or the period of the probation, findings that NWM Plc violated its probation term and possible re-sentencing, amongst other consequences.

For additional information relating to this and other legal and regulatory proceedings and matters to which NWM Group is currently exposed, see Note 25 ('Litigation and Regulatory Matters') to the 2023 Financial Statements.

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. 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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—Critical accounting policies*', 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 £55 million as at 31 December 2023. 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 may have a material adverse effect on NWM Group's future results, financial condition, prospects, and/or reputation.

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 2023 Financial Statements and 2022 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 2023, 2022 and 2021 and have been audited by Ernst & Young LLP. The Financial Statements and the reports of Ernst & Young LLP on the 2023 Financial Statements and the 2022 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		
	2023	**2022**	**2021**
		£m	
Interest receivable	2,186	745	343
Interest payable	(1,831)	(654)	(335)
Net interest income	355	91	8
Fees and commissions receivable	377	349	262
Fees and commissions payable	(175)	(158)	(104)
Income from trading activities	477	389	263
Other operating income	35	18	(28)
Non-interest income	714	598	393
Total income	1,069	689	401
Staff costs	(418)	(400)	(498)
Premises and equipment	(66)	(60)	(110)
Other administrative expenses	(642)	(652)	(522)
Depreciation and amortisation	(16)	(16)	(20)
Operating expenses	(1,142)	(1,128)	(1,150)
Loss before impairment (losses)/releases	(73)	(439)	(749)
Impairment (losses)/releases	(2)	(8)	35
Operating loss before tax	(75)	(447)	(714)
Tax (charge)/credit	(23)	183	223
Loss for the year	(98)	(264)	(491)

Balance Sheet Data

	NWM Group			NWM Plc		
	As at 31 December			As at 31 December		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**
		£m			**£m**	
Assets						
Cash and balances at central banks	13,831	17,007	16,645	8,607	13,467	12,294
Trading assets(1)	45,324	45,291	59,101	28,411	27,301	41,222
Derivatives	79,332	100,154	105,550	75,832	96,258	103,042
Settlement balances	7,227	2,558	2,139	2,168	1,686	795
Loans to banks – amortised cost	1,246	1,146	962	910	815	712
Loans to customers – amortised cost	12,986	10,171	7,471	12,104	9,154	6,810

	NWM Group			NWM Plc		
	As at 31 December			As at 31 December		
	2023	2022	2021	2023	2022	2021
		£m			£m	
Amounts due from holding company and fellow subsidiaries	1,730	740	1,479	6,472	6,665	6,723
Other financial assets	15,723	11,870	8,786	13,444	10,377	7,743
Investments in group undertakings	—	—	—	2,320	2,626	2,481
Other assets(2)	518	832	878	390	712	732
Total assets	177,917	189,769	203,011	150,658	169,061	182,554
Liabilities						
Bank deposits	2,267	3,069	1,808	1,909	2,936	1,808
Customer deposits	6,998	3,614	2,268	3,060	2,665	1,510
Amounts due to holding company and fellow subsidiaries	5,802	6,217	6,126	14,385	12,867	10,978
Settlement balances	6,641	2,010	2,068	400	1,133	1,028
Trading liabilities(1)	53,623	52,792	64,482	34,079	33,225	47,119
Derivatives	71,981	93,585	98,497	69,404	90,754	95,096
Other financial liabilities	23,574	21,103	19,255	20,655	18,396	16,877
Other liabilities(2)	653	816	1,055	453	567	789
Total liabilities	171,539	183,206	195,559	144,345	162,543	175,205
Owners' equity	6,380	6,565	7,455	6,313	6,518	7,349
Non-controlling interests	(2)	(2)	(3)	—	—	—
Total equity	6,378	6,563	7,452	6,313	6,518	7,349
Total liabilities and equity	177,917	189,769	203,011	150,658	169,061	182,554

(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 2023 and 2022—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021—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 2023 and 2022—Balance Sheet*' and '*Operating and Financial Review—Consolidated Financial Information for the Years Ended and as at 31 December 2022 and 2021—Balance Sheet.*'

Other Data

Key metrics and ratios(1)	As of the year ended 31 December 2023	2022	2021
LCR (%)(2)(3)	183	253	205
Liquidity portfolio (£bn)(4)	14.7	19.1	16.1
Stressed coverage ratio (%)(2)(5)	162	199	146
Total wholesale funding (£bn)(6)	25.1	23.5	21.1
Total funding including repo (£bn) (7)	82.4	77.0	68.8
Common Equity Tier (CET 1) ratio (%)(8)	17.1	17.2	17.9
Leverage ratio (%)(9)	5.0	5.4	4.3
Risk-weighted assets (RWAs) (£bn)(10)	22.1	21.4	22.7
Total Capital ratio (%)(11)	23.0	25.7	25.9
Total MREL (£bn)(2)(12)	7.6	8.7	9.6
MREL ratio (%)(2)(12)(13)	34.5	40.4	42.1

(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.

(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 2023 and 2022 liquidity portfolio metrics aligns the liquidity values to the regulatory LCR basis. The 2021 liquidity portfolio metric aligns to the internal SOC measure, 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) See '*Operating and Financial Review–Funding and Liquidity–Funding*' and '*Selected Statistical Data and Other Information –Deposits and Short-Term Borrowings*.'

(8) 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.

(9) 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 ratios for 31 December 2022 and December 2023 in the above table reflect the UK leverage ratio for NWM Plc, as per the new framework. The comparative for 31 December 2021 reflects the previous CRR framework which was applicable prior to 1 January 2022.

(10) 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.

(11) A regulatory measure which assesses total capital held as a percentage of RWAs.

(12) Includes senior internal debt instruments issued to NatWest Group plc with a regulatory value of £2.6 billion (31 December 2022 - £3.2 billion, 31 December 2021 - £3.7 billion).

(13) A measure of the total resources that would be available in an ordinary resolution situation. It is calculated as total regulatory capital and 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 2023 Financial Statements and 2022 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, risk management, financing, and advisory services, principally to corporates, sponsors, financial institutions and sovereigns as well as customers of the broader NatWest Group.

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.

In addition to serving its own customers, NWM Group provides Fixed Income, Currencies and Capital Markets products to corporate, commercial, business and select retail clients of other NatWest Group entities. Revenue share arrangements are in place, pursuant to which a proportion of the income generated by NWM Group products from customers that have their primary relationship with other NatWest Group subsidiaries is shared between NWM Group and those subsidiaries. Approximately 21 per cent of NWM Group's total income for the year ended 31 December 2023 was sourced from customers referred to NWM Group by other NatWest Group entities, compared to 35 per cent for the year ended 31 December 2022. The percentage decrease largely reflects higher income in 2023 in areas not subject to revenue share, as well as additional income recognised pursuant to the Profit Share Arrangement in an amount of £177 million.

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 specialists 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 2023, 78 per cent (2022 - 73 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2022 - 14 per cent) was generated in the US and 8 per cent (2022 - 13 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. 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, 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.

NWM Group supports NatWest Group's strategy which 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 significant contribution to the issues that are impacting its customers, being Enterprise, Learning and Climate change. As part of this 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 was completed in 2022. In addition, NWM Group's climate strategy is designed to support NatWest Group's climate ambition and is focused on helping customers achieve their climate goals by supporting their transition to a low carbon economy while managing NWM Group's own operations with respect to carbon emissions.

NWM Group forms part of NatWest Group's C&I segment, which was created in 2022 and combined the previously separate Commercial, NatWest Markets and RBS International businesses to better support NatWest Group customers across the full non-personal customer lifecycle.

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

Metric	**Estimate**
CET 1 ratio(1)	~14%
MREL ratio(1)(2)	>30%
Leverage ratio	>4%

(1) CET 1 stands for Common Equity Tier 1 capital and MREL refers to the minimum requirement for own funds and eligible liabilities.

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

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 C&I segment, which brought together the previously separate 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 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 2023 and 2022*.'

NWM Group presents a management view of income by business, including separate itemisation of transfer pricing arrangements with fellow NatWest Group subsidiaries; own credit adjustments ('**OCA**'); income including shared revenue and before OCA; and income excluding OCA.

Transfer pricing arrangements with fellow NatWest Group subsidiaries include:

- Revenue share arrangements pursuant to which a proportion of the income generated by NWM Group products from customers that have their primary relationship with other NatWest Group subsidiaries is shared between NWM Group and those subsidiaries.
- A profit share arrangement that was entered into during 2023 between NWM Group and fellow NatWest Group subsidiaries to reward NWM Group on an arm's length basis for its contribution to the performance of the NatWest Group Commercial & Institutional business segment, of which NWM Group forms part. The profit share is not allocated to individual NWM Group product areas.

OCA's are applied to positions for which NWM Group believes that the counterparties would consider NWM Group's creditworthiness when pricing trades. The fair value of certain issued debt securities, including structured notes, is adjusted to reflect the changes in own credit spreads and the resulting gain or loss recognised in income.

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.

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. In response, central banks tightened monetary policy through 2023. 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.

There has been migration of some positions from IFRS 9 Stage 1 to Stage 2 ECL, primarily due to business growth in the lending book (the ECL profile was broadly stable). The IFRS 9 Stage 1 and Stage 2 ECL provisions increased from £28 million to £32 million in 2023. Stage 3 ECL provisions reduced from £26 million to £24 million in 2023. As a result, the total ECL provisions balance rose from £54 million to £57 million and the full year impairment charge for 2023 was £2 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.

	2023	**2022**	**2021**
UK Gross Domestic Product Growth YoY (%)......................................	0.1	4.3	8.7
UK unemployment rate (October-December) (%)	3.8	3.9	4.2
Number of people in employment in the UK (October-December) (millions)	33.2	33.1	32.7
BoE base rate as at 31 December (%)	5.25	3.5	0.25

In the UK, for 2023 as a whole, GDP grew by 0.1 per cent compared to a 4.3 per cent rise in 2022. Growth was weak in the aftermath of the sharp rise in inflation and interest rates, constraining household spending and broader economic activity. Between the third and fourth quarter of the year ended 31 December 2023 business investment increased by 1.5 per cent, and was up 3.7 per cent compared with the same period in the year ended 31 December 2022.

The labour market tightened in 2023 with the number of people in employment increasing to 33.2 million in the year ended 31 December 2023, from 33.1 million in the year ended 31 December 2022. The unemployment rate remained broadly flat at 3.8 per cent in the year ended 31 December 2023, compared to 3.9 per cent in the year ended 31 December 2022. Total average pay growth was 5.8 per cent in the 3 months ended 31 December 2023, down from 6.3 per cent in the 3 months ended 31 December 2022 and vacancies fell to 932,000 in the three months to January 2024, a decrease of 228,000 from the same period a year ago. Continuously high inflation numbers prompted the BoE to hike the BoE base rate in fourteen consecutive meetings over the course of 2022 and 2023 to a base rate of 5.25 per cent by August 2023, leaving the rate unchanged in its most recent meetings.

The IMF estimates that global growth was 3.1 per cent in 2023 and expects global growth to stay at that rate in 2024. The US economy grew 2.5 per cent, while Euro Area growth remained broadly flat at 0.5 per cent in the year ended 31 December 2023. UK economic growth decreased by 0.3% in the three months ended 31 December 2023, driven partly by a 0.3 per cent decline in real government expenditure, linked to an increase in strikes in the health sector. Households' real expenditure fell by a further 0.1% during the same period.

Strategic changes to NWM Group's scope of activities

On 14 February 2020, NatWest Group announced a strategy that required 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.

NWM Group incurred an operating loss before tax of £75 million in 2023, and it is currently anticipated that NWM Plc will continue to generate operating losses in the short-term and as a result its capital levels may decline.

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. In September 2023, HM Treasury published a consultation on draft secondary legislation designed to implement certain reforms to the UK ring-fencing regime based on the recommendations of the Skeoch report, including increasing the ring-fencing deposit threshold from £25 billion to £35 billion of core deposits and exempting retail banks with trading assets of less than 10% of tier 1 capital from the ring-fencing regime (unless they are part of a global systemically important bank). In addition, HM Treasury intends to announce longer-term reforms to the UK ring-fencing regime in 2024. NatWest Group is expecting to be involved in any further consultations relating to reform of the UK ring-fencing regime.

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

Intermediate EU parent undertaking

NatWest Group, which is classified by the ECB as a 'third-country group' with two or more subsidiary banking institutions in the European Union ('**EU'**), was authorised by the ECB to establish a dual Intermediate EU Parent Undertaking ('**IPU'**) structure on behalf of its European subsidiaries. To that effect, RBS Holdings N.V. ('**RBSH N.V.**'), a wholly-owned subsidiary of NWM Plc, was designated to act as the IPU outside of the NatWest Group ring-fenced sub-group and is subject to ECB supervision since 1 January 2024. Relatedly, on 1 December 2023, RBS International Depositary Services S.A.'s ('**RBSI DS**') immediate parent company changed from Royal Bank of Scotland International (Holdings) Limited ('**RBSIH**') to RBSH N.V. following supervisory approval.

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. A number of temporary equivalence decisions have been made which cover clearing and access to central securities deposits, but these do 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. However, the Memorandum of Understanding was not signed until 27 June 2023. The Memorandum of Understanding creates the framework for voluntary regulatory cooperation, coordination and dialogue in financial services between the UK and the EU. (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 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 2023, no contingent liabilities and commitments were transferred from NWB to NWM N.V. in relation to the Transfer Business (2022 - €0.5 billion). The total contingent liabilities and commitments transferred from NWM N.V. to NWB in 2023 was nil (2022 - nil). An amount of €0.1 billion (2022 – nil) of contingent liabilities and commitments was transferred from NWM N.V. to NWM Plc. As part of a larger initiative to increase the size and diversity of the banking book portfolio, €0.3 billion of contingent liabilities and commitments and €0.1 billion of drawn balances were transferred from NWB to NWM N.V. in 2022.

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. See also *'—Relationship with NatWest Group'* below.

NWM N.V. is 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 2023 the deposits amounted to €0.8 billion and the guaranteed fees in the year were €5.3 million.

- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2023 the exposure at default covered by the guarantees was approximately €0.2 billion (of which €31 million was cash collateralised). Fees of €1.6 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 income from customers of the Revenue Sharing Entities and expects this to continue. Accordingly, it has and expects to continue to pay or contribute, under the Revenue Sharing Agreements, a significant amount of income to the Revenue Sharing Entities. For example, in the year ended 31 December 2023, NWM Group paid to or contributed £210 million in income, representing approximately 20 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), which is higher compared to the year ended 31 December 2022 which amounted to £191 million, or 28 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.

Profit Share Arrangement

In 2023 NWM Group entered into a profit share arrangement with fellow NatWest Group subsidiaries, pursuant to which NWM Group will be compensated on an arm's length basis for its contribution to the performance of the NatWest Group Commercial & Institutional business segment, of which NWM Group forms part. The amount recognised in income for 2023 in relation to the Profit Share Arrangement was £177 million.

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:

- Basel 3.1 is expected to be effective in the UK from 1 July 2025. The effective impact of the Basel 3.1 reforms is expected to result in an increase of NWM Group's RWAs on 1 July 2025.

- 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 Net Stable Funding Ratio ('**NSFR**').

- European Market Infrastructure Regulation ('**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 recently started to diverge from these EU standards and it is likely that the UK will continue to diverge 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 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 have driven 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 had 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 would cease, after which representative LIBOR rates would 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 continued 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 continued to be calculated using panel bank submissions until 30 June 2023, although its use for new business was restricted from end-2021, with limited exceptions. The FCA announced earlier in 2023 that it was requiring LIBOR's administrator, ICE Benchmark Administration, to publish 1-, 3- and 6-month US dollar LIBOR settings using a synthetic methodology. The FCA expects these settings to cease permanently at the end of September 2024.

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 2023, corporate and investment banks continued to navigate elevated geopolitical risks and a shifting macroeconomic environment underpinned by rising interest rates and inflation. Peers continued to focus on expanding ESG and sustainable financing solutions, as well as exploring the application of new technologies (including artificial intelligence ('**AI**')). Competition also continues from non-bank liquidity providers using low-latency and algorithmic trading to participate in high-volume flow markets.

During 2023, Fixed income, Currencies and Commodities ('**FICC**') divisions in the industry delivered a softer performance reflecting a low volatility market. The market experienced weaker performance in fixed income and currencies against a strong 2022, which particularly benefitted from heightened FX volatility driven by geopolitical events. Debt capital markets ('**DCM**') saw reduced global issuance volumes during the period immediately following the collapse of Silicon Valley Bank and Credit Suisse in 2023, but remained resilient against higher interest rates.

NWM Group continued to refine and innovate its products and services to support the needs of corporate and institutional customers, additionally providing climate and ESG insights and solutions. By doing so, NWM Group also looked to preserve strong market positions in FX and capital markets in its areas of focus, while 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.

All these regions displayed growth in 2023 against expectations of recession at the start of the year. Inflation generally fell throughout 2023, with central banks having repeatedly raised interest rates, before pausing further hikes in the second half of the year.

NWM Group's business and financial position is impacted by changes in market conditions, geopolitical upheaval and broader economic changes that impact on liquidity, trading, risk and pricing.

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. 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

NWM Group now only operates and reports as a single business segment on a consolidated level. It was previously organised into '*NatWest Markets*', a single operating reportable segment, and '*Central Items & Other*', which included corporate functions and other activity not managed in the NatWest Markets segment.

Credit Ratings

As at the date of this Registration Document, 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 AA- (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 30 November 2023).

Consolidated Financial Information for the Years Ended and as at 31 December 2023 and 2022

Income Statement

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

	2023	**2022**
	£m	**£m**
Interest receivable	2,186	745
Interest payable	(1,831)	(654)
Net interest income	355	91
Fees and commissions receivable	377	349
Fees and commissions payable	(175)	(158)
Income from trading activities	477	389
Other operating income	35	18
Non-interest income	714	598
Total income	1,069	689
Staff costs	(418)	(400)
Premises and equipment	(66)	(60)
Other administrative expenses	(642)	(652)
Depreciation and amortisation	(16)	(16)
Operating expenses	(1,142)	(1,128)
Loss before impairment losses	(73)	(439)
Impairment losses	(2)	(8)

	2023	2022
	£m	**£m**
Operating loss before tax	(75)	(447)
Tax (charge)/credit	(23)	183
Loss for the year	(98)	(264)

The operating loss before tax of £75 million compares with a loss before tax of £447 million in the year ended 31 December 2022. Total income of £1,069 million increased by £380 million, or 55 per cent, largely driven by stronger performance in Fixed Income and Capital Markets business lines, and the impact of the Profit Share Arrangement. 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 £355 million for the year ended 31 December 2023, compared with a net income of £91 million in 2022, reflecting growth in lending activity, interest rate movements and other one-off items. Non-interest income increased by £116 million to £714 million compared with £598 million for the year ended 31 December 2022, largely driven by additional income recognised pursuant to the Profit Share Arrangement in an amount of £177 million, in addition to lower strategic exit activity in 2023 and fair value movements with regard to legacy and funding positions. This was partially offset by the impact of one-off items, a weaker performance in the Currencies business line as FX volatility levels reduced in 2023, and lower OCA's reflecting the widening of spreads in 2022.

Operating expenses increased by £14 million, or 1 per cent, to £1,142 million in the year ended 31 December 2023 from £1,128 million in the year ended 31 December 2022. Within these figures, litigation and conduct costs of £60 million for the year ended 31 December 2023 reflected ongoing progress in closing legacy matters, and were down by £20 million compared with £80 million in the prior year. Other operating expenses increased by £34 million, or 3 per cent, to £1,082 million for the year ended 31 December 2023, largely reflecting lower technology investment costs recognised in 2022 and the impact of one-off items.

Net Interest Income

NWM Group's net interest income for the year ended 31 December 2023 amounted to £355 million, an increase of £264 million compared with £91 million for the year ended 31 December 2022. Interest receivable of £2,186 million for the year ended 31 December 2023 was up by £1,441 million compared with £745 million in the prior year, largely driven by an increase in lending and movements in interest rates during the year. Interest payable of £1,831 million in the year ended 31 December 2023 increased by £1,177 million compared with £654 million in the prior year, largely due to the increase in lending and movements in interest rates during 2023.

Non-Interest Income

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

	2023	2022
	£m	**£m**
Fees and commissions receivable		
Lending and financing	91	88
Brokerage	42	44
Underwriting fees	122	117
Other	122	100
Total	377	349
Fees and commissions payable	(175)	(158)
Net fees and commissions	202	191
Income from trading activities		
Foreign exchange	166	237
Interest rate	385	92
Credit	(72)	18
Changes in fair value of own debt and derivative liabilities attributable to own credit risk - debt securities in issue and derivative liabilities	(2)	42
	477	389
Other operating income		

	2023	2022
	£m	**£m**
Loss on redemption of own debt	(14)	(74)
Operating lease and other rental income	1	1
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (1)	(154)	16
Hedge ineffectiveness	3	(7)
Profit on disposal of amortised cost assets	1	87
Loss on disposal of fair value through other comprehensive income assets	(1)	(7)
Dividend income	5	6
Other income (2)	194	(4)
	35	18
Total Non-Interest Income	714	598

(1) Including related derivatives

(2) Other income includes the Profit Share Arrangement that was entered into in 2023.

NWM Group's non-interest income for the year ended 31 December 2023 amounted to £714 million, an increase of £116 million, or 19 per cent, as compared to £598 million for the year ended 31 December 2022. The increase was largely due to the Profit Share Arrangement in an amount of £177 million, higher income levels in Capital Management Unit & other which reflected lower strategic exit activity in 2023 and fair value movements with regard to legacy and funding positions, partially offset by weaker performance in Currencies as FX volatility levels reduced in the current year, and lower own credit adjustments reflecting the widening of spreads in the prior year.

NWM Group's net fees and commissions for the year ended 31 December 2023, largely comprising those in respect of NWM Group's Capital Markets business, amounted to a net income of £202 million as compared to a net income of £191 million for the year ended 31 December 2022.

NWM Group's income from trading activities for the year ended 31 December 2023, which primarily includes trading and flow-related income across its core product offerings as well as legacy positions, amounted to £477 million, an increase of £88 million, or 23 per cent, as compared to £389 million for the year ended 31 December 2022. The increase was largely due to higher income levels in Capital Management Unit & other which reflected lower strategic exit activity in 2023 and fair value movements with regard to legacy and funding positions, partially offset by a weaker performance in Currencies as FX volatility levels reduced in the current year, and lower own credit adjustments reflecting the widening of spreads in the prior year. NWM Group's other operating income for the year ended 31 December 2023 amounted to a gain of £35 million, an increase of £17 million compared to a gain of £18 million for the year ended 31 December 2022. The increase was largely due to additional income recognised pursuant to the Profit Share Arrangement in an amount of £177 million, offset by changes in the fair value of financial assets designated at fair value through profit and loss of £(154) million, which was down by £170 million from £16 million in 2022.

Operating Expenses

NWM Group's operating expenses for the year ended 31 December 2023 amounted to £1,142 million, an increase of £14 million, or 1 per cent, as compared to £1,128 million for the year ended 31 December 2022, as a decrease in litigation and conduct costs was more than offset by an increase in other operating expenses.

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

	2023			2022		
Operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
Staff expenses	12	406	418	5	395	400

Premises and equipment	-	66	66	-	60	60
Other administrative expenses	48	594	642	75	577	652
Depreciation and amortisation	-	16	16	-	16	16
Total	60	1,082	1,142	80	1,048	1,128

NWM Group's staff expenses for the year ended 31 December 2023 amounted to £418 million, an increase of £18 million, or 5 per cent, as compared to £400 million for the year ended 31 December 2022. The increase largely reflected higher litigation and conduct costs and the impact of one-off items in the current year.

NWM Group's premises and equipment expenses for the year ended 31 December 2023 amounted to £66 million, an increase of £6 million, or 10 per cent, as compared to £60 million for the year ended 31 December 2022. The increase largely reflected lower costs recognised in the prior year in relation to technology investment 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 2023 amounted to £642 million, a decrease of £10 million, or 2 per cent, as compared to £652 million for the year ended 31 December 2022. The decrease was largely driven by a decrease in litigation and conduct costs, reflecting ongoing progress in closing legacy matters, partially offset by increases in other operating expenses reflecting lower technology investment costs recognised in the prior year including the impact of the transfer of the NWM CDIO investment portfolio to NWB, and other one-off items.

NWM Group's depreciation and amortisation expenses for the year ended 31 December 2023 remained broadly flat at £16 million, no change compared to the year ended 31 December 2022.

Impairment Losses

NWM Group's impairment losses for the year ended 31 December 2023 amounted to £2 million, compared to losses of £8 million for the year ended 31 December 2022. The current year loss was mainly due to increased ECL provisions driven by business growth, and losses in the prior year were principally due to credit deterioration, partially offset by fortuitous recoveries.

Operating Loss Before Tax

NWM Group's operating loss before tax for the year ended 31 December 2023 amounted to £75 million, a decrease of £372 million, or 83 per cent, as compared to a loss of £447 million for the year ended 31 December 2022, due to the factors described above for each income and expense line.

Tax Charge

NWM Group's total tax charge for the year ended 31 December 2023 amounted to £23 million, an increase of £206 million as compared to a tax credit of £183 million for the year ended 31 December 2022. The 2023 tax charge of £23 million on operating loss before tax of £75 million is higher than the expected tax credit based on the UK corporation tax rate of 23.5 per cent, primarily due to adjustments in respect of prior periods.

Net Loss for the Year

NWM Group's net loss for the year ended 31 December 2023 amounted to £98 million, a decrease of £166 million as compared to a loss of £264 million for the year ended 31 December 2022.

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	
	2023	2022	2023	2022
	£m		£m	
Assets				
Cash and balances at central banks	13,831	17,007	8,607	13,467
Trading assets(2)	45,324	45,291	28,411	27,301
Derivatives(1)	79,332	100,154	75,832	96,258
Settlement balances	7,227	2,558	2,168	1,686
Loans to banks – amortised cost	1,246	1,146	910	815
Loans to customers – amortised cost	12,986	10,171	12,104	9,154
Amounts due from holding company and fellow subsidiaries	1,730	740	6,472	6,665
Other financial assets	15,723	11,870	13,444	10,377
Investments in group undertakings	—	—	2,320	2,626
Other assets(3)	518	832	390	712
Total assets	177,917	189,769	150,658	169,061
Liabilities				
Bank deposits	2,267	3,069	1,909	2,936
Customer deposits	6,998	3,614	3,060	2,665
Amounts due to holding company and fellow subsidiaries	5,802	6,217	14,385	12,867
Settlement balances	6,641	2,010	400	1,133
Trading liabilities(2)	53,623	52,792	34,079	33,225
Derivatives(1)	71,981	93,585	69,404	90,754
Other financial liabilities	23,574	21,103	20,655	18,396
Other liabilities(3)	653	816	453	567
Total liabilities	171,539	183,206	144,345	162,543
Owners' equity	6,380	6,565	6,313	6,518
Non-controlling interests	(2)	(2)	—	—
Total equity	6,378	6,563	6,313	6,518
Total liabilities and equity	177,917	189,769	150,658	169,061

(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	
	2023	2022	2023	2022
	(£m)			
Trading assets				
Reverse repos	23,694	21,537	11,315	8,559
Derivative cash collateral given	8,914	12,719	7,263	10,468
Securities				
Central and local government				
- UK	2,729	2,205	2,729	2,204
- US	2,600	2,345	33	41
- Other	3,062	2,799	3,062	2,799
Financial institutions and Corporate	3,563	2,573	3,364	2,292
Total securities	11,954	9,922	9,188	7,336
Other loans	762	1,113	645	938
Total	45,324	45,291	28,411	27,301
Trading liabilities				
Repos	26,902	23,740	12,125	8,716
Derivative cash collateral received	15,062	17,663	12,455	14,556
Short positions				
Central and local government				
- UK	1,893	2,313	1,893	2,268
- US	2,071	1,293	17	52
- Other	4,049	3,936	4,033	3,920
Financial institutions and Corporate	1,790	1,982	1,723	1,850
Total short positions	9,803	9,524	7,666	8,090
Other deposits and issuance	1,856	1,865	1,833	1,863
Total	53,623	52,792	34,079	33,225

(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	
	2023	2022	2023	2022
	(£m)			
Other assets				
Property, plant and equipment	57	59	12	8
Pension schemes in net surplus	145	241	145	241
Accrued income	39	111	28	101
Tax recoverable	106	294	106	295
Deferred tax	55	46	—	—
Other assets	116	81	99	67
Total	518	832	390	712
Other liabilities				
Lease liabilities	41	47	2	4
Provisions for liabilities and charges	180	274	124	161
Retirement benefit liabilities	62	63	59	55
Accruals	182	224	113	178
Deferred income	47	35	38	24
Current tax	3	21	2	12

	NWM Group		NWM Plc	
	As at 31 December		As at 31 December	
	2023	2022	2023	2022
	(£m)			
Deferred tax	54	101	49	92
Other liabilities	84	51	66	41
Total	653	816	453	567

NWM Group's balance sheet profile as at 31 December 2023 can be summarised as follows.

Assets	**£bn**	**Liabilities**	**£bn**
Cash and balances at central banks	13.8		
Trading assets	45.3	Trading liabilities	53.6
Securities	12.0	Short positions	9.8
Reverse repos(1)	23.7	Repos(2)	26.9
Derivative collateral(3)	8.9	Derivative collateral(4)	15.1
Other trading assets	0.7	Other trading liabilities	1.8
Loans - amortised cost	14.2	Deposits - amortised cost	9.3
Settlement balances	7.2	Settlement balances	6.6
Amounts due from holding company and fellow subsidiaries	1.7	Amounts due to holding company and fellow subsidiaries	5.8
Other financial assets	15.7	Other financial liabilities	23.6
Other assets	0.7	Other liabilities	0.6
Funded assets	98.6	Liabilities excluding derivatives	99.5
Derivative assets	79.3	Derivative liabilities	72.0
Total assets	177.9	Total liabilities	171.5
		of which: wholesale funding(5)	25.1
		of which: short-term wholesale funding(5)	9.9
Net derivative assets	2.9	Net derivative liabilities	3.6

(1) Comprises bank reverse repos of £6.3 billion (2022- £4.6 billion) and customer reverse repos of £17.4 billion (2022- £16.9 billion).

(2) Comprises bank repos of £4.0 billion (2022- £1.6 billion) and customer repos of £22.9 billion (2022- £22.1 billion).

(3) Comprises derivative collateral posted relating to banks of £4.3 billion (2022- £4.6 billion) and customers of £4.6 billion (2022- £8.1 billion).

(4) Comprises derivative collateral received relating to banks of £6.8 billion (2022- £7.5 billion) and customers of £8.3 billion (2022- £10.2 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 2023, NWM Group's total assets amounted to £177,917 million, a decrease of £11,852 million, or 6 per cent, as compared to £189,769 million as at 31 December 2022. The decrease was mainly driven by lower derivative fair values, largely reflecting market volatility across major currencies and movements in interest rates. Funded assets, which exclude derivatives, increased by £9.0 billion to £98.6 billion, largely driven by higher settlement balances, loans to customers and other financial assets.

As at 31 December 2023, NWM Group's cash and balances at central banks amounted to £13,831 million, a decrease of £3,176 million, or 19 per cent, as compared to £17,007 million as at 31 December 2022. The decrease was largely driven by a reduction in excess liquidity and liquidity buffer optimisation offset by an increase in customer deposits.

As at 31 December 2023, NWM Group's trading assets amounted to £45,324 million, broadly stable as compared to £45,291 million as at 31 December 2022, mainly driven by increases in securities and reverse repos offset by a decrease in derivative cash collateral posted.

As at 31 December 2023, NWM Group's derivative assets amounted to £79,332 million, a decrease of £20,822 million, or 21 per cent, as compared to £100,154 million as at 31 December 2022. The decrease in mark-to-market value largely reflected market volatility across major currencies including the weakening of USD and an overall reduction in interest rates during 2023, following opposite trends in 2022.

As at 31 December 2023, NWM Group's loans to customers (amortised cost) amounted to £12,986 million, an increase of £2,815 million, or 28 per cent, as compared to £10,171 million as at 31 December 2022. The increase was mainly driven by growth in private financing in 2023.

As at 31 December 2023, NWM Group's other financial assets amounted to £15,723 million, an increase of £3,853 million, or 32 per cent, as compared to £11,870 million as at 31 December 2022. The increase largely reflected an increase in held-to-collect securities purchased to support customer primary issuance.

As at 31 December 2023, NWM Group's other assets amounted to £518 million, a decrease of £314 million, or 38 per cent, as compared to £832 million as at 31 December 2022. The decrease was principally driven by decreases in tax recoverable, pension schemes and accrued income, partially offset by an increase in other assets.

Liabilities

As at 31 December 2023, NWM Group's total liabilities amounted to £171,539 million, a decrease of £11,667 million, or 6 per cent, as compared to £183,206 million as at 31 December 2022. The decrease was mainly driven by lower derivative fair values, largely reflecting market volatility across major currencies and movements in interest rates.

As at 31 December 2023, NWM Group's customer deposits amounted to £6,998 million, an increase of £3,384 million, or 94 per cent, as compared to £3,614 million as at 31 December 2022. The increase was primarily related to NWM Group's strategy to increase customer deposits to match planned banking book activity.

As at 31 December 2023, NWM Group's trading liabilities amounted to £53,623 million, an increase of £831 million, or 2 per cent, as compared to £52,792 million as at 31 December 2022, mainly driven by an increase in repos, partially offset by a decrease in derivative cash collateral received.

As at 31 December 2023, NWM Group's derivative liabilities amounted to £71,981 million, a decrease of £21,604 million, or 23 per cent, as compared to £93,585 million as at 31 December 2022. The decrease in mark-to-market value largely reflected market volatility across major currencies including the weakening of USD and an overall reduction in interest rates during 2023, following opposite trends in 2022.

As at 31 December 2023, NWM Group's other liabilities amounted to £653 million, a decrease of £163 million, or 20 per cent, as compared to £816 million as at 31 December 2022, mainly driven by decreases in provisions for liabilities and charges, deferred tax and accruals, partially offset by an increase in other liabilities.

Cash Flows

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

	NWM Group	
	For the years ended	
	2023	2022
	£m	
Cash flows from operating activities		

	NWM Group	
	For the years ended	
	2023	2022
	£m	
Operating loss before tax	(75)	(447)
Adjustments for:		
Non-cash and other items	173	(488)
Changes in operating assets and liabilities	2,617	6,293
Income taxes received	99	135
Net cash flows from operating activities(1)	2,814	5,493
Cash flows from investing activities		
Sale and maturity of other financial assets	5,399	5,935
Purchase of other financial assets	(9,253)	(9,093)
Income received on other financial assets	632	236
Fair value given for businesses acquired	(27)	-
Purchase of investment in associates	-	(1)
Sale of property, plant and equipment	1	20
Purchase of property, plant and equipment	(3)	(2)
Net cash flows from investing activities	(3,251)	(2,905)
Cash flows from financing activities		
Redemption of subordinated liabilities	(676)	(481)
Interest paid on subordinated liabilities	(71)	(92)
Issue of MRELs	1,699	986
Maturity of MRELs	(1,744)	(1,862)
Interest paid on MRELs	(175)	(151)
Dividends Paid	(70)	(500)
Capital contribution	115	-
Net cash flows from financing activities	(922)	(2,100)
Effects of exchange rate on cash and cash equivalents	(526)	1,090
Net (decrease)/increase in cash and cash equivalents	(1,885)	1,578
Cash and cash equivalents at 1 January	26,828	25,250
Cash and cash equivalents at 31 December	24,943	26,828

(1) Includes interest received of £1,981 million (2022 - £637 million) and interest paid of £1,738 million (2022 - £524 million).

	NWM Group	
	For the years ended	
	2023	2022
	£m	
Non-cash and other items		
Impairment losses	2	8
Depreciation and amortisation	16	16
Change in fair value taken to profit or loss of other financial assets	-	168
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	90	(251)
Elimination of foreign exchange differences	253	(458)
Other non-cash items	198	(82)
Income receivable on other financial assets	(642)	(218)
Loss on sale of other financial assets	1	11
Profit on sale of other assets and net assets and liabilities	(1)	-
Interest payable on MRELs and subordinated liabilities	252	227
Loss on redemption of own debt	14	74
Charges and release on provisions	(4)	15

	NWM Group	
	For the years ended	
	2023	2022
	£m	
Defined benefit pension schemes	(6)	2
Non-cash and other items	173	(488)
Change in operating assets and liabilities		
Change in trading assets	372	14,994
Change in derivative assets	20,794	4,973
Change in settlement balance assets	(4,669)	(419)
Change in net loans to banks	247	4
Change in net loans to customers	(2,812)	(2,703)
Change in amounts due from holding company and fellow subsidiaries	(573)	577
Change in other financial assets	84	(62)
Change in other assets	46	(85)
Change in bank deposits	(802)	1,261
Change in customer deposits	3,384	1,346
Change in amounts due to holding company and fellow subsidiaries	184	719
Change in settlement balance liabilities	4,631	(58)
Change in trading liabilities	831	(11,690)
Change in derivative liabilities	(21,604)	(4,912)
Change in other financial liabilities	2,627	2,395
Change in other liabilities	(123)	(47)
Change in operating assets and liabilities	**2,617**	**6,293**

Total cash inflow from operating activities was £2,814 million for the year ended 31 December 2023; a decrease of £2,679 million compared to the £5,493 million inflow for the year ended 31 December 2022. The decrease in inflow was principally attributable to a decreased net inflow from changes in operating assets and liabilities, largely due to lower inflows and higher outflows from derivative liabilities, trading assets, and settlement balance assets, offset by higher inflows and lower outflows from derivative assets, trading liabilities and settlement balance liabilities. Adjustments for non-cash items increased by £661 million, driven by higher adjustments for elimination of foreign exchange differences, change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities and other non-cash items, partially offset by lower adjustments for income receivable on other financial assets and change in fair value taken to profit or loss of other financial assets.

Total cash outflow from investing activities was £3,251 million for the year ended 31 December 2023; an increase of £346 million as compared to the cash outflow of £2,905 million for the year ended 31 December 2022. The increase in outflow was principally attributable to lower inflows from sale and maturity of other financial assets and increased outflow from purchase of other financial assets, partially offset by increased inflow from income received on other financial assets.

Total cash outflow from financing activities was £922 million for the year ended 31 December 2023, a decrease of £1,178 million from outflow of £2,100 million for the year ended 31 December 2022. The decrease was principally due to lower net outflows from issue, maturity and redemption of MRELs, a reduction in dividends paid to NatWest Group plc, and cash inflow from a capital contribution during the year; partially offset by increased outflow from redemption of subordinated liabilities.

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

Income Statement

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

	2022	2021
	£m	£m
Interest payable	(654)	(335)
Net interest income	91	8
Fees and commissions receivable	349	262
Fees and commissions payable	(158)	(104)
Income from trading activities	389	263
Other operating income	18	(28)
Non-interest income	598	393
Total income	689	401
Staff costs	(400)	(498)
Premises and equipment	(60)	(110)
Other administrative expenses	(652)	(522)
Depreciation and amortisation	(16)	(20)
Operating expenses	(1,128)	(1,150)
Loss before impairment releases/(losses)	(439)	(749)
Impairment releases/(losses)	(8)	35
Operating loss before tax	(447)	(714)
Tax credit/(charge)	183	223
Loss for the year	(264)	(491)

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 71.8 per cent, driven by Fixed Income performance, which continued to be impacted by challenging market conditions but improved compared with 2021, and stronger performance in Currencies (principally as a result of heightened foreign exchange market volatility in 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 (principally as a result of heightened foreign exchange market volatility in 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 1.9 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.

	2022	2021
		£m
Net fees and commissions	191	158
Income from trading activities		
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	42	6
	389	263
Other operating income		
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
	18	(28)
Total Non-Interest Income	598	393

(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 (principally as a result of heightened foreign exchange market volatility in 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 (principally as a result of heightened foreign exchange market volatility in 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 1.9 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 (£m):

	2022			2021		
Operating expenses (1)	Litigation and conduct costs	Other operating expenses	Statutory operating expenses	Litigation and conduct costs	Other operating expenses	Statutory operating expenses
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
Total	80	1,048	1,128	(17)	1,167	1,150

(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.

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 2022 amounted to £264 million, a decrease of £227 million as compared to a loss of £491 million for the year ended 31 December 2021.

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	
Assets				
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
Investment in group undertaking	—	—	2,626	2,481
Other assets(3)	832	878	712	732
Total assets	189,769	203,011	169,061	182,554
Liabilities				
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
Total liabilities	183,206	195,559	162,543	175,205
Owners' equity	6,565	7,455	6,518	7,349
Non-controlling interests	(2)	(3)	—	—
Total equity	6,563	7,452	6,518	7,349
Total liabilities and equity	189,769	203,011	169,061	182,554

(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)			
Trading assets				
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	45,291	59,101	27,301	41,222
Trading liabilities				
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	52,792	64,482	33,225	47,119

(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)			
Other assets				
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	832	878	712	732
Other liabilities				
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	816	1,055	567	789

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

Assets	**£bn**	**Liabilities**	**£bn**
Cash and balances at central banks	17		
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)	17.6
Other trading assets	1.2	Other trading liabilities	2.0
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	189.8	Total liabilities	183.2
		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 £10.1 billion (2021- £9.5 billion).

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

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.

	NWM Group	
	For the years ended	
	2022	**2021**
	£m	
Cash flows from operating activities		

	NWM Group	
	For the years ended	
	2022	2021
	£m	
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 MRELs 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
Net cash flows from trading activities	(935)	11
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/(paid)	135	28
Net cash flows from operating activities(1)	5,493	2,499
Cash flows from investing activities		
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)
Net cash flows from investing activities	(2,905)	40
Cash flows from financing activities		
Movement in MRELs	(1,027)	(1,234)
Movement in subordinated liabilities	(573)	(378)
Dividends paid	(500)	(1,063)
Net cash flows from financing activities	(2,100)	(2,675)
Effects of exchange rate changes on cash and cash equivalents	1,090	(994)
Net decrease in cash and cash equivalents	1,578	(1,130)

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

(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 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 outflows from purchase of other financial assets, partially offset by increased inflows 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.

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		
	2023	2022	2021	2023	2022	2021
	£m			£m		
Contingent liabilities and commitments						
Guarantees and assets pledged as collateral security	754	594	595	296	144	197
Other contingent liabilities	26	30	110	26	30	109
Standby facilities, credit lines and other commitments	14,690	13,973	11,245	9,304	7,967	7,363
	15,470	14,597	11,950	9,626	8,141	7,669

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

NWM Plc and NWM N.V. have limited risk-sharing arrangements in place to facilitate the smooth provision of services to NWM Group's customers including:

(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 2023, NWM N.V. was in receipt of £0.7 billion of the Funded Guarantee from NWM Plc and the guarantee fees in the year ended 31 December 2023 amounted to £4.6 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 2023 the exposure at default covered by the guarantees was approximately £0.2 billion (of which £27 million was cash collateralised). Fees of £1.4 million in relation to the guarantees were recognised in the year ended 31 December 2023.

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

NWM Plc and NWB have a cross indemnity agreement in place 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 principal sources of funding:

- Trading liabilities, including repos, which are largely matched by trading assets;
- Capital and funding (including internal MREL instruments), which totalled £7.6 billion as at 31 December 2023 and which is structurally subordinated to the Issuer's senior creditors;
- Term senior unsecured issuances, which totalled £16.4 billion as at 31 December 2023, of which £3.1 billion was issued in the year ended 31 December 2023. NWM Plc's 2024 funding plan currently anticipates £3 billion to £5 billion of public benchmark issuance;
- Money market instruments, principally certificates of deposit and commercial paper, which totalled £4.4 billion as at 31 December 2023; and

- Deposits consisting of customer deposits and wholesale deposits, which totalled £4.8 billion as at 31 December 2023; 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 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 £2.4 billion (equivalent) of public benchmark issuances during 2023, which was lower than guidance of £3 billion to £5 billion for the year. This was mainly due to higher than anticipated levels of customer deposits and optimisation of funding requirements. NWM Plc issued (i) €1,750,000,000 Floating Rate Senior Notes on January 9, 2024, with a maturity date of January 9, 2026 and (ii) €750,000,000 3.6250% Senior Notes on January 9, 2024, with a maturity date of January 9, 2029, in each case under its £20,000,000,000 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						
	MTNs (1)	Commercial paper and CDs	MTNs (1)	Subordinated liabilities	Total	Internal MREL	Subordinated liabilities	Total notes in issue
	£m	£m	£m	£m	£m	£m	£m	£m
2023								
Less than 1 year	418	4,228	3,759	—	7,987	434	839	9,678
1-3 years	48	205	9,342	18	9,565	1,722	—	11,335
3-5 years	—	—	3,851	—	3,851	914	—	4,765
More than 5 years	240	—	656	256	912	—	183	1,335
Total	706	4,433	17,608	274	22,315	3,070	1,022	27,113
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

(1) With respect to MTNs only, £4,179 million will mature in 2024, £5,483 million will mature in 2025, £3,907 million will mature in 2026, £2,154 million will mature in 2027 and £1,697 million will mature in 2028.

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

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2023					
Commercial paper and CDs	1,195	1,347	1,891	—	4,433
MTNs	1,734	4,450	9,135	2,995	18,314
External subordinated liabilities	19	17	238	—	274
Internal MREL due to NatWest Group plc	—	2,156	914	—	3,070

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
Subordinated liabilities due to NatWest Group plc	—	183	839	—	1,022
Total	2,948	8,153	13,017	2,995	27,113
2022 Total	1,816	9,892	11,160	2,674	25,542

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

	2023			2022		
	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	1,622	645	2,267	2,427	642	3,069
of which: repos (amortised cost)	452	—	452	799	—	799
Customer deposits	6,990	8	6,998	3,353	261	3,614
of which: repos (amortised cost)	418	—	418	—	254	254
Trading liabilities (1)						
Repos (2)	26,634	268	26,902	23,740	—	23,740
Derivative cash collateral received	15,062	—	15,062	17,663	—	17,663
Other bank and customer deposits	768	382	1,150	414	654	1,068
Debt securities in issue	418	288	706	54	743	797
	42,882	938	43,820	41,871	1,397	43,268
Other financial liabilities						
Customer deposits (designated at fair value)	193	1,066	1,259	253	797	1,050
Debt securities in issue						
commercial paper and certificates of deposits	4,228	205	4,433	3,084	85	3,169
Medium-term notes (MTNs)	3,759	13,849	17,608	2,368	14,050	16,418
Subordinated liabilities	—	274	274	206	260	466
	8,180	15,394	23,574	5,911	15,192	21,103
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL	434	2,636	3,070	2,199	974	3,173
Other bank and customer deposits	1,620	—	1,620	1,288	—	1,288
Subordinated liabilities	839	183	1,022	—	1,519	1,519
	2,893	2,819	5,712	3,487	2,493	5,980
Total funding	62,567	19,804	82,371	57,049	19,985	77,034
Of which: available in resolution (4)			3,093			2,753

(1) Funding sources excludes short positions of £9,803 million (2022 - £9,524 million) reflected as trading liabilities on the balance sheet.

(2) Comprises Central and other bank repos of £3,957 million (2022 - £1,642 million), other financial institution repos of £20,394 million (2022 - £19,354 million) and other corporate repos of £2,551 million (2022 - £2,744 million).

(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £90 million (2022 - £211 million) and Nil intercompany settlement balances (2022 – £26 million) 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).

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 2023, the Issuer's LCR was 183 per cent (as at 31 December 2022, the Issuer's LCR was 253 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 table below shows the composition of the liquidity portfolio with primary liquidity aligned to high-quality liquid assets on a regulatory LCR basis. Secondary liquidity comprises of assets which are eligible as collateral for local central bank liquidity facilities and do not form part of the LCR eligible high-quality liquid assets.

	Liquidity value	
	2023	**2022**
	£m	**£m**
NWM Plc		
Cash and balances at central banks	8,547	13,414
High quality government/MDB/PSE and GSE bonds (1)	6,054	5,538
Extremely high quality covered bonds	1	1
LCR level 1 eligible assets	14,602	18,953
LCR level 2 eligible assets (2)	104	90
Primary liquidity (HQLA) (3)	14,706	19,043
Secondary liquidity (4)	39	68
Total liquidity value	14,745	19,111

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

	GBP	**USD**	**EUR**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Total liquidity portfolio					
2023	5,153	3,350	6,150	92	14,745
2022	8,964	3,442	6,611	94	19,111

(1) Multilateral development bank abbreviated to MDB, public sector entities abbreviated to PSE and government sponsored entities abbreviated to GSE.

(2) Includes Level 2A and Level 2B.

(3) High-quality liquid assets abbreviated to HQLA.

(4) Comprises assets eligible for discounting at the Bank of England and other central banks which do not form part of the LCR high-quality liquid assets.

(5) Comparative periods have been re-presented on an LCR basis in line with the Liquidity portfolio definition as of 31 December 2023.

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 around 14 per cent, an MREL ratio greater than 30 per cent and a leverage ratio of greater than 4 per cent in the medium-term. The Issuer's CET1 ratio year on year remained largely flat at 17.1 per cent as at 31 December 2023 compared to 17.2 per cent as at 31 December 2022.

As at 31 December 2023, NWM Plc legal entity RWAs were £22 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 capital resource includes 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 2023 was £7.6 billion, or 34.5 per cent of RWAs.

NWM Plc sources all of its capital funding from NatWest Group plc. As of December 2023 NWM Plc had three remaining legacy external subordinated debt instruments (Tier 2) with an outstanding notional value of £17 million, which no longer qualify as regulatory capital. NWM Plc had £0.6 billion of internally issued Tier 2 regulatory capital as of December 2023. 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 2023, 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.c

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 a committed unsecured credit facility to NWMSI, amounting to US$900 million at 31 December 2023.

	31 December 2023		31 December 2022		31 December 2021	
	£m	%	£m	%	£m	%
CET1	3,776	17.1	3,682	17.2	4,072	17.9
AT1	904	3.1	904	3.2	904	3
Tier 1	4,455	20.2	4,361	20.4	4,755	21.0
Tier 2	617	2.8	1,141	5.3	1,115	4.9
Total	5,072	23.0	5,502	25.7	5,870	25.9
MREL-eligible securities (including eligible Tier 2 amortisation)	2,555	11.5	3,150	14.7	3,685	16.2
MREL	7,627	34.5	8,652	40.4	9,555	42.1

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 2023	31 December 2022	31 December 2021
		£m	
RWAs			
Credit risk	7,895	7,110	6,878
Counterparty credit risk	6,516	5,682	6,854
Market risk	6,366	7,152	6,934
Operational risk	1,322	1,478	2,020
Total RWAs	22,099	21,422	22,686

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.

Risk asset ratios (%)	31 December 2023	31 December 2022	31 December 2021
CET1	17.1	17.9	21.7
Tier 1	20.2	21.0	25.2
Total	23.0	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 1% to 2% 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, through a consultation paper, aligning to the Basel 3.1 standards where it deems it applicable, to which banks provided feedback. In December 2023, the near-final policy statement was published and a second near-final policy statement covering credit risk is expected in the second quarter of 2024.

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 2023 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)	1.0%	1.0%	1.0%
Total (excluding Pillar IIA add-on)	8.0%	9.5%	11.5%

(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 1% to 2% in 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. Capital plans are produced for the regulated entities, NWM Plc and its subsidiaries NWM N.V. and NWMSI. 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:

Produce capital plans	• 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. • 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.
Assess capital adequacy	• 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. • Impact assessment captures input from across NWM Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions. • As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.

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.

<u>Internal Stress Tests</u>

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 has been 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.

Leverage	**31 December 2023**	**31 December 2022**	**31 December 2021**
Tier 1 capital (£m)	4,455	4,361	4,755
PRA UK leverage exposure (£m)	89,929	81,083	110,603
PRA UK leverage ratio (%)	5.0	5.4	4.3

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 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 interest rates, most notably SOFR, EURIBOR, European Central Bank deposit rate, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant interest 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 interest rate risk component of the hedged item. The significant interest rates identified as risk components are 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 cross currency basis swaps, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging, fair value hedge relationships and net investment hedging, NWM Group determines that there is an economic relationship between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging 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								
	2023			2022			2021		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£m	£m	£m
Exchange rate contracts	3,109	34,208	33,364	3,145	45,821	44,938	3,162	38,546	39,275
Interest rate contracts	9,689	44,943	38,292	10,356	54,097	48,372	8,601	66,850	58,879
Credit derivatives	16	181	325	15	236	275	14	154	343
Equity and commodity contracts	—	—	—	—	—	—	—	—	—
		79,332	71,981		100,154	93,585		105,550	98,497

As at 31 December 2023, NWM Group's derivative assets amounted to £79,332 million, a decrease of £20,822 million, or 21 per cent, as compared to £100,154 million as at 31 December 2022. The decrease in mark-to-market value largely reflected market volatility across major currencies including the weakening of USD and an overall reduction in interest rates during the year, following contrasting trends from the previous year.

As at 31 December 2023, NWM Group's derivative liabilities amounted to £71,981 million, a decrease of £21,604 million, or 23 per cent, as compared to £93,585 million as at 31 December 2022. The decrease in mark-to-market value largely reflected market volatility across major currencies including the weakening of USD and an overall reduction in interest rates during 2023, following opposite trends in 2022.

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									
2023										
AQ1-AQ4	13,831	3,585	11,600	11,533	1,869	1,313	1,398	3,117	27	48,273
AQ5-AQ8	—	—	962	302	151	290	47	19	—	1,771
AQ9	—	—	26	—	1	—	—	—	—	27

	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									
AQ10	—	—	3	1	—	2	—	—	—	6
Current exposure	13,831	3,585	12,591	11,836	2,021	1,605	1,445	3,136	27	50,077
Potential exposure	13,831	3,585	26,814	11,836	9,411	4,093	2,305	4,187	27	76,089
2022										
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

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 2023, which in the context of external credit ratings was equivalent to an investment grade rating of BBB- or better.

As at 31 December 2023, NWM Group's current net credit exposure totalled £50,077 million, as compared to £46,450 million as at 31 December 2022. The increase in total current and potential credit exposure reflected increased business volumes, in line with planned strategy. For additional information on NWM Group's credit exposure, please see '*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 is party to 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 see '*Operating and Financial Review—Primary Factors Affecting NWM Group's Results of Operations—Relationship with NatWest Group—Revenue Share Agreements*.'

Profit Share Arrangement

In 2023 NWM Group entered into a profit share arrangement with fellow NatWest Group subsidiaries, pursuant to which NWM Group will be compensated on an arm's length basis for its contribution to the performance of the NatWest Group Commercial & Institutional business segment, of which NWM Group forms part. The amount recognised in income for 2023 in relation to the Profit Share Arrangement was £177 million.

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 geo-political 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 relevant tax authorities. 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 £54 million at 31 December 2023 (2022 – liability of £101 million) includes a deferred tax asset on losses of £0 million (2022 - £3 million). The deferred tax asset of£55 million as at 31 December 2023 (2022 - £46 million) comprises losses which arose in the Netherlands.

The main UK corporation tax increased from 19% to 25%, and the UK banking surcharge decreased from 8% to 3%, from 1 April 2023. NWM Group's closing deferred tax assets and liabilities are therefore recognised based on these rates.

Judgement – NWM Group has considered the carrying value of deferred tax assets and management considers that sufficient sustainable 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. 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 2023.

See Note 2 ('*Non-interest income*') to the 2023 Financial Statements and Note 7 ('*Tax*') to the 2023 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 £0 million (2022 - £3 million) has been recognised at 31 December 2023. The basis of recognition in NWM plc is by way of future reversing taxable temporary differences on which deferred tax liabilities are recognised at 31 December 2023. Losses of £5,558 million have not been recognised in the deferred tax balance at 31 December 2023.

See Note 7 ('*Tax*') to the 2023 Financial Statements for further details.

Overseas tax losses

NWM N.V. – A deferred tax asset of £55 million (2022 - £46 million) has been recognised in respect of losses of £213 million of total losses of £2,496 million carried forward at 31 December 2023. 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 ('*Tax*') to the 2023 Financial Statements for further details.

Unrecognised deferred tax

Deferred tax assets of £3,460 million (2022 - £3,601 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £12,567 million (2022 -

£13,045 million) in jurisdictions where doubt exists over the availability of future taxable profits. Of these losses and other deductible temporary differences, £34 million expire within five years and £4,488 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 ('*Tax*') to the 2023 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 '*Financial instruments – valuation adjustments*').

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

See Note 10 ('*Financial instruments – valuation*) to the 2023 Financial Statements for further details.

Loan impairment provisions

Note 14 ('*Loan Impairment Provisions'*) to the 2023 Financial Statements sets out how the expected loss approach is applied. At 31 December 2023, customer loan impairment provisions amounted to £57 million (2022 - £54 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, see '*Risk and capital management – Measurement uncertainty and ECL sensitivity analysis*.'

See Note 14 ('*Loan Impairment Provisions'*) to the 2023 Financial Statements for further details.

IFRS 9 ECL model design principles

See '*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, see Note 25 ('*Litigation and regulatory matters*') to the 2023 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 ('*Non-interest income*') and Note 20 ('*Other liabilities*') to the 2023 Financial Statements for further details.

Recent Accounting Developments

A number of IFRS developments and amendments to IFRS were in issue at 31 December 2023 that would affect NWM Group from 1 January 2024 or later:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);

- Non-current Liabilities with Covenants (Amendments to IAS 1);

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16); and

- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).

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 2025:

- Lack of Exchangeability (Amendments to IAS 21).

NWM Group is assessing the effect of adopting these 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, risk management, financing, and advisory services, principally to corporates, sponsors, financial institutions and sovereigns as well as customers of the broader NatWest Group.

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.

In addition to serving its own customers, NWM Group provides Fixed Income, Currencies and Capital Markets products to corporate, commercial, business and select retail clients of other NatWest Group entities. Revenue share arrangements are in place, pursuant to which a proportion of the income generated by NWM Group products from customers that have their primary relationship with other NatWest Group subsidiaries is shared between NWM Group and those subsidiaries. Approximately 21 per cent of NWM Group's total income for the year ended 31 December 2023 was sourced from customers referred to NWM Group by other NatWest Group entities, compared to 35 per cent for the year ended 31 December 2022. The percentage decrease largely reflects higher income in 2023 in areas not subject to revenue share, as well as additional income recognised pursuant to the Profit Share Arrangement in an amount of £177 million.

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 specialists 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 2023, 78 per cent (2022 - 73 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2022 - 14 per cent) was generated in the US and 8 per cent (2022 - 13 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.

In addition, 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.

NWM Group supports NatWest Group's strategy which 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 significant contribution to the issues that are impacting its customers, being Enterprise, Learning and Climate change.

As part of this 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 was completed in 2022. In addition, NWM Group's climate strategy is designed to support NatWest Group's climate ambition and is focused on helping customers achieve their climate goals by supporting their transition to a low carbon economy while managing NWM Group's own operations with respect to carbon emissions.

NWM Group forms part of NatWest Group's C&I segment, which was created in 2022 and combined the previously separate Commercial, NatWest Markets and RBS International businesses to better support NatWest Group customers across the full non-personal customer lifecycle.

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

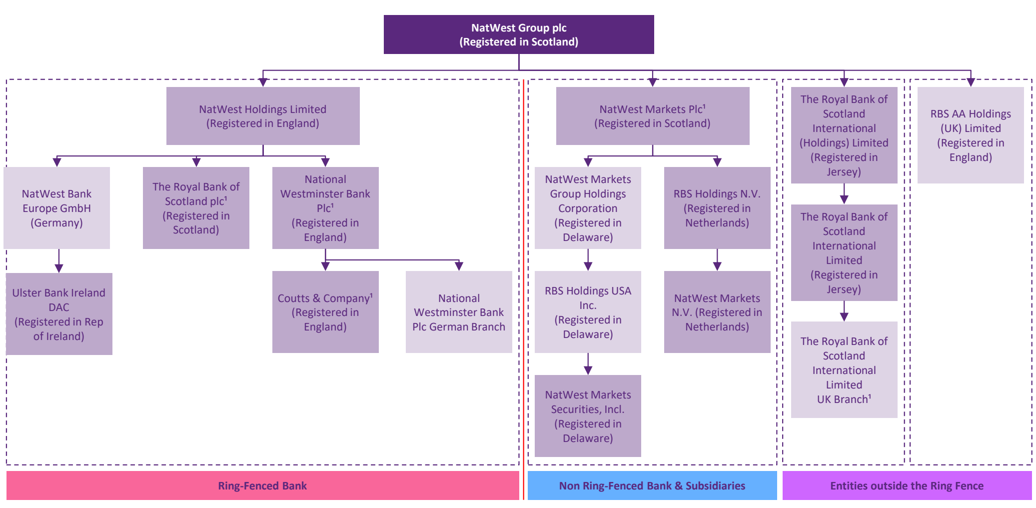
Metric	**Estimate**
CET 1 ratio(1)	~14%
MREL ratio(1)(2)	>30%
Leverage ratio	>4%

(1) CET 1 stands for Common Equity Tier 1 capital and MREL refers to the minimum requirement for own funds and eligible liabilities.
(2) Includes total regulatory capital, non-eligible capital and downstreamed internal MREL.

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:



#22219875v24

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. 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.*'

NatWest Group, which is classified by the ECB as a 'third-country group' with two or more subsidiary banking institutions in the European Union ('**EU'**), was authorised by the ECB to establish a dual Intermediate EU Parent Undertaking ('**IPU'**) structure on behalf of its European subsidiaries. To that effect, RBS Holdings N.V. ('**RBSH N.V.**'), a wholly-owned subsidiary of NWM Plc, was designated to act as the IPU outside of the NatWest Group ring-fenced sub-group and is subject to ECB supervision since 1 January 2024. Relatedly, on 1 December 2023, RBS International Depositary Services S.A.'s ('**RBSI DS**') immediate parent company changed from Royal Bank of Scotland International (Holdings) Limited ('**RBSIH**') to RBSH N.V. following supervisory approval.

NWM Group's Products and Customers

NWM Group's Products

NWM Group provides liquidity and risk management services in its Currencies and Fixed Income businesses through a range of distribution channels. Through its Capital Markets business, NWM Group also provides integrated financing solutions and advisory services.

NWM Group seeks to build deep and sustainable relationships with its customers by providing relevant market colour, content and ideas to customers. NWM Group's specialists 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 focuses on the digitisation and automation of its services and offers a range of digital foreign exchange (FX), fixed income, risk management and international payments options through 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 NWM Group's business lines:

- **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 2023, income from Fixed Income represented 14 per cent of NWM Group's income including shared revenue before OCA (2022 – 5 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 2023, income from Currencies products represented 45 per cent of NWM Group's income including shared revenue before OCA (2022 - 61 per cent).

- **Capital Markets.** 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 2023, income from Capital Markets products represented 42 per cent of NWM Group's income including shared revenue before OCA (2022 - 47 per cent).

Customer Segments and Ownership

NWM Group is focused on its core UK and European corporate customer base and financial institutions. As part of NatWest Group, NWM Group also provides Fixed Income, Currency and Capital Markets products to corporate, commercial, business and select retail clients of other NatWest Group entities. 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.

Revenue share arrangements are in place, pursuant to which a proportion of the income generated by NWM Group products from customers that have their primary relationship with other NatWest Group subsidiaries is shared between NWM Group and those subsidiaries. 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 NatWest Group ring-fenced sub-group generally owns the client relationship and for which 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 NatWest Group ring-fenced sub-group owns the client relationship and for which NWM Group delivers select markets products; and
- Business Banking customers, for which the NatWest Group ring-fenced sub-group owns the client relationship and for which NWM Group delivers select markets products.

The creation of the C&I segment in 2022 brought together the Commercial, NatWest Markets and RBS International customer businesses of NatWest Group. This segment aims to deliver a more integrated customer proposition and improved connectivity across entities in the NatWest Group.

NWM Group's Strategy

NWM Group supports NatWest Group plc's strategy which seeks to balance the interests and changing needs of its customers, with a focus on the three core areas where NatWest Group plc believes it can make a significant contribution to the broader issues that are impacting the lives of its customers. These are:

- Enterprise - Addressing barriers to enterprise and business creation;
- Learning - Skill building particularly around financial literacy of its customers and employees; and
- Climate change - Supporting the necessary transition to a lower carbon economy.

As part of this 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 Group's business was refocused to support a more integrated corporate and institutional customer offering. This process was completed in 2022.

NWM Group has an important role in delivering this 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 continues to simplify its operating model and allocate capital towards supporting NatWest Group's customers' needs and increasing its focus on digital solutions.

NWM Group's focus on its four strategic priorities (supporting customers, being powered by innovation and partnerships, being simple to deal with and sharpening capital allocation), taken together with NWM Group's and NatWest Group's financial targets, set out how NWM Group expects to create value and deliver 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 created in 2022 and combined the previously separate Commercial, NatWest Markets and RBS International businesses of NatWest Group.

Supporting customers

In addition to supporting its own customers, NWM Group also supports NatWest Group's business customers by providing them with capital markets expertise and thought leadership in areas across its Fixed Income, Currencies and Capital Markets offering. NWM Group plans to support such customers as part of the 'one bank' model and increase penetration with NatWest Group's business customers.

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 structure built around 'Trading', 'Customer Sales' and 'Capital Markets', with the aim to inrease customer focus across the business. NWM Group has also taken steps to simplify its product offering to focus on those areas in which it can excel and ensure alignment with the needs of its customers.

NWM Plc continues to work as part of NatWest Group's 'one bank' model to invest in growth areas that matter the most to its customers. For example, in 2020, NWM Group has 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 addition, the creation by NatWest Group of the C&I segment, of which NWM Group forms part, has continued to enhance NWM Group's ability to work across NatWest Group to deliver on opportunities from referrals from other entities within the NatWest Group, including to support revenue growth. In 2023, NWM Group delivered growth through its corporate FX and Rates business, building on its existing commercial relationships. NWM Group also deepened its capital markets relationships in selected product areas.

NWM Group has continued to support its customers' transition to net zero as well as their broader ESG ambitions and targets. In 2023, NWM Group completed £14.8 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.

NWM Group's commitment deliver excellent customer service is evidenced by various awards received in the year ended 31 December 2023, including:

- At the Environmental Finance's Bond Awards 2023, NatWest was named 'Lead manager of the year, social bonds – financial institution'; 'Lead manager of the year, social bonds – supranational, sub-sovereign and agency' and 'Lead manager of the year, sustainability bonds – corporate'.
- NatWest was named 'Best FX Bank for Corporates' at the Euromoney Foreign Exchange Awards 2023 and 'Best Prime Broker' 2023 in the eFX Awards.
- NatWest was named 'Best Bank for Sustainable Finance in the UK' at the Global Finance Sustainable Finance 2023 awards.
- NatWest was named the 'Best Sterling Lead Manager' at the Global Capital Covered Bond Awards 2023 and won 'Best Sterling Deal - Santander' and 'Best Dollar Deal - National Australia Bank ' at the Global Capital Covered Bond Awards 2023.

Being 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.

Following a successful pilot in 2022 of NWM Group's cash and liquidity management tool, Auto FX, NWM Group scaled the service to over 240 customers – automatically sweeping elected customer funds across their NatWest bank accounts using innovative technology and Open Banking, thereby reducing FX risk and the risk of manual errors.

NWM Group supported NatWest Group's Retail Banking segment to bring currency conversion to the entire NatWest ATM cash machine estate across the UK.

NWM Group also extended its award-winning Agile Markets platform for Money Market deposits as an integrated part of its proposition for non-retail customers across NatWest Group. In addition, NWM Group continued to develop its digital asset issuance capability, including progressing on the development of an issuance platform. NWM Group developed an internal model with its settlement systems to manage and oversee the on/off ramp for fiat/digital currency.

NWM Group became the first bank to be completely onboarded onto the voluntary carbon credit platform, Carbonplace. NWM Group continues to work with Carbonplace to enhance platform functionality ahead of participating in its first trades on this venue.

Being simple to deal with

NWM Group aims to transform its business to be simple, safe and secure – enabling it to deliver its products and services efficiently and safely for its customers.

As part of its simplification strategy, 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 Group continued to simplify its trade lifecycle management capability, with continuous linked FX now on the Murex platform for confirmations and settlements. In addition, NWM Group continued to simplify its data capability, rationalising and modernising its data stores. NWM Group also continued to build cloud capability, enabling on-demand ability to increase and decrease computer processing, memory and storage to meet changing demands and to support risk calculations.

Sharpening capital allocation

NWM Group continues to refocus its capital allocation to support a more integrated corporate and institutional customer offering across the NatWest Group business, with a full service financing and risk proposition. This includes focusing on serving core NWM Group customers, as well as large- / mid-corporate customers across NatWest Group's C&I segment. Capital is therefore intended to be deployed towards activities supporting NWM Group's and NatWest Group's corporate and institutional customers. Through the effective use of capital NWM Group sought to reduce risk-weighted assets (RWAs) on the one hand, while redeploying capital to its growth areas on the other hand.

To implement this strategy, NWM Group created a Capital Management Unit in 2020 to oversee the delivery of capital reduction and optimisation across the business, whilst increasing rigour around capital allocation.NWM Group's RWA reduction is now 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. In 2023, NWM Group managed capital allocation and prioritisation, to support the growth of its segment customer businesses.

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 2023, corporate and investment banks continued to navigate elevated geopolitical risks and a shifting macroeconomic environment underpinned by rising interest rates and inflation. Peers continued to focus on expanding ESG and sustainable financing solutions, as well as exploring the application of new technologies (including AI). Competition also continues from non-bank liquidity providers using low-latency and algorithmic trading to participate in high-volume flow markets.

During 2023, FICC divisions in the industry delivered a softer performance reflecting a low volatility market. The market experienced weaker performance in fixed income and currencies against a strong 2022, which particularly benefitted from heightened FX volatility driven by geopolitical events. DCM saw reduced global issuance volumes during the period immediately following the collapse of Silicon Valley Bank and Credit Suisse in 2023, but remained resilient against higher interest rates.

NWM Group continued to refine and innovate its products and services to support the needs of corporate and institutional customers, additionally providing climate and ESG insights and solutions. By doing so, NWM Group also looked to preserve strong market positions in FX and capital markets in its areas of focus, while 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 2023, 78 per cent (2022 - 73 per cent) of NWM Group's total income was generated in the UK and Europe, 14 per cent (2022 - 14 per cent) was generated in the US and 8 per cent (2022 – 13 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.

	2023				
	UK £m	USA £m	Europe £m	ROW £m	Total £m
Total revenue	2,273	167	545	90	3,075
Interest receivable	1,729	39	406	12	2,186

	2023				
	UK £m	**USA £m**	**Europe £m**	**ROW £m**	**Total £m**
Interest payable	(1,548)	(1)	(280)	(2)	(1,831)
Fees and commissions receivable	68	72	180	57	377
Fees and commissions payable	(133)	(22)	(20)	-	(175)
Income from trading activities	394	66	(2)	19	477
Other operating income	82	(10)	(39)	2	35
Total income	592	144	(245)	88	1,069
Operating (loss)/profit before tax	(235)	44	91	25	(75)
Total assets	119,783	23,724	32,539	1,871	177,917
Total liabilities	125,058	22,106	22,853	1,522	171,539
Contingent liabilities and commitments	8,732	-	6,717	21	15,470

	2022				
	UK £m	**USA £m**	**Europe £m**	**ROW £m**	**Total £m**
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

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 preceeding 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 see Note 20 ('*Other liabilities*') to the 2023 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. Information has been provided on the procedural history of certain Matters, where NWM Group believes 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

Litigation and Regulatory Matters

NWM Plc and its subsidiary and associated undertakings (NWM Group) are party to various legal proceedings and are involved in, or subject to, various 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 the 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 the probability of a liability, if any, arising can reasonably be estimated in respect of any Matter. 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 the Matters 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 or contesting Matters, even for those for which NWM Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all Matters affect the amount and timing of any potential economic 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 the Matters as a class of contingent liabilities.

The future economic outflow in respect of any Matter may ultimately prove to be substantially greater than, or less than, the aggregate provision, if any, that NWM Group has recognised in respect of such Matter. Where a reliable estimate of the economic outflow cannot be reasonably made, no provision has been recognised. NWM Group expects that in future periods, additional provisions and economic outflows relating to Matters that may or may not be currently known by NWM Group will be necessary, in amounts that are expected to be substantial in some instances. Please see Note 20 (‘*Other liabilities*’) to the 2023 Financial Statements for information on material provisions.

Matters which are, or could be, material, either individually or in aggregate, having regard to NWM Group, considered as a whole, in which NWM Group is currently involved are set out below. Information has been provided on the procedural history of certain Matters, where NWM Group believes 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

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 complainants allege that the 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 and involving NWM Group companies, are part of a coordinated 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. NatWest Group companies’ previously disclosed settlement of a class action on behalf of bondholder plaintiffs has received final court approval. The amount of the settlement was covered by an existing provision.

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 NWM Plc, NatWest Group plc 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 commence in Q1 2026.

In addition to the USD LIBOR cases described above, there is a class action relating to derivatives allegedly tied to JPY LIBOR and Euroyen TIBOR, which was dismissed by the SDNY in relation to NWM Plc and other NatWest Group companies in September 2021. That dismissal may be the subject of a future appeal. The SDNY’s dismissal of another class action, which related to Euroyen TIBOR futures contracts, was affirmed by the United States Court of Appeals for the Second Circuit (US Court of Appeals) in October 2022. The plaintiffs filed a petition with the United States Supreme Court seeking review of the dismissal, but that petition was denied in October 2023.

Two other IBOR-related class actions involving NWM Plc, 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.

NWM Plc's previously disclosed settlement of a class action relating to Swiss Franc LIBOR has received final court approval. The settlement amount has been paid by NWM Plc and was covered in full by an existing provision.

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, NatWest Markets Securities Inc. (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. The plaintiffs filed an amended complaint but in October 2023, the district court dismissed that complaint as well, and indicated that further amendment would not be permitted. The plaintiffs have commenced an appeal to the United States Court of Appeals for the Ninth Circuit which is currently pending.

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.

An FX-related class action, on behalf of 'consumers and end-user businesses', was proceeding in the SDNY against NWM Plc and others. In March 2023, the court granted summary judgment in favour of the defendants, dismissing the plaintiffs' claims. The plaintiffs have commenced an appeal of that decision as well as a prior decision denying class certification in the case.

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 UK Competition Appeal Tribunal (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, which was appealed by the applicants, and the subject of an application for judicial review. In its amended judgment in November 2023, the Court of Appeal allowed the appeal and decided that the claims should proceed on an opt-out basis. Separately, the court determined which of the two competing applicants can proceed as class representative, and dismissed the application for judicial review of the CAT's decision. The case has been remitted to the CAT for further case management and the banks have sought permission to appeal directly to the UK Supreme Court.

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 summons was served in the Netherlands against NatWest Group plc, NWM Plc and NWM N.V. by Stichting FX Claims on behalf of a number of parties, seeking declarations from the court concerning liability for anti-competitive FX market conduct described in decisions of the European Commission (EC) of 16 May 2019, along with unspecified damages. The claimant amended its claim to also refer to a 2 December 2021 decision by the EC, which described anti-competitive FX market conduct. NatWest Group plc, NWM Plc and other defendants contested the jurisdiction of the Dutch court. In March 2023, the district court in Amsterdam accepted that it has jurisdiction to hear claims against NWM N.V. but refused jurisdiction to hear any claims against the other defendant banks (including NatWest Group plc and NWM Plc) brought on behalf of the parties represented by the claimant that are domiciled outside of the Netherlands. The claimant is appealing that decision and the defendant banks have brought cross-appeals which seek a ruling that the Dutch court has no jurisdiction to hear any claims against the defendant banks domiciled outside of the Netherlands, including claims brought on behalf of the parties represented by the claimant that are domiciled in the Netherlands.

In September 2023, second summonses were served by Stichting FX Claims on NWM N.V., NatWest Group plc and NWM Plc, for claims on behalf of a new group of parties that have now been brought before the district court in Amsterdam. The summonses seek declarations from the Dutch court concerning liability for anti-competitive FX market conduct described in the above referenced decisions of the EC of 16 May 2019 and 2 December 2021, along with unspecified damages.

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. In February 2024, the US Court of Appeals affirmed the SDNY's decision dismissing the complaint.

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 various European central banks (European government bonds or 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 EGBs. The class consists of those who purchased or sold EGBs in the US between 2007 and 2012. Previously, in March 2022, the SDNY dismissed the claims against NWM Plc and NWMSI on the ground that the complaint's conspiracy allegations were insufficient. However, in September 2023, the SDNY ruled that new allegations which plaintiffs have included in an amended complaint are sufficient to bring those NatWest entities back into the case as defendants.

Swaps Antitrust Litigation

NWM Plc, NWMSI and 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. In December 2023, the SDNY denied the plaintiffs' motion for class certification. The plaintiffs have filed a petition requesting that the US Court of Appeals review the denial of class certification.

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 filed a motion to dismiss the complaint and, in June 2023, such motion was denied as regards NWMSI and other financial institutions, but granted as regards to NWM Plc on the ground that the court lacks jurisdiction over that entity. As a result, the case entered the discovery phase as against the non-dismissed defendants. In January 2024, the SDNY issued an order barring the plaintiffs in the New Mexico case from pursuing claims based on conduct occurring before 30 June 2014 on the ground that such claims were extinguished by a 2015 settlement agreement that resolved a prior class action relating to credit default swaps.

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 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 in March 2023. As a result, the case has now entered the discovery phase.

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 judgment and ordered that a retrial take place before a different High Court judge. In January 2024, NWM Plc entered into an agreement to resolve the claim against it. The settlement amount paid by NWM Plc was covered in full by an existing provision.

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 and/or aided and abetted 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, alleging conspiracy claims but not aiding and abetting claims, 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. In January 2023, the US Court of Appeals affirmed the district court's dismissal of this case. The plaintiffs filed a petition with the United States Supreme Court seeking review of the dismissal of their claims and that petition was denied in October 2023. It is anticipated that the plaintiffs will file a motion to re-open the case to assert aiding and abetting claims that they previously did not assert. Another action, filed in the SDNY in 2017, which asserted both conspiracy and aiding and abetting claims, 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 those described above 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. Before that application was heard, in April 2023, the claimant filed a notice of discontinuance of its claim against certain defendants including Coutts & Co Ltd. The claimant subsequently indicated that it intended to issue further replacement proceedings. Coutts & Co Ltd challenged the claimant's ability to take that step. In August 2023, the court disallowed the discontinuation of the claim by the claimant (a decision that the claimant has appealed) and directed that the application by Coutts & Co Ltd challenging the validity of the proceedings should proceed to a hearing, which took place in February 2024. Judgment is awaited.

Coutts & Co Ltd (a subsidiary of RBS Netherlands Holdings B.V., which in turn is a subsidiary of NWM Plc) 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 probationary period until the conclusion of the independent monitorship, which is also required under the plea agreement. In addition, NWM Plc has committed to compliance programme reviews and improvements and agreed to reporting and co-operation obligations.

Facilities

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 provided 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.

Between 2019 to 2023, NWM Group delivered simplification of its technology estate and cost profile, with an aggregate investment in IT of more than £250 million. Over this period, NWM Group transformed into a more simple, modern, and digital business. This was largely achieved through 3 levers:

- Functionalisation and adoption of ‘One Bank’ capability with generic IT activities moving to wider NatWest Group functions.
- Optimisation and bringing together capability and realising synergies through combining technology teams where activity overlapped.
- Simplification of the application estate with adoption of Murex for post-trade management pivotal in unlocking application simplification across the estate.

While this investment has enabled NWM Group to optimise the cost profile and complexity of the technology estate, there is further opportunity to structurally simplify the remaining technology estate and create a more agile platform to support rapid business changes in complex market conditions. To achieve this, NWM Group will focus on:

- Growth: Extending FX capabilities for liquidity, capital markets loans and offering markets technology to optimise treasury services.
- Simplification: Simplification of front office capability, consolidation of the risk platform, and converging common e-trading components.

- Safe & Secure: Accelerate and simplify execution by creating a sustainable technology offering through API-first, cloud-ready, resilient, reusable, and productivity enhancing capabilities**.**

Employees

As at 31 December 2023, NWM Group employed 1,700 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 2023, excluding contingent workers, was as follows (rounded to the nearest hundred for 2023 and 2022):

	2023	**2022**
UK	900	900
USA	300	300
Rest of the World	500	400
Total	1,700	1,600

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 2023 (the end of the last financial period for which the latest audited or interim financial information of the NWM Group has been published).

There has been no material adverse change in the prospects of NWM Group since 31 December 2023 (the last date to which the latest audited published financial information of 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.

	Central and local government				
	UK	US	Other	Financial institutions and Corporate	Total
	£m	£m	£m	£m	£m
2023					
AAA	—	—	1,333	1,132	2,465
AA to AA+	—	2,600	19	766	3,385
A to AA-	2,729	—	1,017	534	4,280
BBB- to A-	—	—	693	784	1,477
Non-investment grade	—	—	—	347	347
Unrated	—	—	—	—	—
Total	2,729	2,600	3,062	3,563	11,954
Short positions	(1,893)	(2,071)	(4,049)	(1,790)	(9,803)
2022					
AAA	—	—	469	769	1,238
AA to AA+	—	2,345	1,042	1,135	4,522
A to AA-	2,205	—	372	106	2,683
BBB- to A-	—	—	916	445	1,361
Non-investment grade	—	—	—	114	114
Unrated	—	—	—	4	4
Total	2,205	2,345	2,799	2,573	9,922
Short positions	(2,313)	(1,293)	(3,936)	(1,982)	(9,524)
2021					
AAA	—	—	2,011	838	2,849
AA to AA+	—	3,329	3,145	1,463	7,937
A to AA-	6,919	—	1,950	365	9,234
BBB- to A-	—	—	3,792	859	4,651
Non-investment grade	—	—	31	245	276
Unrated	—	—	—	6	6
Total	6,919	3,329	10,929	3,776	24,953
Short positions	(9,790)	(56)	(12,907)	(2,211)	(24,964)

Trading assets and liabilities held at fair value in trading portfolios are analysed as follows.

	NWM Group			NWM Plc		
	2023	2022	2021	2023	2022	2021
	£m	£m	£m	£m	£m	£m
Trading Assets						
Loans						
– Reverse repos	23,694	21,537	20,742	11,315	8,559	9,246
– Cash collateral given	8,914	12,719	11,990	7,263	10,468	9,332
– Other loans	762	1,113	1,414	645	938	1,189
Total loans	33,370	35,369	34,146	19,223	19,965	19,767
Securities						
– Central and local government						
– UK	2,729	2,205	6,919	2,729	2,204	6,919
– US	2,600	2,345	3,329	33	41	145
– Other	3,062	2,799	10,929	3,062	2,799	10,929
– Financial Institutions and Corporate	3,563	2,573	3,778	3,364	2,292	3,462
Total securities	11,954	9,922	24,955	9,188	7,336	21,455
Total	45,324	45,291	59,101	28,411	27,301	41,222
Trading Liabilities						
Deposits						
– Repos	26,902	23,740	19,389	12,125	8,716	4,940
– Cash collateral received	15,062	17,663	17,619	12,455	14,556	16,386
– Other deposits	1,150	1,068	1,536	1,127	1,066	1,532
Total deposits	43,114	42,471	38,544	25,707	24,338	22,858
Debt securities in issue	706	797	974	706	797	974
Short positions	9,803	9,524	24,964	7,666	8,090	23,287
Total	53,623	52,792	64,482	34,079	33,225	47,119

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.

	NWM Group								
	2023			2022			2021		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,109	34,208	33,364	3,145	45,821	44,938	3,162	38,546	39,275
Interest rate contracts	9,689	44,943	38,292	10,356	54,097	48,372	8,601	66,850	58,879
Credit derivatives	16	181	325	15	236	275	14	154	343
Equity and commodity contracts	—	—	—	—	—	—	—	—	—
		79,332	71,981		100,154	93,585		105,550	98,497

	NWM Plc								
	2023			2022			2021		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Exchange rate contracts	3,116	34,415	33,508	3,178	46,528	45,592	3,169	38,692	39,427
Interest rate contracts	9,267	41,237	35,577	8,840	49,496	44,890	7,383	64,196	55,335
Credit derivatives	15	180	319	15	234	272	14	154	334
Equity and commodity contracts	—	—	—	—	—	—	—	—	—
		75,832	69,404		96,258	90,754		103,042	95,096

See Note 31 ('–*Related parties*') to the 2023 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 see Note 15 (‘*Other financial assets*’) to the 2023 Financial Statements.

	NWM Group Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
2023					
Mandatory fair value through profit or loss.............	—	—	—	1	1
Designated as at fair value	—	—	3	2	5
Fair value through other comprehensive income......	—	2,472	573	948	3,993
Amortised cost...	—	—	—	11,555	11,555
Total	—	2,472	576	12,506	15,554
2022					
Mandatory fair value through profit or loss.............	—	—	—	2	2
Designated as at fair value	—	—	—	—	—
Fair value through other comprehensive income......	—	3,920	1,213	700	5,833
Amortised cost...	—	—	—	5,750	5,750
Total	—	3,920	1,213	6,452	11,585
2021					
Mandatory fair value through profit or loss.............	—	—	—	1	1
Designated as at fair value	—	—	—	—	—
Fair value through other comprehensive income......	360	3,357	884	794	5,395
Amortised cost...	—	—	—	3,116	3,116
Total	360	3,357	884	3,911	8,512

	NWM Plc Debt securities				
	Central and local government				
	UK	US	Other	Other debt	Total
	£m				
2023					
Mandatory fair value through profit or loss.............	—	—	—	1	1
Fair value through other comprehensive income......	—	2,393	352	900	3,645
Amortised cost...	—	—	—	9,641	9,641
Total	—	2,393	352	10,542	13,287
2022					
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
Total	—	3,714	559	5,895	10,168
2021					
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
Total	86	3,209	794	3,474	7,563

Deposits and Short-Term Borrowings

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	2023			2022		
	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	1,622	645	2,267	2,427	642	3,069
of which: repos (amortised cost)	452	—	452	799	—	799
Customer deposits	6,990	8	6,998	3,353	261	3,614
of which: repos (amortised cost)	418	—	418	—	254	254
Trading liabilities (1)						
Repos (2)	26,634	268	26,902	23,740	—	23,740
Derivative cash collateral received	15,062	—	15,062	17,663	—	17,663
Other bank and customer deposits	768	382	1,150	414	654	1,068
Debt securities in issue	418	288	706	54	743	797
	42,882	938	43,820	41,871	1,397	43,268
Other financial liabilities						
Customer deposits (designated at fair value)	193	1,066	1,259	253	797	1,050
Debt securities in issue						
commercial paper and certificates of deposits	4,228	205	4,433	3,084	85	3,169
Medium-term notes (MTNs)	3,759	13,849	17,608	2,368	14,050	16,418
Subordinated liabilities	—	274	274	206	260	466
	8,180	15,394	23,574	5,911	15,192	21,103
Amounts due to holding company and fellow subsidiaries (3)						
Internal MREL	434	2,636	3,070	2,199	974	3,173
Other bank and customer deposits	1,620	—	1,620	1,288	—	1,288
Subordinated liabilities	839	183	1,022	—	1,519	1,519
	2,893	2,819	5,712	3,487	2,493	5,980
Total funding	62,567	19,804	82,371	57,049	19,985	77,034
Of which: available in resolution (4)			3,093			2,753

(1) Funding sources excludes short positions of £9,803 million (2022 - £9,524 million) reflected as trading liabilities on the balance sheet.

(2) Comprises Central and other bank repos of £3,957 million (2022 - £1,642 million), other financial institution repos of £20,394 million (2022 - £19,354 million) and other corporate repos of £2,551 million (2022 - £2,744 million).

(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £90 million (2022 - £211 million) and Nil intercompany settlement balances (2022 – £26 million) 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

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						
	MTNs (1)	Commercial paper and CDs	MTNs (1)	Subordinated liabilities	Total	Internal MREL	Subordinated liabilities	Total notes in issue
	£m	£m	£m	£m	£m	£m	£m	£m
2023								
Less than 1 year	418	4,228	3,759	—	7,987	434	839	9,678
1-3 years	48	205	9,342	18	9,565	1,722	—	11,335
3-5 years	—	—	3,851	—	3,851	914	—	4,765
More than 5 years	240	—	656	256	912	—	183	1,335
Total	706	4,433	17,608	274	22,315	3,070	1,022	27,113
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

(1) With respect to MTNs only, £4,179 million will mature in 2024, £5,483 million will mature in 2025, £3,907 million will mature in 2026, £2,154 million will mature in 2027 and £1,697 million will mature in 2028.

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

	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m
2023					
Commercial paper and CDs	1,195	1,347	1,891	—	4,433
MTNs	1,734	4,450	9,135	2,995	18,314
External subordinated liabilities	19	17	238	—	274
Internal MREL due to NatWest Group plc	—	2,156	914	—	3,070
Subordinated liabilities due to NatWest Group plc	—	183	839	—	1,022
Total	2,948	8,153	13,017	2,995	27,113
2022 Total	1,816	9,892	11,160	2,674	25,542

Maturity

The following tables show the residual maturity of financial instruments, based on contractual date of maturity.

	NWM Group								
	2023			2022			2021		
	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
Assets									
Cash and balances at central banks	13,831	—	13,831	17,007	—	17,007	16,645	—	16,645
Trading assets	36,496	8,828	45,324	35,658	9,633	45,291	40,206	18,895	59,101
Derivatives	29,995	49,337	79,332	38,174	61,980	100,154	34,423	71,127	105,550
Settlement balances	7,227	—	7,227	2,558	-	2,558	2,139	—	2,139
Loans to banks—amortised cost	1,246	—	1,246	1,129	17	1,146	714	248	962
Loans to customers—amortised cost	5,032	7,954	12,986	4,282	5,889	10,171	3,707	3,764	7,471
Amounts due from holding company and fellow subsidiaries(1)	1,462	74	1,536	615	97	712	705	675	1,380
Other financial assets	1,453	14,270	15,723	3,955	7,915	11,870	3,848	4,938	8,786
Liabilities									
Bank deposits	1,622	645	2,267	2,427	642	3,069	1,244	564	1,808
Customer deposits	6,990	8	6,998	3,353	261	3,614	2,161	107	2,268
Amounts due to holding company and fellow subsidiaries(2)	2,897	2,827	5,724	3,519	2,494	6,013	1,571	4,384	5,955
Settlement balances	6,641	—	6,641	2,010	—	2,010	2,068	—	2,068
Trading liabilities	45,336	8,287	53,623	42,744	10,048	52,792	41,548	22,934	64,482
Derivatives	30,433	41,548	71,981	39,166	54,419	93,585	34,606	63,891	98,497
Other financial liabilities	8,181	15,393	23,574	6,129	14,974	21,103	8,715	10,540	19,255
Lease liabilities	8	33	41	8	39	47	13	40	53

	NWM Plc								
	2023			2022			2021		
	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
Assets									
Cash and balances at central banks	8,607	—	8,607	13,467	—	13,467	12,294	—	12,294
Trading assets	21,047	7,364	28,411	20,085	7,216	27,301	22,355	18,867	41,222
Derivatives	29,990	45,842	75,832	38,402	57,856	96,258	34,259	68,783	103,042
Settlement balances	2,168	—	2,168	1,686	—	1,686	795	—	795
Loans to banks—amortised cost	910	—	910	798	17	815	464	248	712
Loans to customers—amortised cost	4,745	7,359	12,104	4,062	5,092	9,154	3,641	3,169	6,810
Amounts due from holding company and fellow subsidiaries(1)	5,145	1,093	6,238	4,068	2,538	6,606	3,862	2,749	6,611
Other financial assets	916	12,528	13,444	2,727	7,650	10,377	3,092	4,651	7,743
Liabilities									
Bank deposits	1,351	558	1,909	2,338	598	2,936	1,244	564	1,808
Customer deposits	3,059	1	3,060	2,411	254	2,665	1,448	62	1,510
Amounts due to holding company and fellow subsidiaries(2)	11,439	2,827	14,266	9,808	2,842	12,650	5,407	5,399	10,806
Settlement balances	400	—	400	1,133	—	1,133	1,028	—	1,028
Trading liabilities	27,341	6,738	34,079	24,230	8,995	33,225	24,204	22,915	47,119
Derivatives	30,234	39,170	69,404	39,380	51,374	90,754	34,547	60,549	95,096
Other financial liabilities	6,149	14,506	20,655	4,419	13,977	18,396	7,109	9,768	16,877
Lease liabilities	2	—	2	2	2	4	7	3	10

(1) Amounts due from holding company and fellow subsidiaries relating to non-financial instruments of £194 million (2022—£28 million) for NWM Group and £234 million (2022—£59 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 £78 million (2022—£204 million) for NWM Group and £119 million (2022—£217 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 £126 billion (2022—£147 billion) for NWM Group and £111 billion (2022—£130 billion) for the Issuer, have been excluded from the tables.

	NWM Group					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
2023	£m	£m	£m	£m	£m	£m
Liabilities by contractual maturity						
Bank deposits	1,087	541	645	—	—	—
Customer deposits	5,317	1,708	3	1	2	19
Amounts due to holding companies and fellow subsidiaries	1,434	435	1,730	915	183	—
Settlement balances	6,641	—	—	—	—	—
Derivatives held for hedging	28	110	199	84	14	—
Other financial liabilities	2,400	6,183	10,075	4,166	348	505
Lease liabilities	1	4	9	15	12	—
	16,908	8,981	12,661	5,181	559	524
Guarantees and commitments notional amount						
Guarantees(2)	754	—	—	—	—	—
Commitments(3)	13,639	—	—	—	—	—
	14,393	—	—	—	—	—
2022						
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	—
	7,406	9,101	11,796	5,335	631	457
Guarantees and commitments notional amount						
Guarantees(2)	594	—	—	—	—	—
Commitments(3)	12,873	—	—	—	—	—
	13,467	—	—	—	—	—
2021						
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
Other liabilities(1)	4	10	12	9	18	—
	8,181	7,024	9,855	4,472	559	565
Guarantees and commitments notional amount						
Guarantees(2)	595	—	—	—	—	—
Commitments(3)	9,921	—	—	—	—	—
	10,516	—	—	—	—	—

	NWM Plc					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
2023	£m	£m	£m	£m	£m	£m
Liabilities by contractual maturity						
Bank deposits	1,075	280	558	—	—	—
Customer deposits	1,911	1,172	3	1	2	3
Amounts due to holding companies and fellow subsidiaries	3,194	435	1,729	915	183	—
Settlement balances	400	—	—	—	—	—
Derivatives held for hedging	29	109	199	84	14	—
Other financial liabilities	1,702	4,703	9,920	3,898	340	167
Lease liabilities	—	1	—	—	—	—
	8,311	6,700	12,409	4,898	539	170
Guarantees and commitments notional amount						
Guarantees	296	—	—	—	—	—
Commitments	8,339	—	—	—	—	—
	8,635	—	—	—	—	—
2022						
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	—	—	—
	6,468	7,786	11,488	5,218	614	164
Guarantees and commitments notional amount						
Guarantees	144	—	—	—	—	—
Commitments	6,956	—	—	—	—	—
	7,100	—	—	—	—	—
2021						
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	—	—	—
	7,570	5,618	10,010	4,445	606	151
Guarantees and commitments notional amount						
Guarantees(2)	197	—	—	—	—	—
Commitments(3)	6,152	—	—	—	—	—
	6,349	—	—	—	—	—

(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

Where marked as 'audited' in the section header, certain information in this section is within the scope of the independent auditor's report. 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.

Risk Management Framework

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 Board. The framework incorporates risk governance, the 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 risks may incorporate aspects of - or correlate to - a number of principal risks and are reported alongside them to the Board on a regular basis.

Culture

NWM Group supports NatWest Group's multi-year programme to enhance risk management capability at different levels of the organisation which has an ongoing emphasis on risk culture. The approach to risk culture, under the banner of intelligent risk-taking, ensures a focus on robust risk management behaviours and practices. This underpins the strategy and values across all three lines of defence, enables NWM Group to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

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.

- 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 NWM Group's learning strategy. NWM 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 NWM 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

NWM Group operates under NatWest Group's conduct guidance, Our Code, which 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.

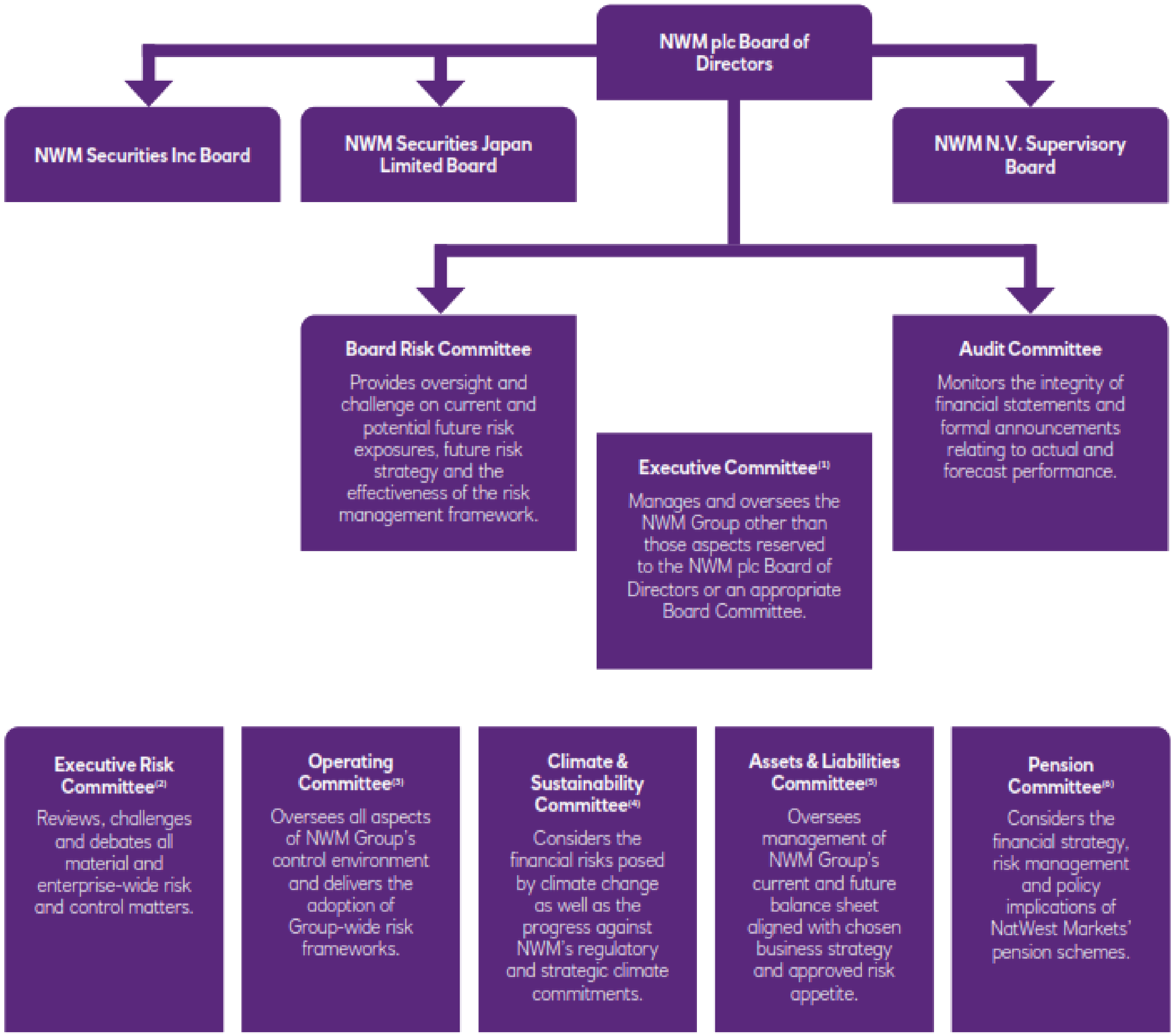
These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision-making and a clear focus on good customer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

Where appropriate, if conduct falls short of NWM 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 governance structure in 2023 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 Deputy Chief Executive Officer and supports the NWM CEO in discharging his climate risk accountabilities.

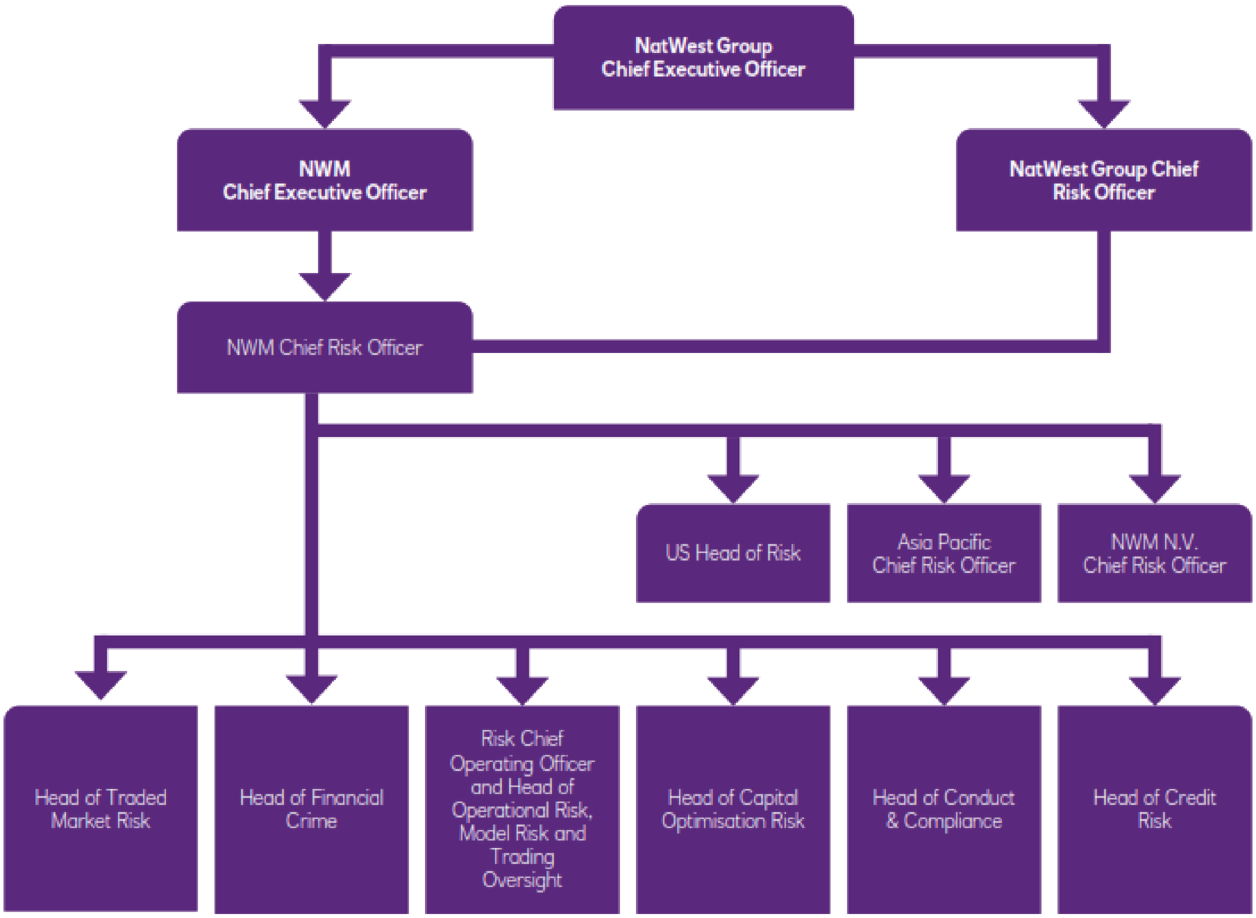
(5) The Assets & Liabilities Committee is chaired by the NWM Chief Financial Officer and supports him in discharging his individual accountabilities relating to treasury and balance sheet management.

(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.

Risk Management Structure

The diagram shows NWM Group's risk management structure in 2023.



(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.

Three Lines of Defence

NWM 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 NWM 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 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 NWM 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 review of the framework is carried out annually. 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.

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 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.

Risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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.

NWM 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 NWM 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 NWM 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:

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

Stress testing is used widely across NatWest Group, 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 NWM 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 NWM 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 NWM Group but also by the regulators to set specific capital buffers. NWM 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
Idiosyncratic scenario	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 scenario	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.
Combined scenario	This scenario models the combined impact of an idiosyncratic and market stress occurring at once, severely affecting funding markets and the liquidity of some assets.

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. The NWM Plc plan is reviewed and approved by the Board prior to submission to the PRA.

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 – Climate

During 2023, 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.

In 2023, NatWest Group deployed a new in-house corporate transition risk model, as part of an internal scenario analysis exercise, to assess climate transition related credit risks to corporate counterparties.

This involved running the following two climate scenarios:

- A disruptive policy response scenario, where the introduction of policy from the Network for Greening the Financial System delayed transition scenario, is accelerated to this decade.

- Inevitable policy response 1.8°C scenario, which anticipates investor, corporate and civil society pressure will push policymakers to make changes between 2023 and 2033, that could result in warming at or below 1.8°C by 2100.

These scenarios tested NatWest Group's resilience to alternative transition pathways, including a disruptive transition, and to identify losses that are sensitive to scenario policy and technology assumptions.

The corporate transition risk model and internal exercise builds on the learnings from the Climate Biennial Exploratory Scenario and integrates climate into ICAAP. The model is capable of accounting for sector specific exposure to climate-related transition risks and counterparty specific response to a limited set of demand shocks and rising carbon prices, by mitigating emissions and passing costs through to customers.

Regulatory Stress Testing

The Bank of England published the results of the 2022 annual cyclical scenario (ACS) stress test on 12 July 2023. The results of this stress test, and other relevant information, will be used to help inform NWM Group and NatWest Group capital buffers (both the UK countercyclical capital buffer rate and PRA buffers).

The 2022 stress test aimed 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 averaged around 11% over the first three years of the scenario, peaking at 17% in early 2023.

The stress test was 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. NatWest Group itself does not participate.

NatWest Group, including NWM Group, is taking part in the Bank of England's system-wide exploratory scenario in 2023/24. The objective of the exercise is to understand the risks and behaviours flowing from non-bank financial institutions under stress, and how these risks could amplify market shocks and pose a risk to financial stability. The Bank of England will publish a report on this scenario in 2024 following completion of the exercise.

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 of losses in trading book positions from fluctuations in market variables, such as interest rates, credit spreads, foreign exchange rates, equity prices, implied volatilities and asset correlations.

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, see '*–Credit risk*'.

Key Developments in 2023

- The year was marked by periods of increased market volatility reflecting UK political developments, global inflationary concerns, the ongoing Russia-Ukraine conflict and the Israeli–Hamas conflict.

- The significant volatility in Gilts, sterling swaps and inflation entered the rolling window for the value-at-risk (VaR) calculation during 2023. However, traded VaR and stressed value-at-risk (SVaR) remained within appetite and, on an average basis, at similar levels compared to 2022, 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 VaR, SVaR and stress-testing. 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.

The risk appetite statements and associated measures are reviewed at least annually by the relevant legal entity board on the relevant board risk committee's recommendation to ensure they remain appropriate and aligned to strategy.

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 (IRC) to capitalise 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. During 2023, an update was made to the VaR model to make it more sensitive to recent market conditions, following approval from the PRA.

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

The table below shows one-day 99% internal VaR for the trading portfolios of NWM Group, split by exposure type.

	2023				2022			
	Average	**Maximum**	**Minimum**	**Period end**	**Average**	**Maximum**	**Minimum**	**Period end**
Traded internal VaR (1-day 99%)	(£m)				(£m)			
Interest rate	9.8	19.3	4.3	7.4	7.3	12.6	4.1	9.0
Credit spread	6.2	7.1	4.9	6.8	7.8	12.0	6.0	6.4
Currency	2.3	7.0	0.9	1.8	3.1	8.0	1.2	1.5
Equity	—	0.1	—	0.1	—	0.3	—	—
Diversification(1)	(7.0)			(7.2)	(7.5)			(6.8)
Total	11.3	20.0	6.6	8.9	10.7	15.1	7.2	10.1

(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, traded VaR remained at similar levels in 2023 compared to 2022.

- The increase in average interest rate VaR, compared to 2022, reflected an increase in curve risk in sterling and euro flow trading.

- The decrease in average credit spread VaR mostly reflected a tightening of credit spreads on the net longer credit profile over the period.

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 2023 for one-day 99% traded regulatory VaR compared with Actual and Hypothetical (Hypo) P&L.

	Back-Testing Exceptions	
	Actual	Hypo
NWM Plc	—	—

- In the 250-day rolling window to 31 December 2023, there were no NWM Plc Actual or Hypothetical VaR P&L back-testing exceptions.

The table below shows internal back-testing exceptions in the major NWM businesses for the 250-business-day period to 31 December 2023. Internal back-testing compares one-day 99% traded internal VaR with Actual and Hypo P&L.

	Back-Testing Exceptions	
	Actual	Hypo
Rates	—	—
Currencies	—	—
Credit	1	1
xVA	—	—

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.

	2023				2022			
	Average	Maximum	Minimum	Period End	Average	Maximum	Minimum	Period End
	(£m)				(£m)			
Total internal traded SVaR	56	140	28	36	70	206	34	40

- Traded SVaR was, on an average basis, lower in 2023 than in 2022, following the reduction in tenor basis risk in sterling flow trading resulting from the VaR model update in Q3 2022.

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 – 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 2023

- NWM Plc's non-traded market risk internal VaR increased on an average and period-end basis compared to 2022, reflecting time series impacts and the growth in the banking book. The increase was driven by the rising trend in credit spread VaR – reflecting increased holdings of bonds in the liquidity portfolio – and in interest rate VaR. However, interest rate VaR experienced a downward trend in the second half of the year.

- NWM Plc maintains a structural hedge of its common equity and reserves. At 31 December 2023 the notional amount of the structural hedge in place was £3.4 billion (£3.3 billion at 31 December 2022). NWM N.V. also maintains a structural hedge of its common equity and reserves; at 31 December 2023, the notional amount of this hedge, in sterling equivalent terms, was £1.4 billion (£1.6 billion at 31 December 2022).

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%)

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.

	2023				2022			
	Average	**Maximum**	**Minimum**	**Period End**	**Average**	**Maximum**	**Minimum**	**Period End**
NWM Plc	(£m)				(£m)			
Interest rate	5.2	7.4	3.0	5.6	4.1	7.0	2.3	5.8
Credit spread	5.6	7.3	3.8	7.3	3.5	4.7	3.0	3.9
Foreign exchange rate	3.5	4.8	2.8	4.8	3.6	4.8	2.8	4.7
Equity risk	1.2	1.2	1.1	1.1	1.4	2.6	1.1	1.1
Diversification(1)	(6.0)			(5.7)	(5.1)			(5.6)
Total	9.5	13.1	7.1	13.1	7.5	9.9	5.7	9.9

(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, non-traded market risk internal VaR increased on both an average and period-end basis compared to 2022, reflecting time series impacts and the growth in the banking book.
- The increase was driven by the rising trend in credit spread VaR – reflecting increased holdings of bonds in the liquidity portfolio – and in interest rate VaR. However, interest rate VaR experienced a downward trend in the second half of the year.
- Foreign exchange rate and equity risks decreased slightly.
- In NWM N.V., in sterling equivalent terms, non-traded market risk VaR was £0.7 million on an average basis (2022 - £0.6 million) and £0.6 million on a period-end basis (2022 - £0.4 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

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)		
2023					
US dollar(1)	1,181	(228)	953	(902)	51
Euro	2,420	(420)	2,000	—	2,000
Swiss franc	192	(192)	—	—	—
Other non-sterling	355	(74)	281	—	281
	4,148	(914)	3,234	(902)	2,332
2022					
US dollar(1)	1,239	(303)	936	(936)	—
Euro	2,702	(420)	2,282	—	2,282

	Net Investments in Foreign Operations	Net Investment Hedges	Structural Foreign Currency Exposures	Economic Hedges	Residual Structural Foreign Currency Exposures
			(£m)		
2023					
Swiss franc	184	(184)	—	—	—
Other non-sterling	390	(78)	312	—	312
	4,515	(985)	3,530	(936)	2,594

(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 strengthened against the US dollar, to 1.27 at 31 December 2023 compared to 1.21 at 31 December 2022. It also strengthened against the euro, to 1.15 at 31 December 2023 compared to 1.13 at 31 December 2022.

- 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 inability to conduct business in base or stress conditions on a risk or leverage basis due to insufficient qualifying capital as well as the failure to assess, monitor, plan and manage capital adequacy requirements.

Liquidity consists of assets that can be readily converted to cash within a short timeframe at a reliable value. Liquidity risk is the risk of being unable to meet actual or potential financial obligations in a timely manner when they fall due in the short term.

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk that current or prospective financial obligations cannot be met as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably.

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

- Maturity profile;

- Composition of sources and uses of funding;

- The quality and size of the liquidity portfolio;

- Wholesale market conditions; and

- Depositor and investor behaviour.

Sources (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 portfolio to ensure it is available when and where required, taking into account regulatory, legal and other constrains.

Liquidity portfolio is divided into primary and secondary liquidity as follows:

- Primary liquidity is LCR eligible assets and includes cash and balances at central banks, Treasury bills and high-quality government securities.

- Secondary liquidity is assets eligible as collateral for local central bank liquidity facilities. These assets include own-issued securitisations or whole loans that are retained on balance sheet and pre-positioned with a central bank so that they may be converted into additional sources of liquidity at very short notice.

Funding

NWM Group's primary funding sources are as follows:

Type	Description
Wholesale markets	Includes: • Short-term (less than 1 year) unsecured money market funding. • Commercial paper and certificates of deposit. • Secured repo market funding.
Term debt	Includes:

- Long-term (typically more than 1 year) senior unsecured and secured debt securities.
- Long-term subordinated liabilities.

Internal capital and MREL	Includes: • Equity, AT1, Tier 2 capital instruments and MREL issued to NatWest Group plc (under the Single Point of Entry regime).

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 2023

- NWM Plc's RWAs increased by £0.7 billion to £22.1 billion at 31 December 2023, reflecting increased credit and counterparty credit risk, partially offset by decreases in market risk and operational risk.
- NWM Plc's CET1 ratio decreased by 10 basis points to 17.1% at 31 December 2023, from 17.2% at 31 December 2022, largely driven by the increase in RWAs and other movements in reserves and regulatory adjustments.
- The leverage ratio decreased by 40 basis points to 5.0%. The decrease was due to a £8.8 billion increase in leverage exposure partially offset by a £0.1 billion increase in Tier 1 capital. The key drivers in the leverage exposure were an increase in off balance sheet items and other financial assets.
- NWM Plc's MREL at 31 December 2023 was £7.6 billion, or 34.5% of RWAs, compared to £8.7 billion or 40.4% of RWAs at 31 December 2022. The decrease in the year was largely due to the redemption of a \$0.6 billion internal Tier 2 instrument, decrease in senior unsecured debt driven by a €0.6 billion instrument now classified as ineligible and other movements in reserves and regulatory adjustments.
- The NWM Plc liquidity portfolio was £14.7 billion at 31 December 2023, a decrease of £4.4 billion compared with £19.1 billion at the prior year end.
- The LCR for NWM Plc was 183% at 31 December 2023, compared with 253% at 31 December 2022.

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.

Produce capital plans	• 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. • 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.
Assess capital adequacy	• 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. • Impact assessment captures input from across NWM Group including from businesses.
Inform capital actions	• Capital planning informs potential capital actions including managing capital through new issuance, redemptions or internal transactions. • Decisions on capital actions will be influenced by strategic and regulatory requirements, the cost and prevailing market conditions. • As part of capital planning, NWM Group will monitor its portfolio of capital securities and assess the optimal blend.

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 minimum ratios of capital to RWAs that the UK bank entities are expected to have 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)	1.0%	1.0%	1.0%
Total(2)	8.0%	9.5%	11.5%

(1) The institution specific countercyclical capital buffer requirement is based on the weighted average of geographical exposures. The Financial Policy Committee increased the UK CCyB rate from 1% to 2% effective from 5 July 2023. The Central Bank of Ireland increased CCyB on Irish exposures from 0% to 0.5% applicable 15 June 2023 and 1% from 24 November 2023. A further increase to 1.5% will be effective 7 June 2024. 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 for CET1, AT1 and T2. Refer to the NWM Plc Pillar 3 report for further details on these additional capital requirements.

Leverage Ratio

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

Type	CET1	Total Tier 1
Minimum ratio	2.44%	3.25%
Countercyclical leverage ratio buffer(1)	0.4%	0.4%
Total	2.84%	3.65%

(1) The countercyclical leverage ratio buffer is set at 35% of NWM Plc's CCyB. The UK CCyB increased from 1% to 2% from 5 July 2023. Foreign exposure may be subject to different CCyB rates depending on the rates set in those jurisdictions.

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.

	2023	2022
	(%)	(%)
Capital adequacy ratios		
CET1	17.1	17.2
Tier 1	20.2	20.4
Total	23.0	25.7
Total MREL	34.5	40.4
Capital	**(£m)**	**(£m)**
CET1	3,776	3,682
Tier 1	4,455	4,361

	2023	2022
	(%)	(%)
Total	5,072	5,502
Total MREL(1)	7,627	8,652
RWAs		
Credit risk	7,895	7,110
Counterparty credit risk	6,516	5,682
Market risk	6,366	7,152
Operational risk	1,322	1,478
Total RWAs	22,099	21,422

(1) Includes senior debt instruments issued to NatWest Group plc with a regulatory value of £2.6 billion (2022 - £3.2 billion).

Leverage

	2023	2022
Tier 1 capital (£m)	4,455	4,361
Leverage exposure (£m)(1)	89,929	81,083
Leverage ratio (%)	5.0	5.4

(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.

Leverage Exposure

The leverage metrics for UK entities are calculated in accordance with the Leverage ratio (CRR) part of the PRA Rulebook.

	2023	2022
	(£m)	
Leverage		
Cash and balances at central banks	8,607	13,467
Trading assets	28,411	27,301
Derivatives	75,832	96,258
Financial assets	32,930	27,011
Other assets	4,878	5,024
Total assets	150,658	169,061
Derivatives		
– netting	(73,927)	(95,223)
– potential future exposures	15,691	16,540
Securities financing transactions gross up	1,301	2,862
Undrawn commitments	8,493	5,239
Regulatory deductions and other adjustments	(3,373)	(3,077)
Exclusion of core UK-group exposures	(310)	(852)
Claims on central banks	(8,604)	(13,467)
Leverage exposure	**89,929**	**81,083**

Liquidity Portfolio

The table below shows the composition of the liquidity portfolio with primary liquidity aligned to high-quality liquid assets on a regulatory LCR basis. Secondary liquidity comprises of assets which are eligible as collateral for local central bank liquidity facilities and do not form part of the LCR eligible high-quality liquid assets.

	2023	2022(5)
	(£m)	
Cash and balances at central banks	8,547	13,414
High quality government/MDB/PSE and GSE bonds(1)	6,054	5,538
Extremely high quality covered bonds	1	1
LCR Level 1 eligible assets	14,602	18,953
LCR Level 2 eligible assets(2)	104	90
Primary liquidity (HQLA)(3)	14,706	19,043
Secondary liquidity(4)	39	68
Total liquidity value	14,745	19,111

(1) Multilateral development bank abbreviated to MDB, public sector entities abbreviated to PSE and government sponsored entities abbreviated to GSE.

(2) Includes Level 2A and Level 2B.

(3) High-quality liquid assets abbreviated to HQLA.

(4) Comprises assets eligible for discounting at the Bank of England and other central banks which do not form part of the LCR high-quality liquid assets.

(5) Comparative periods have been re-presented on an LCR basis in line with the Liquidity portfolio definition as of 31 December 2023.

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

	GBP	USD	EUR	Other	Total
			(£m)		
Total liquidity portfolio					
2023	5,153	3,350	6,150	92	14,745
2022(5)	8,964	3,442	6,611	94	19,111

Funding Sources (Audited)

The table below shows NWM Group's carrying values of the principal funding sources based on contractual maturity.

	2023			2022		
	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)	
Bank deposits	1,622	645	2,267	2,427	642	3,069
of which: repos (amortised cost)	452	—	452	799	—	799
Customer deposits	6,990	8	6,998	3,353	261	3,614
of which: repos (amortised cost)	418	—	418	—	254	254
Trading liabilities(1)						
Repos(2)	26,634	268	26,902	23,740	—	23,740
Derivative cash collateral received	15,062	—	15,062	17,663	—	17,663
Other bank and customer deposits	768	382	1,150	414	654	1,068
Debt securities in issue	418	288	706	54	743	797
	42,882	938	43,820	41,871	1,397	43,268
Other financial liabilities						
Customer deposits (designated at fair value)	193	1,066	1,259	253	797	1,050
Debt securities in issue						
Commercial paper and certificates of deposits	4,228	205	4,433	3,084	85	3,169
Medium term notes (MTNs)	3,759	13,849	17,608	2,368	14,050	16,418

	2023			2022		
	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)	
Subordinated liabilities	—	274	274	206	260	466
	8,180	15,394	23,574	5,911	15,192	21,103
Amounts due to holding company and fellow subsidiaries(3)						
Internal MREL	434	2,636	3,070	2,199	974	3,173
Other bank and customer deposits	1,620	—	1,620	1,288	—	1,288
Subordinated liabilities	839	183	1,022	—	1,519	1,519
	2,893	2,819	5,712	3,487	2,493	5,980
Total funding	**62,567**	**19,804**	**82,371**	**57,049**	**19,985**	**77,034**
Of which: available in resolution(4)			3,093			2,753

(1) Funding sources excludes short positions of £9,803 million (2022 - £9,524 million) reflected as trading liabilities on the balance sheet.

(2) Comprises Central and other bank repos of £3,957 million (2022 - £1,642 million), other financial institution repos of £20,394 million (2022 - £19,354 million) and other corporate repos of £2,551 million (2022 - £2,744 million).

(3) Amounts due to holding company and fellow subsidiaries relating to non-financial instruments of £90 million (2022 - £211 million) and Nil intercompany settlement balances (2022 – £26 million) 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						
	Debt Securities in Issue	Debt Securities in Issue				Amounts Due to Holding Company and Fellow Subsidiaries		
	MTNs	Commercial paper and CDs	MTNs	Subordinated Liabilities	Total	Internal MREL	Subordinated Liabilities	Total Notes in Issue
	(£m)	(£m)		(£m)	(£m)		(£m)	
2023								
Less than 1 year	418	4,228	3,759	—	7,987	434	839	9,678
1-3 years	48	205	9,342	18	9,565	1,722	—	11,335
3-5 years	—	—	3,851	—	3,851	914	—	4,765
More than 5 years	240	—	656	256	912	—	183	1,335
Total	**706**	**4,433**	**17,608**	**274**	**22,315**	**3,070**	**1,022**	**27,113**
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**

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

	GBP	USD	EUR	Other	Total
			(£m)		
2023					
Commercial paper and CDs	1,195	1,347	1,891	-	4,433
MTNs	1,734	4,450	9,135	2,995	18,314
External subordinated liabilities	19	17	238	—	274
Internal MREL due to NatWest Group plc	—	2,156	914	—	3,070
Subordinated liabilities due to NatWest Group plc	—	183	839	—	1,022
Total	**2,948**	**8,153**	**13,017**	**2,995**	**27,113**
2022 total	**1,816**	**9,892**	**11,160**	**2,674**	**25,542**

Credit risk

Definition (Audited)

Credit risk is the risk that customers, counterparties or issuers fail to meet a 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 2023 (Audited)

- The credit profile remained stable, but the outlook is uncertain from inflationary pressure, compounded by higher 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) was stable in 2023, with a small overall increase driven by business growth.
- Current and potential credit exposure increased in the context of planned business growth. The effect of inflation and higher interest rates 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 and proposing credit risk appetite measures for Board approval.
- Establishing credit risk policy, standards and toolkits which set out the mandatory limits and parameters required to ensure that credit risk is managed within risk appetite and which provide the minimum standards for the identification, assessment, management, monitoring and reporting of credit risk.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that it is being managed 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.

- Providing regular reporting on credit risk to the Board.

The Credit Risk Committee provides oversight of the overall credit risk profile and sector/product/asset class concentrations.

Risk Appetite

Credit risk appetite is approved 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.

Risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Operational limits are used to manage concentrations of risk which may arise across four lenses – single name, sector, country and product and asset classes.

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

Identification and Measurement

Credit Stewardship (Audited)

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit 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 risk toolkits 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 managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected to the extent that a failure of one could lead to the failure of another.

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.

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

For all other transactions, credit is only granted to customers following joint approval by an approver from the business and the credit risk function, or by two credit officers. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities framework policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

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

Credit grades (PD) and loss given default (LGD) are reviewed and 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.

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

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

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 IRB models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the IRB 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.

See Accounting policies Note 2 ('*Non-interest income*') to the 2023 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.
- Economic forecasts – 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 point-in-time/through-the-cycle 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 IRB 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 review, challenge and approval through model or provisioning committees.

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 high inflation, rising interest rates and supply chain disruption.

ECL Post Model Adjustments (Audited)

The table below shows ECL post model adjustments.

	2023	**2022**
	(£m)	
Deferred model calibrations	—	—
Economic uncertainty	13	1
Other adjustments	—	—

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	2023	2022
	(£m)	
Total	13	1
Of which:		
– Stage 1	10	—
– Stage 2	3	1
– Stage 3	—	—

Significant Increase in Credit Risk (SICR) (Audited)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12-month ECL). NWM 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.

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 follows 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 2023, 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 in relation to the path of inflation and interest rates.

For 2023, 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 robust growth as inflation falls sharply and rates are lowered more quickly than expected. Consumer spending is supported by savings built up since COVID-19 and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate falling. The housing market slows down compared to the previous year but remains robust.

Compared to 31 December 2022, the upside scenario remains similarly configured, exploring a more benign set of economic outcomes, including a stronger performing stock market, real estate prices, and supported by a stronger global growth backdrop, relative to the base case view. Reflecting recent outturn data, inflation falls back quicker and the labour market is tighter than previously assumed.

Base case – High inflation and tight monetary policy leads to muted economic growth. However, continued disinflation allows an easing cycle to start in 2024. The unemployment rate rises modestly but there are no wide-spread job losses. Inflation moderates and falls to a target level of 2% by early 2025. The housing market experiences modest nominal price decline but the extent of the decline is lower than experienced during prior stresses. Housing market activities remain weak but gains pace gradually as interest rates fall and real income recovers.

Since 31 December 2022, the economic outlook has improved as energy prices fell sharply and the labour market remained resilient. The near-term inflation outlook remains elevated and upside risks remain but they have reduced since last year. Rates increased to levels higher than expected previously and are expected to remain higher for longer. Economic growth is still expected to be muted in the near-term. The base case now assumes muted growth in 2023 as opposed to a mild recession assumed previously. The unemployment rate still rises but the peak is marginally lower and is underpinned by a resilient labour market The peak to trough house price correction remains broadly similar to the previous assumption but the timing of the fall is more spread out.

Downside – Inflation resurges as energy prices rise and core inflation remains persistently high. The economy experiences a recession as consumer confidence weakens due to a fall in real income. Interest rates are raised higher than the base case and remain elevated for longer. High rates are assumed to have a more significant impact on the labour market. Unemployment is higher than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Compared to 31 December 2022, the downside scenario explores risks associated with ongoing price pressures and significantly higher interest rates across the period. This contrasts with last year's scenario, which assumed lower rates than the base case view. Partly as a result, UK economic activity and labour market are slightly weaker. Nominal asset prices, while experiencing declines comparable with past downturns, perform slightly better than previously assumed.

Extreme downside – This scenario assumes a classical recession with loss of consumer confidence leading to a deep economic recession. This results in widespread job losses with the unemployment rate rising above the levels seen during the 2008 financial crisis. Rates are cut sharply in response, leading to some support to the recovery. House prices lose approximately a third of their value.

Compared to 31 December 2022, the extreme downside again captures an extreme set of economic outcomes, with very sharp falls in asset prices and a marked deterioration in the labour market. The key difference is the assumed path for interest rates. Unlike at 31 December 2022, when recessionary risks were explored in the context of a stubbornly high inflation environment, both inflation and interest rates are now assumed to follow a significantly lower trajectory – consistent with recession driven by material weakness in domestic demand.

Main Macroeconomic Variables

The main macroeconomic variables for each of the four scenarios used for expected credit loss (ECL) modelling are set out in the main macroeconomic variables table below.

	31 December 2023					31 December 2022				
	Upside	**Base case**	**Downside**	**Extreme downside**	**Weighted average**	**Upside**	**Base case**	**Downside**	**Extreme downside**	**Weighted average**
			(%)					(%)		
Five-year summary										
GDP	1.8	1.0	0.5	(0.3)	0.9	2.2	1.3	0.8	0.4	1.2
Unemployment	3.5	4.6	5.2	6.8	4.8	3.9	4.5	4.9	6.7	4.8
House price index	3.9	0.3	(0.4)	(5.7)	0.3	5.1	0.8	(0.7)	(4.4)	0.6
Commercial real estate price	3.1	(0.2)	(2.0)	(6.8)	(0.6)	1.2	(1.9)	(2.8)	(9.1)	(2.5)
Consumer price index	1.7	2.6	5.2	1.8	2.8	3.6	4.2	4.4	8.2	4.8
Bank of England base rate	3.8	3.7	5.6	2.9	4.0	2.4	3.1	1.5	4.5	2.8
UK stock price index	4.8	3.3	1.2	(0.4)	2.8	3.0	1.4	(1.1)	(3.7)	0.5
World GDP	3.7	3.2	2.7	1.8	3.0	3.7	3.3	1.7	1.1	2.7
Probability weight	21.2	45.0	20.4	13.4		18.6	45.0	20.8	15.6	

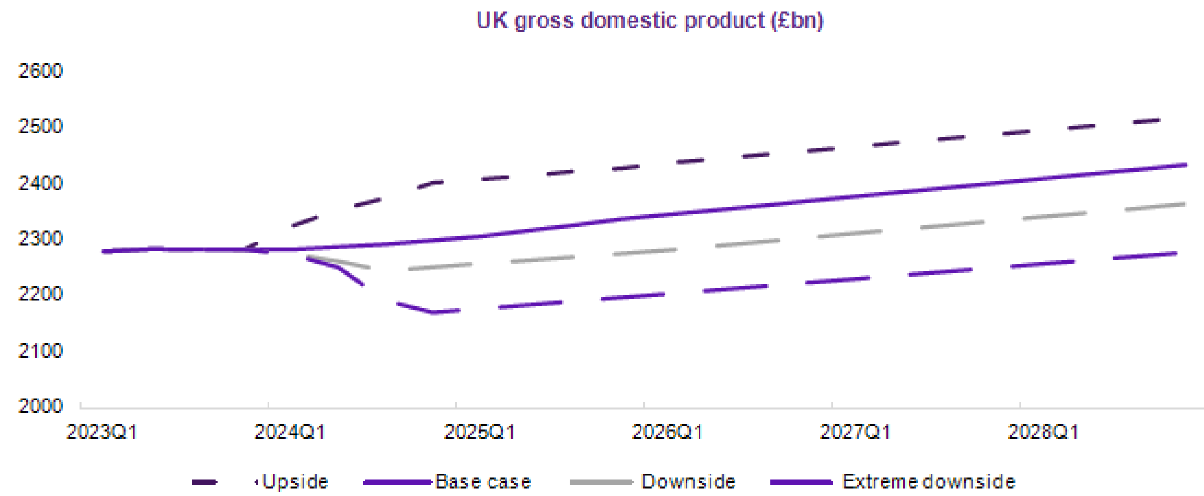
(1) The five-year summary runs from 2023-27 for 31 December 2023 and from 2022-26 for 31 December 2022.The table shows CAGR for annual GDP, average levels for the unemployment rate and Bank of England base rate and Q4 to Q4 CAGR for other parameters.

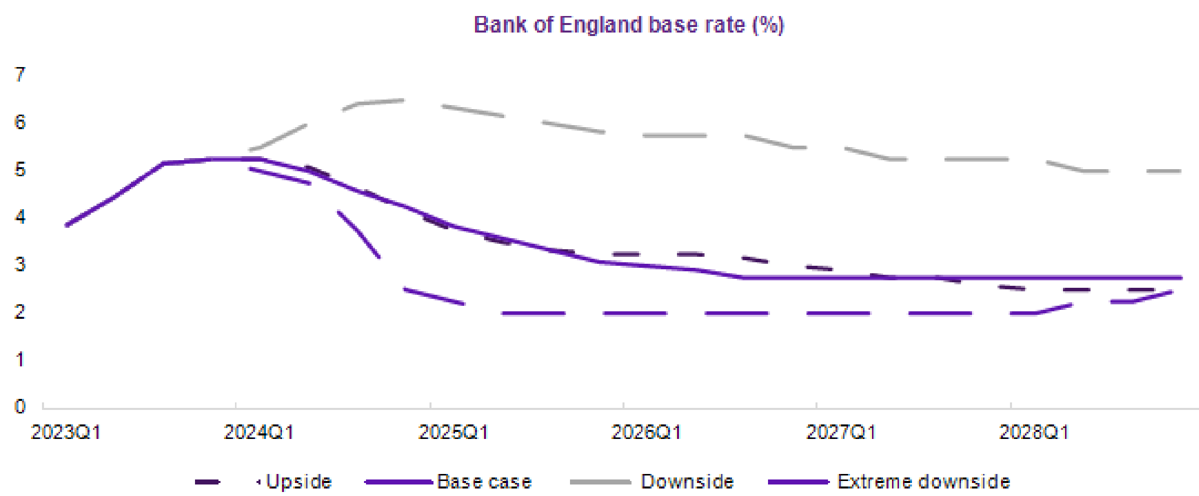
Probability Weightings of Scenarios

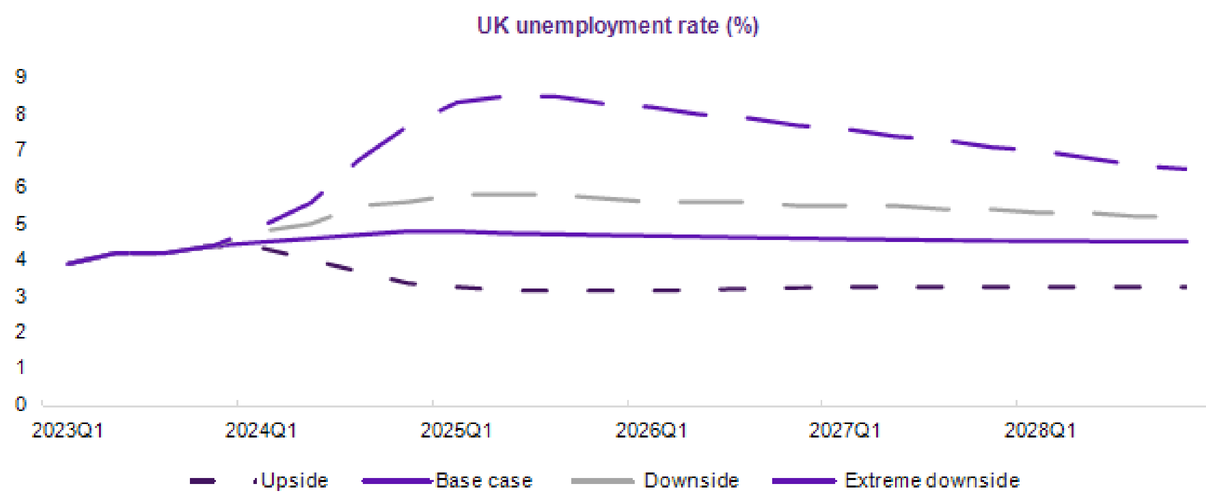
NWM Group's quantitative approach to IFRS 9 multiple economic scenarios (MES) involves selecting a suitable set of discrete scenarios to characterise the distribution of risks in the economic outlook and assigning appropriate probability weights. This quantitative approach is used for 31 December 2023.

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. The weights were broadly comparable to those used at 31 December 2022 but with slightly less downside skew. This is reasonable as the inflation outturn since then has been encouraging, with continued disinflation and a reduced risk of stagflation. However, the risks still remain elevated and there is considerable uncertainty in the economic outlook, particularly with respect to persistence and the range of outcomes on inflation. Given that backdrop, NWM Group judges it appropriate that downside-biased scenarios have higher combined probability weights than the upside-biased scenario. 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 21.2% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.4% weighting applied to the downside scenario and a 13.4% weighting applied to the extreme downside scenario.







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Economic Loss Drivers (Audited)

Annual Figures

	Upside	Base case	Downside	Extreme downside	Weighted average
			(%)		
GDP - annual growth					
2023	0.5	0.5	0.5	0.5	0.5
2024	3.6	0.4	(1.1)	(2.7)	0.3
2025	2.3	1.3	0.4	(1.6)	1.0
2026	1.2	1.6	1.2	1.2	1.4
2027	1.2	1.4	1.3	1.2	1.3
2028	1.2	1.4	1.3	1.2	1.3
Unemployment rate - annual average					
2023	4.2	4.2	4.2	4.2	4.2
2024	3.9	4.7	5.2	6.2	4.8
2025	3.2	4.7	5.8	8.4	5.1
2026	3.2	4.6	5.6	8.0	5.0
2027	3.3	4.6	5.5	7.4	4.8
2028	3.3	4.5	5.3	6.7	4.7
House price index - four quarter change					
2023	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
2024	7.2	(5.0)	(7.1)	(11.5)	(3.7)
2025	9.4	3.1	(3.1)	(14.2)	1.2
2026	2.8	3.4	5.5	(5.8)	2.7
2027	3.3	3.4	6.1	7.2	4.3
2028	3.5	3.4	4.4	6.6	3.9
Commercial real estate price - four quarter change					
2023	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)
2024	12.7	—	(7.3)	(18.4)	(1.2)
2025	3.5	2.7	(2.0)	(20.0)	(0.5)
2026	4.6	2.0	3.8	6.7	3.4
2027	2.9	1.9	3.1	8.5	3.0
2028	1.3	0.8	2.6	8.6	2.0
Consumer price index - four quarter change					
2023	4.6	4.6	4.6	4.6	4.6
2024	0.9	2.5	8.5	(1.2)	2.9
2025	0.7	2.0	5.3	1.7	2.4
2026	1.1	1.9	3.8	2.0	2.1
2027	1.2	1.9	3.7	2.0	2.2
2028	1.1	1.9	3.6	2.0	2.1
Bank of England base rate - annual average					
2023	4.68	4.68	4.68	4.68	4.68
2024	4.79	4.77	6.10	4.00	4.94
2025	3.46	3.46	6.08	2.06	3.81
2026	3.17	2.85	5.69	2.00	3.38
2027	2.75	2.75	5.31	2.00	3.17
2028	2.50	2.75	5.06	2.25	3.10
UK stock price index - four quarter change					
2023	3.7	3.7	3.7	3.7	3.7
2024	8.1	3.2	(17.4)	(41.5)	(5.9)
2025	5.1	3.2	8.7	24.9	6.5
2026	3.6	3.2	7.9	16.7	5.5
2027	3.6	3.2	5.6	11.0	4.6
2028	2.9	3.2	5.3	9.9	4.3

Worst points

	31 December 2023					31 December 2022				
	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %	Downside %	Quarter	Extreme downside %	Quarter	Weighted average %
GDP	(1.2)	Q3 2024	(4.5)	Q4 2024	0.3	(3.2)	Q4 2023	(4.7)	Q4 2023	(0.8)
Unemployment rate - peak	5.8	Q1 2025	8.5	Q2 2025	5.2	6.0	Q1 2024	8.5	Q3 2024	5.4
House price index	(12.5)	Q4 2025	(31.7)	Q2 2026	(6.5)	(15.0)	Q1 2025	(26.2)	Q3 2025	(3.4)
Commercial real estate price	(16.6)	Q1 2025	(39.9)	Q3 2025	(10.2)	(21.8)	Q4 2023	(46.8)	Q3 2024	(16.4)
Consumer price index	10.3	Q1 2023	10.3	Q1 2023	10.3	15.7	Q1 2023	17.0	Q4 2023	11.7
Bank of England base rate	6.5	Q4 2024	5.3	Q4 2023	5.3	4.0	Q1 2023	6.0	Q1 2024	4.1
UK stock price index	(14.3)	Q4 2024	(39.3)	Q4 2024	(2.4)	(26.0)	Q4 2023	(48.7)	Q4 2023	(14.1)

(1) Unless specified otherwise, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q4 2022 for 31 December 2023 scenarios and Q4 2021 for 31 December 2022 scenarios.

Use of the Scenarios in Lending

Wholesale lending follows a continuous scenario approach to calculate ECL. PD and LGD values arising from multiple economic forecasts (based on the concept of credit cycle indices) are simulated around the central projection. The central projection is a weighted average of economic scenarios with the scenarios translated into credit cycle indices using the Wholesale economic response models.

UK Economic Uncertainty

The high inflation environment alongside high interest rates are presenting significant headwinds for some businesses and consumers, in many cases compounding. These cost pressures remain a feature of the economic environment, though they are expected to moderate over 2024 and 2025 in the base case scenario. NWM Group has considered where these are most likely to affect the customer base, with the cost of borrowing during 2023 for both businesses and consumers presenting an additional affordability challenge.

The effects of these risks are not expected to be fully captured by forward-looking credit modelling, particularly given the 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 and Monitoring Enhancements

In lending, new economic response models were introduced in 2022 and 2023 that follow an improved modelling approach and put higher weight on stock price indices compared to previous models.

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 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) on the basis these would be re-evaluated by management through ECL governance for any new economic scenario outlook and not be subject to an automated calculation. 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.

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 2023. 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.

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

31 December 2023	Actual	Base Scenario	Moderate Upside Scenario	Moderate Downside Scenario	Extreme Downside Scenario
Stage 1 modelled loans (£m)	14,390	14,413	14,425	14,390	13,906
Stage 1 modelled ECL (£m)	24	21	20	26	39
Stage 1 coverage (%)	0.17%	0.15%	0.14%	0.18%	0.28%
Stage 2 modelled loans (£m)	565	542	530	565	1,049
Stage 2 modelled ECL (£m)	8	7	6	8	16
Stage 2 coverage (%)	1.42%	1.29%	1.13%	1.42%	1.53%
Stage 1 and Stage 2 modelled loans (£m)	14,955	14,955	14,955	14,955	14,955
Stage 1 and Stage 2 modelled ECL (£m)	32	28	26	34	55
Stage 1 and Stage 2 coverage (%)	0.21%	0.19%	0.17%	0.23%	0.37%
Variance – (lower)/higher to actual total Stage 1 and Stage 2 ECL (£m)		(4)	(6)	2	23
Reconciliation to Stage 1 and Stage 2 flow exposure (£m)					
Modelled loans	14,955	14,955	14,955	14,955	14,955
Other asset classes	34,900	34,900	34,900	34,900	34,900

(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 2023 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 2023. 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 2022 Annual Report and Accounts for 2022 comparatives.

Measurement Uncertainty and ECL Adequacy (Audited)

- A net improvement in the economic scenarios since 2022 resulted in a reduction in modelled ECL.

- Given that continued uncertainty remained due to high inflation, rising interest rates during 2023 and supply chain disruption, NWM Group utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage. This included economic data, credit performance insights, supply chain contagion analysis and problem debt trends. This was particularly important for consideration of post model adjustments.

- As the effects of these economic risks evolve into 2024, there is a risk of further credit deterioration. However, the income statement effect of this should have been mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2023.

- 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 which could impact the IFRS 9 models, include an adverse deterioration in unemployment and GDP 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)	
2023						
Gross	41,750	41,292	458	44,028	43,308	720
IFRS offset	(16,257)	(16,257)	—	(16,257)	(16,257)	—
Carrying value	25,493	25,035	458	27,771	27,051	720
Master netting arrangements	(669)	(669)	—	(669)	(669)	—
Securities collateral	(24,175)	(24,175)	—	(26,382)	(26,382)	—
Potential for offset not recognised under IFRS	(24,844)	(24,844)	—	(27,051)	(27,051)	—
Net	649	191	458	720	—	720
2022						
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

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. Refer to Note 12 on Trading assets and trading liabilities for details on short positions.

	Central and Local Government					
	UK	US	Other	Financial Institutions	Corporate	Total
	£m	£m	£m	£m	£m	£m
2023						

	Central and Local Government					
	UK	US	Other	Financial Institutions	Corporate	Total
	£m	£m	£m	£m	£m	£m
AAA	—	—	1,333	1,132	—	2,465
AA to AA+	—	2,600	19	762	4	3,385
A to AA-	2,729	—	1,017	251	283	4,280
BBB- to A-	—	—	693	295	489	1,477
Non-investment grade	—	—	—	198	149	347
Unrated	—	—	—	—	—	—
Total	2,729	2,600	3,062	2,638	925	11,954
2022						
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
Total	2,205	2,345	2,799	2,172	401	9,922

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.

	2023							2022		
	Notional									
	GBP	USD	EUR	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	(£bn)	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m
Gross exposure						83,276	76,879		101,020	95,478
IFRS offset						(5,242)	(5,242)		(2,509)	(2,509)
Carrying value	2,797	2,922	5,934	1,120	12,773	78,034	71,637	13,470	98,511	92,969
Of which:										
Interest rate(1)	2,510	1,530	5,389	227	9,656	43,767	37,974	10,319	52,529	47,873
Exchange rate	286	1,387	535	893	3,101	34,085	33,337	3,136	45,746	44,821
Credit	1	5	10	—	16	182	326	15	236	275
Equity and commodity	—	—	—	—	—	—	—	—	—	—
Carrying value					12,773	78,034	71,637	13,470	98,511	92,969
Counterparty mark-to-market netting						(59,827)	(59,827)		(76,722)	(76,722)
Cash collateral						(12,272)	(6,590)		(14,064)	(9,480)
Securities collateral						(3,084)	(1,663)		(4,210)	(1,185)
Net exposure						2,851	3,557		3,515	5,582
Banks(2)						333	556		647	669
Other financial institutions(3)						1,424	1,295		1,724	1,936
Corporate(4)						1,058	1,667		1,062	2,890
Government(5)						36	39		82	87
Net exposure						2,851	3,557		3,515	5,582
UK						1,277	1,884		1,257	2,753
Europe						800	1,209		1,195	1,990
US						607	381		753	626
RoW						167	83		310	213
Net exposure						2,851	3,557		3,515	5,582
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,376			3,001	
AQ5-AQ8						471			498	
AQ9-AQ10						4			16	
Net exposure						2,851			3,515	

(1) The notional amount of interest rate derivatives includes £6,677 billion (2022 – £7,651 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.

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
2023										
AQ1-AQ4	13,831	3,585	11,600	11,533	1,869	1,313	1,398	3,117	27	48,273
AQ5-AQ8	—	—	962	302	151	290	47	19	—	1,771
AQ9	—	—	26	—	1	—	—	—	—	27
AQ10	—	—	3	1	—	2	—	—	—	6
Current exposure	13,831	3,585	12,591	11,836	2,021	1,605	1,445	3,136	27	50,077
Potential exposure	13,831	3,585	26,814	11,836	9,411	4,093	2,305	4,187	27	76,089
2022										
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

- Measured against NWM Group's asset quality scale, 96% (2022 – 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.

Credit Risk – Banking Activities

Introduction

This section details the credit risk profile of NWM Group's banking activities. For accounting policy information refer to Notes 2.3 and 14 to the 2023 consolidated 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 2023 consolidated financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

Financial assets

	31 December 2023			31 December 2022		
	Gross	ECL	Net	Gross	ECL	Net
	£bn	£bn	£bn	£bn	£bn	£bn
Balance sheet total gross amortised cost and FVOCI	51.0			42.8		
In scope of IFRS 9 ECL framework	43.7			40.1		
% in scope	86%			94%		
Loans to customers - in scope - amortised cost	13.0	—	13.0	10.2	—	10.2
Loans to customers - in scope - FVOCI	0.1	—	0.1	0.1	—	0.1
Loans to banks - in scope - amortised cos t	1.2	—	1.2	1.0	—	1.0
Total loans - in scope	14.3	—	14.3	11.3	—	11.3
Stage 1	13.7	—	13.7	10.8	—	10.8
Stage 2	0.6	—	0.6	0.5	—	0.5
Stage 3	—	—	—	—	—	—
Other financial assets - in scope - amortised cost	25.4	—	25.4	22.8	—	22.8
Other financial assets - in scope - FVOCI	4.0	—	4.0	6.0	—	6.0
Total other financial assets - in scope	29.4	—	29.4	28.8	—	28.8
Stage 1	29.3	—	29.3	28.8	—	28.8
Stage 2	0.1	—	0.1	—	—	—
Stage 3	—	—	—			
Out of scope of IFRS 9 ECL framework	7.3	na	7.3	2.7	na	2.7
Loans to customers - out of scope - amortised cost	—	na	—	—	na	—
Loans to banks - out of scope - amortised cost	0.1	na	0.1	0.2	na	0.2
Other financial assets - out of scope - amortised cost	7.1	na	7.1	2.6	na	2.6
Other financial assets - out of scope - FVOCI	0.1	na	0.1	(0.1)	na	(0.1)

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 £7.3 billion (2022 – £2.7 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.

- Equity shares of £0.1 billion (2022 – £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 nil (2022 – £(0.2) billion).

In scope assets also include an additional £1.3 billion (2022 – £0.4 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 2023 consolidated financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. These were offset by £0.2 billion (2022 – £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 £15.6 billion

(2022 – £14.7 billion) comprised Stage 1 £15.1 billion (2022 – £13.3 billion); Stage 2 £0.5 billion (2022 – £1.4 billion); and Stage 3 nil (2022 – nil).

Portfolio Summary (Audited)

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

	2023	2022
	£m	£m
Loans - amortised cost and FVOCI		
Stage 1	13,686	10,791
Stage 2	558	497
Stage 3	25	49
Of which: individual	17	37
Of which: collective	8	12
Inter-Group(1)	1,264	434
Total	15,533	11,771
ECL provisions		
Stage 1	24	20
Stage 2	8	8
Stage 3	24	26
Of which: individual	16	15
Of which: collective	8	11
Inter-Group (1)	1	—
Total	57	54
ECL provisions coverage(2)		
Stage 1 (%)	0.18	0.19
Stage 2 (%)	1.43	1.61
Stage 3 (%)	96.00	53.06
Total	0.39	0.48
Impairment losses		
ECL charge/(releases)		
Stage 1	1	8
Stage 2	4	14
Stage 3	*(3)*	*(14)*
Of which: individual	*(2)*	*(15)*
Of which: collective	*(1)*	*1*
Third party	2	8
Inter-Group	—	—
Total	2	8
Amounts written-off	5	55
Of which: individual	4	55
Of which: collective	1	-

(1) NWM Group’s intercompany assets were classified in Stage 1. The ECL for these loans was £0.6 million (2022 – £0.4 million).

(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.

(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 £13.8 billion (2022 – £17.0 billion) and debt securities of £15.6 billion (2022 – £11.8 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
2023					
Loans by geography	50	1,063	12,798	358	14,269
UK	24	554	4,049	59	4,686
Other Europe	25	387	3,952	227	4,591
RoW	1	122	4,797	72	4,992
Loans by stage	50	1,063	12,798	358	14,269
Stage 1	19	922	12,387	358	13,686
Stage 2	21	126	411	—	558
Stage 3	10	15	—	—	25
of which: individual	7	10	—	—	17
of which: collective	3	5	—	—	8
Weighted average life(4)					
ECL measurement (years)	2	4	2	—	2
Weighted average 12 months PDs(4)					
IFRS 9 (%)	0.84	1.66	0.17	0.01	0.25
Basel (%)	0.61	1.61	0.13	0.01	0.20
ECL provisions by geography	7	24	24	1	56
UK	4	4	11	1	20
Other Europe	3	12	7	—	22
RoW	—	8	6	—	14
ECL provisions by stage	7	24	24	1	56
Stage 1	—	4	19	1	24
Stage 2	—	3	5	—	8
Stage 3	7	17	—	—	24
of which: individual	4	12	—	—	16
of which: collective	3	5	—	—	8
ECL provisions coverage (%)	14.00	2.26	0.19	0.28	0.39
Stage 1 (%)	—	0.43	0.15	0.28	0.18
Stage 2 (%)	—	2.38	1.22	—	1.43
Stage 3 (%)	70.00	113.33	—	—	96.00
ECL (release)/chargeThird party	(1)	(7)	10	—	2
Amounts written-off	—	4	1	—	5
Other financial assets by asset quality(2)	1	81	12,059	17,250	29,391
AQ1-AQ4	1	81	11,709	17,250	29,041
AQ5-AQ8	—	—	350	—	350
AQ9	—	—	—	—	—
Off-balance sheet	201	6,527	8,897	—	15,625
Loan commitments	188	6,507	8,150	—	14,845
Financial guarantees	13	20	747	—	780
Off-balance sheet by asset quality(2)	201	6,527	8,897	—	15,625
AQ1-AQ4	183	6,049	8,697	—	14,929
AQ5-AQ8	16	457	200	—	673
AQ9	—	—	—	—	—
AQ10	2	21	—	—	23
2022(3)					
Loans by geography	193	874	9,913	357	11,337

	Property	Corporate	FI(1)	Sovereign	Total
	£m	£m	£m	£m	£m
UK	48	239	3,564	72	3,923
Other Europe	145	476	2,706	202	3,529
RoW	—	159	3,643	83	3,885
Loans by stage	193	874	9,913	357	11,337
Stage 1	33	607	9,797	354	10,791
Stage 2	149	232	116	—	497
Stage 3	11	35	—	3	49
of which: individual	8	26	—	3	37
of which: collective	3	9	—	—	12
Weighted average life(4)					
ECL measurement (years)	1	3	3	—	3
Weighted average 12 months PDs(4)					
IFRS 9 (%)	2.55	2.73	0.20	0.03	0.41
Basel (%)	0.64	1.48	0.13	0.02	0.22
ECL provisions by geography	8	28	14	4	54
UK	4	9	8	1	22
Other Europe	4	10	3	—	17
RoW	—	9	3	3	15
ECL provisions by stage	8	28	14	4	54
Stage 1	1	5	12	2	20
Stage 2	1	5	2	—	8
Stage 3	6	18	—	2	26
of which: individual	3	10	—	2	15
of which: collective	3	8	—	—	11
ECL provisions coverage (%)	4.15	3.20	0.14	1.12	0.48
Stage 1 (%)	3.03	0.82	0.12	0.56	0.19
Stage 2 (%)	0.67	2.16	1.72	—	1.61
Stage 3 (%)	54.55	51.43	—	66.67	53.06
ECL (release)/chargeThird party	(6)	6	7	1	8
Amounts written-off	—	55	—	—	55
Other financial assets by asset quality(2)	49	155	6,097	22,478	28,779
AQ1-AQ4	—	141	5,777	22,478	28,396
AQ5-AQ8	49	14	320	—	383
AQ9	—	—	—	—	—
Off-balance sheet	186	7,281	7,067	—	14,534
Loan commitments	173	7,256	6,481	—	13,910
Financial guarantee s	13	25	586	—	624
Off-balance sheet by asset quality(2)	186	7,281	7,067	—	14,534
AQ1-AQ4	168	6,679	6,864	—	13,711
AQ5-AQ8	16	600	203	—	819
AQ9	—	—	—	—	—
AQ10	2	2	—	—	4

(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+

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

(3) Previously published sectors for the Wholesale portfolio have been re-presented to reflect updated internal sector reporting.

(4) Not within audit scope.

The table below shows ECL by stage for the Wholesale portfolio, including selected sectors that contain an element of exposure classified as heightened climate-related risk.

	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	£m	£m
2023										
Property(1)	1Ç9	21	10	50	188	13	—	—	7	7
Financial institutions(2)	12,387	411	—	12,798	8,150	747	19	5	—	24
Sovereign	358	—	—	358	—	—	1	—	—	1
Corporate	922	126	15	1,063	6,507	20	4	3	17	24
Of which:										
Agriculture	1	—	—	1	1	—	—	—	—	—
Airlines and aerospace	23	—	—	23	279	—	—	—	—	—
Automotive	2	—	—	2	601	—	—	—	—	—
Building materials	4	—	4	8	171	1	—	—	2	2
Chemicals	11	—	—	11	67	—	—	—	—	—
Industrials	29	57	—	86	235	5	1	1	—	2
Land transport & logistics	51	5	—	56	311	2	—	—	—	—
Leisure	3	—	—	3	158	—	—	—	—	—
Mining & metals	—	—	3	3	—	—	—	—	3	3
Oil and gas	2	—	1	3	52	1	—	—	3	3
Power utilities	113	—	—	113	2,735	2	—	—	—	—
Retail	5	2	—	7	392	2	—	1	—	1
Shipping	2	—	—	2	—	—	—	—	—	—
Water & waste	30	14	—	44	35	—	—	—	—	—
Total	13,686	558	25	14,269	14,845	780	24	8	24	56
2022(3)										
Property (1)	33	149	11	193	173	13	1	1	6	8
Financial institutions (2)	9,797	116	-	9,913	6,481	586	12	2	—	14
Sovereign	354	—	3	357	—	—	2	—	2	4
Corporate	607	232	35	874	7,256	25	5	5	18	28
Of which:										
Agriculture	—	2	—	2	1	—	—	—	—	—
Airlines and aerospace	—	22	1	23	412	—	—	1	1	2
Automotive	2	43	—	45	623	2	—	1	—	1
Building materials	2	2	4	8	17	1	—	—	2	2
Chemicals	13	—	—	13	64	-	—	—	—	—
Industrials	34	56	—	90	271	5	1	—	—	1
Land transport & logistics	18	53	—	71	314	1	—	1	—	1

	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	£m	£m
Leisure	1	—	—	1	158	—	—	—	—	—
Mining & metals	—	—	3	3	—	—	—	—	3	3
Oil and gas	3	—	20	23	549	1	—	—	2	2
Power utilities	118	—	—	118	2,595	2	1	—	—	1
Retail.......................	9	—	—	9	518	4	—	—	—	—
Shipping..................	2	—	—	2	14	—	—	—	—	—
Water & waste	32	—	—	32	256	—	—	—	—	—
Total	10,791	497	49	11,337	13,910	624	20	8	26	54

(1) Property comprises Commercial Real Estate, Housing Associations and Construction.

(2) Financial institutions (FI) include transactions, such as securitisations, where the underlying assets may be in other sectors.

(3) Previously published sectors for the Wholesale portfolio have been re-presented to reflect updated internal sector reporting.

Forbearance

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

	FI	Property	Sovereign	Other	Total
	£m	£m	£m	£m	£m
2023					
Forbearance (flow)	—	3	—	4	7
Forbearance (stock)	—	3	—	8	11
Heightened Monitoring and Risk of Credit Loss.....................	—	—	—	4	4
2022					
Forbearance (flow)	—	—	—	20	20
Forbearance (stock)	—	—	—	45	45
Heightened Monitoring and Risk of Credit Loss.....................	—	—	—	7	7

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	ECL	Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
			Total	Stage 3	Financial(1)	Property	Other(2)	Total	Stage 3	Total	Stage 3
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
2023											
Financial assets											
Cash and balances at central banks................	13.8	—	13.8	—	—	—	—	—	—	13.8	—
Loans — amortised cost (3)........................	14.3	0.1	14.2	—	2.2	—	—	2.2	—	12.0	—
Debt securities.................	15.6	—	15.6	—	—	—	—	—	—	15.6	—
Total financial assets........	43.7	0.1	43.6	—	2.2	—	—	2.2	—	41.4	—
Contingent liabilities and commitments	15.6	—	15.6	—	1.3	0.1	—	1.4	—	14.2	—
Total off—balance sheet..	15.6	—	15.6	—	1.3	0.1	—	1.4	—	14.2	—
Total exposure.................	59.3	0.1	59.2	—	3.5	0.1	—	3.6	—	55.6	—

	Gross exposure	ECL	Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
			Total	Stage 3	Financial(1)	Property	Other(2)	Total	Stage 3	Total	Stage 3
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
2022											
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	—

(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 2023	39,875	20	491	8	58	26	40,424	54
Currency translation and other adjustments	(986)	1	(11)	(1)	—	(6)	(997)	(6)
Inter-Group transfers	—	—	—	—	—	—	—	—
Transfers from Stage 1 to Stage 2	(777)	(2)	777	2	—	—	—	—

	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
Transfers from Stage 2 to Stage 1	407	5	(407)	(5)	—	—	—	—
Net re-measurement of ECL on stage transfer		(3)		6		—		3
Changes in risk parameters		(1)		—		5		4
Other changes in net exposure	10,649	4	(162)	(1)	(30)	3	10,457	6
Other (P&L only items)		1		(1)		(11)		(11)
Income statement (releases)/charges		1		4		(3)		2
Amounts written-off	—	—	(1)	(1)	(4)	(4)	(5)	(5)
At 31 December 2023	49,168	24	687	8	24	24	49,879	56
Net carrying amount	49,144		679		—		49,823	
At 1 January 2022	33,383	6	197	3	95	75	33,675	84
2022 movements	6,492	14	294	5	(37)	(49)	6,749	(30)
At 31 December 2022	39,875	20	491	8	58	26	40,424	54
Net carrying amount	39,855		483		32		40,370	

- The ECL profile was broadly stable, with the increase in Stage 1 reflecting asset growth.

Pension Risk

Definition

Pension risk is defined 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 2023 (2022 – £0.9 billion of assets and £0.6 billion of liabilities). Refer to Note 5 to the 2023 consolidated 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.

However, the Trustee of NWM Group's largest scheme (the AA section of the NatWest Group Pension Fund) has now completed a buy-in transaction with a third party insurer. Under the buy-in policy, the insurer makes payments to the scheme to cover pension benefits paid to members and as a result the scheme is protected against all material longevity and investment risks.

Conversely, these risks have been replaced with the risk that the insurer defaults on payments due to the scheme.

NWM Group is also 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.

On 16 June 2023, the High Court issued a ruling in respect of Virgin Media v NTL Pension Trustees II Limited (and others) calling into question the validity of rule amendments made to defined benefit pension schemes contracted-out on a Reference Scheme Test basis between 6 April 1997 and 5 April 2016. Amendments to these pension schemes over this time required confirmation from the Scheme Actuary that the Reference Scheme Test would continue to be met. In the absence of such a confirmation, the Rule amendment would be void. Following the review of a selection of amendments judged as material, the liabilities disclosed in Note 5 to the 2023 consolidated financial statements include no adjustments for the potential impact of this ruling. Future developments will be kept under review.

Key Developments in 2023

- As explained above, during the year, the Trustee of the AA section of the NatWest Group Pension Fund completed a buy-in transaction, passing all material longevity and investment risk for the section to an insurer. For further details, refer to Note 5 to the 2023 consolidated financial statements.

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 a pension risk appetite statement incorporating defined metrics against which risk is measured that is reviewed at least annually by the Board on the Board Risk Committee’s recommendation to ensure they remain appropriate and aligned to strategy.

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 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. Relevant pension risk matters are escalated to the Board as applicable.

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

As a result of the buy-in transaction for NWM Group's largest scheme (the AA section of the NatWest Group Pension Fund), the scheme is now protected against all material longevity and investment risks.

If, in an extreme scenario, the insurer was unable to make payments due to the scheme under the buy-in policy, NWM Group would continue to be responsible for financially supporting the scheme to meet pension benefits. However, there are significant mitigations in place against this risk, in particular the insurance regulatory regime and residual surplus assets retained within the scheme. The financial strength of the third party insurer will also be monitored on a periodic basis by the Trustee and NatWest Group.

The NatWest Markets section of the NatWest Group Pension Fund is also well protected against interest rate and inflation risks and is being run on a low investment risk basis with relatively small equity risk exposure. The NatWest Markets section 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 NatWest Group Pension Fund Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy, its net zero commitment and its climate disclosures produced on an annual basis, 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 poor 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 2023 consolidated financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key Developments in 2023

- Further progress was made on the compliance agenda during 2023. Significant enhancements were made to the compliance and conduct framework with the introduction of numerous new tools to manage the risk profile. These include a compliance and conduct risk directory, new risk standards and toolkits which support NWM Group to measure and manage compliance accurately and efficiently, and a regulatory compliance operational policy framework to ensure key regulatory requirements are captured. These new tools align with the existing enterprise-wide risk management framework.

- From a conduct risk perspective, the NatWest Group-wide programme established to deliver Consumer Duty requirements met the first regulatory milestone of application to open book products and services by

July 2023. The focus is now on closed book products and services, which is expected to conclude before the end of July 2024.

- The focus on consumer protection and supporting customers with their financial needs continues, given the ongoing cost-of-living challenges and their impact on customers in vulnerable situations. Vulnerable customer outcomes are also an integral part of the enhanced ‘Good Customer Outcome’ reporting which was introduced through the Consumer Duty programme.

- 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 the Department of Justice, an independent monitor was appointed in 2022. The Monitor issued his first report in October 2023 which included observations and recommendations. NWM is in the process of responding to the observations and recommendations contained in this report. Work with the DoJ monitor is expected to last three years, but there is a possibility that it could be extended.

Governance

NWM Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its risk management framework. To support ongoing oversight of the management of the compliance and conduct risk profile there are a number of committees in place. These include a NatWest Group Consumer Duty Executive Steering Group and conflicts of interest fora across both the first and second line of defence. Relevant compliance and conduct matters are escalated through the Executive Risk Committee and Board Risk Committee.

Risk Appetite

The Risk appetite statement and associated measures for compliance and conduct risks are approved at least annually by the Board on the Board Risk Committee’s recommendation to ensure they remain appropriate and aligned to strategy. 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 risk policies, risk standards and regulatory compliance operational 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 regular risk 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 NWM Group's products, services, employees and/or third parties 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 and there is a risk of employees or external third parties conducting intentional fraudulent activity.

Key Developments in 2023

- Across NatWest Group, significant investment continued to be made to support delivery of the multi-year transformation plan across financial crime risk management including enhancements that were made to technology, data quality and data analytics to improve the effectiveness of systems used to monitor customers and transactions.

- NWM Group adopted and embedded the NatWest Group centralised hub model and One Bank approach to financial crime risk management. This has led to better outcomes, including a consistent understanding of controls and oversight across NWM.

- NatWest Group held financial crime roadshows and events were held throughout the year to further embed financial crime risk management culture and behaviours.

- NWM Group supported the NatWest Group initiatives to enhance public-private partnerships through forums such as the Joint Money Laundering Intelligence Taskforce

- Following completion of the Customer Due Diligence (CDD) remediation programme in Q1 2023, NWM Financial Crime moved to an In Appetite RTA – CEC2 'On Watch' status in April 2023, and formally moved to CEC2 'In Appetite' status in November 2023.

- NWM Group Financial Crime completed a deep-dive on all German entities across the Group which provided key observations for enhancements / streamlining of processes and resource.

- Implementation of release 8 of Quantexa Fusion went live successfully in November 2023 - this release embedded all changes to scores which were approved over the summer and removed the need for manual alert closures.

Governance

The Financial Crime Risk Committee (FCRC), which is chaired by the Head of Financial Crime, is NWM Group's second line of defence financial crime risk oversight forum. The committee reviews and monitors key financial crime risks providing guidance, challenge, recommendations and decisions on issues affecting NWM Group globally. Where appropriate, the committee escalates material financial crime risks and issues across NWM Group to the NWM Executive Risk Committee and NWM Group Board Risk Committee. The committee is an escalation point for the Financial Crime oversight committee (FCOC) which is first line owned and the principal financial crime committee in NWM Group.

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. NatWest 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 both the NatWest Group and NWM Group Boards. 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 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 property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

Transition Risk

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NWM 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.

Liability Risk

Liability risks may arise if stakeholders consider NWM Group's climate risk management practises and disclosures insufficient and responsible for, or attributable to, stakeholder losses.

NWM Group Business Activity

NWM Group identified a number of climate-related risks that may affect its businesses and strategy.

Emissions resulting from NWM Group business activities include:

- Financed emissions attributable to lending and investments.
- Facilitated emissions attributable to underwriting activities.

- Emissions attributable to the trading book (including fixed income and currencies).
- Emissions from NWM Group's own operations[1].

Estimating financed and facilitated emissions and assessing climate impact on NWM Group's business activities involves data limitations and other challenges, particularly as estimation methodologies evolve.

Financing Activities

Financed Emissions – Lending and Investments

Given the smaller size of the banking book relative to NWM Group's underwriting activities and trading book, financed emissions currently play a limited role within NWM Group. Drawn lending exposures, as defined by the Partnership for Carbon Accounting Financials (PCAF) standard, account for approximately 13% of NWM Group's total assets, as at 31 December 2023. The undrawn loan commitments are currently excluded, and therefore could potentially increase the financed emission estimations during challenging market conditions if called up by customers.

NWM Group exposure to heightened climate-related risk sectors is summarised on page 62 (loans, loan commitments and contingent obligations by sector). Due to a lack of granular availability of customer level climate data, financial institutions are still developing measurement methodologies and capabilities to assess their scope three emissions. Therefore, estimated financed emission figures linked to lending exposures will increase once scope three emissions are incorporated.

Facilitated Emissions – Bond Underwriting

Facilitation activities differ from on-balance sheet lending in two respects. They are off-balance sheet (representing services rather than financing) and they can take the form of a flow activity (temporary association with transactions) rather than a stock activity (recorded on the balance sheet). Refer to page 70 for the NWM Group estimate of facilitated emissions.

Trading Book

Trading book activities (which includes fixed income and currencies) are also impacted by climate-related risks. Preliminary analysis carried out in 2022 indicated that climate risk drivers were not likely to put NWM Group out of appetite for market risk.

Over the course of 2023, NWM Group's scenario analysis work continued to build internal capability and mitigate some of the limitations identified in previous scenario exercises. As it relates to market risk stress testing for issuer risk, counterparty risk and macro-parameters, NWM Group continues to be resilient to climate driven market moves.

Due to the size of the trading book within NWM Group, the associated carbon emissions have the potential to be significant. However, at present, the scale of these emissions is uncertain given that trading book positions are typically shorter term and more dynamic than those in the banking book. This is currently an industry-wide challenge with no agreed approach on quantification of trading book related emissions.

Key Developments in 2023

- The in-house climate risk modelling capabilities were enhanced, supporting integration of climate risk within capital adequacy (ICAAP); impairment (IFRS 9); and other risk management processes. More details are disclosed in the Scenario analysis section below.
- Full roll out of first-generation qualitative climate risk scorecards.

[1] NatWest Group report emissions at a consolidated group level. NWM Group own operations are therefore subsumed into NatWest Group's estimation of own operational footprint for the consolidated group.

- NatWest Group, including NWM Group, began development of a climate decisioning framework to further embed climate within customer journeys. This includes second-generation climate risk scorecards (enhancing quantitative considerations) as well as a customer transition plan assessment. The initial phased roll-out is scheduled for 2024 on a test and learn basis.

- NWM Group improved the oversight of climate-related risk through regular reporting and review of climate risk indicators and operational measures, to inform monthly risk committee updates.

- Scenario analysis of potential greenwashing risks was undertaken, driven by a hypothetical risk scenario where increased competition in the green finance market led to less efficient product designs and diminished robustness of governance.

- Enhancements were made to NWM Group's product governance in line with regulatory guidance, with the inclusion of climate and environmental, social and governance language to improve conduct and reputational risk controls and processes to support sustainable finance business.

- Recognising the inextricable link between climate risk and nature degradation, NatWest Group including NWM Group added nature risk to its climate risk considerations within the risk directory and policy, for consideration from 2024.

- NWM N.V. Group is subject to European Central Bank regulations and is required to be more advanced on environmental risk compared to NatWest Group. In 2023, NWM N.V. Group undertook initial environmental risk assessments as well as implementing environmental risk scorecards for three priority sectors.

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.

The NWM Plc Board Risk Committee is responsible for the oversight of NWM Group's risk profile. As part of the integrated cross-bank approach, the NWM Plc CEO, supported by the Interim Deputy CEO, is 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 is the senior NWM Group forum which has the objective of assessing and managing climate-related risks and opportunities. This forum enables the NWM Group CEO to discharge the delegated SMF accountability, supported by the Interim Deputy CEO.

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. The NatWest Group Climate Centre of Excellence supports the Climate Change Executive Steering Group as it supervises strategic implementation and delivery, including within NWM Group.

Risk Appetite

NWM Group supports NatWest Group's ambition to be a leading bank in the UK, helping to address the climate challenge. This ambition is underpinned by activity to at least halve the climate impact of NatWest Group's financing activity by 2030 (against a 2019 baseline) and to achieve net zero by 2050.

Work continued in 2023 to mature NatWest Group's climate-related risk capabilities. NWM Group operational limits have been developed, and a suite of key risk indicators has been built out. These measures provide management with information, including balance sheet exposure to heightened climate risk sectors and financed emissions.

The overall suite of metrics is used to inform climate risk reporting to senior risk management forums, linking risk management to NatWest Group's strategic priorities.

Mitigation

NatWest Group including NWM Group, focused on continuing to develop 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, maximise the opportunities arising from a transition to a low-carbon economy and support decision making.

Scenario Analysis

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.

NatWest Group leads the development of credit risk scenario modelling capabilities for NatWest Group as a whole, as well as including other legal entities within NatWest Group, such as NWM Group. This includes both the developed capability and the execution of scenario analysis for NWM Group.

In 2023, material enhancements to NatWest Group's scenario generation capability covered the maturing of sectoral and corporate transition risk modelling capabilities as well as the development of physical risk scenario analysis capability.

As well as capturing transition-driven risk in its ICAAP P2B and IFRS 9 ECL measurement frameworks, NatWest Group undertook two climate scenarios as part of a dedicated end-to-end transition-driven exercise focused on large and mid-corporates. The exercise provided an up-to-date view of corporate exposures which is relevant for NatWest Markets N.V..

With NatWest Group's transition risk capabilities reaching a steady state during 2023, focus started to shift to commencing the development of physical risk capabilities, with the acknowledgement that current modelling and scenarios may not capture the level of systemic risk or the severe long-term effects of irreversible climate change.

There are several challenges with climate scenario analysis, including access to climate data. NatWest Group continued to develop its specialist climate data capabilities, including bringing in new data sets to increase the granularity for which climate risks are assessed. NWM Group as part of NatWest Group continues to work with industry and customers to develop solutions.

Traded Market Risk

The NWM Group traded market risk stress test was updated from a carbon intensity approach to an internal gross value add (GVA) stress approach. The new methodology uses credit spread adjustments derived from the GVA shocks developed by NatWest Group, capturing both the costs and opportunities associated with the climate transition and their impact on the trading book.

Stress exposures continue to be calculated and monitored monthly along with other climate-related market risks, for example, holdings of green gilts.

Liquidity Risk

Within NWM Group, climate risk is included in liquidity stress testing in the form of major climate-related disruption in the UK and northern Europe. This leads to wide-spread disruption and a temporary fall in economic output, with a higher demand for cash from certain impacted business sectors due to the uncertainty. Volatility in financial markets impacts GBP, UK bonds and asset prices, while non-UK/European depositors re-evaluate their exposure to the UK/European financial sector. For 2023 reporting, climate is not the most severe scenario within the suite of scenarios used for calculating the stressed outflow coverage ratio disclosed on page 20.

Stress Testing and ICAAP

Climate risk is explicitly considered under one of the 2023 ICAAP scenarios. Starting with a metric for transition difficulty, the approach differentially widens counterparty credit spreads to reflect relative risks arising from specific sector membership (coal, oil, gas and petroleum exposures receive the most substantial adjustment). The approach aligns to internal traded market risk transition risk assessments.

Estimate of Facilitated Emissions on Corporate Bond Underwriting

Banks play a key role as facilitators between issuers and investors, by offering and conducting financial intermediation activities critical to the functioning of capital markets.

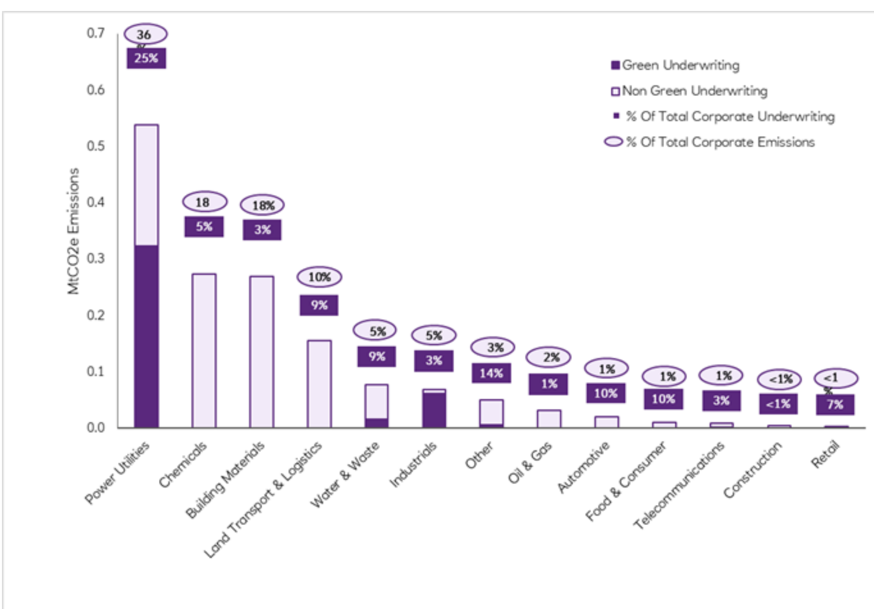
NWM Group's capital markets underwriting activities for corporate counterparties are generally driven by existing NatWest Group lending relationships. Facilitated emissions will fluctuate year-on-year subject to the underwriting mandates and changes in those lending relationships.

Facilitated emissions included in this section relate to corporate bond underwriting activities which equate to 21% of NWM Group's total bond underwriting[1] and results in absolute facilitated emissions of 1.5 MtCO2e for 2023.

NWM Group used recommendations of the PCAF consultation paper issued in September 2022[3] to assess facilitated emissions included in this section. In December 2023, PCAF published an accounting and reporting standard for facilitated emissions for capital market instruments[2]. NWM Group are working to assess the requirements of this standard for future reporting.

For 2023 reporting, the NWM Group facilitated emissions metrics published, relate only to capital markets' corporate bond underwriting activities for public debt issuance[4] and include green bonds as defined by the International Capital Market Association's Green Bond Principles or EU GBS, to show the differentiation between conventional and green bonds as alluded to by PCAF, while being consistent with 2022 disclosures. In estimating facilitated emissions, NWM Group expects that green bonds have a reduced emissions intensity. However, given that this calculation and methodology has yet to be developed NWM Group have not attributed a lower emission intensity. Emissions reported are based on 100% weighting and absolute emissions versus percentages utilised in 2022. It is important to note that the absolute amounts presented are estimates and may be subject to change given changing baselines over time.

The graph below shows NWM Group's estimated facilitated emissions from corporate bond underwriting activities in 2023, as attributed to NWM Group and split between conventional and green bond underwriting, where applicable



- The estimated facilitated emissions are most significant in the power utilities sector, making up 36% of the total corporate facilitated emissions. However, it is important to note that more than 50% are green bonds.

- The second and third highest contributing sectors are from the chemical and building materials industries, whilst NWM Group's total underwriting in these sectors was relatively small (5% and 3% respectively). The remaining ten sectors contributed 29% of estimated facilitated emissions whilst representing more than half of total corporate bond underwriting (67%).

- Oil and gas was only 1% of the total corporate bond underwriting volumes and constituted 2% of the facilitated emissions.

NWM Group Methodology Used for Estimation

- The PCAF consultation paper(3) recommended splitting the responsibility among the transaction facilitators (passive and active) based on volumes, which NWM Group sourced from league tables. This determines the proportion of the 'facilitated' part of the transaction each facilitator takes responsibility for, thus providing the volume against which facilitated emissions is estimated. Co-managers are not counted and therefore such volumes are not taken into consideration. The 2023 PCAF standard(2) allows the use of either league tables based on fees or the value of the volume.

- NWM Group followed both the PCAF consultation paper(3) and the published standard(2) guidance to define an issuer as solely corporates that issue a debt or equity capital markets instruments. Financial institutions, sovereigns, supranationals and agency issuers, as well as securitised products, are out of scope both for the guidance in the consultation paper(3) and the standard published by PCAF(2).

- In alignment with 2022 reporting, NWM Group applied a 100% weighting factor for the emissions estimation of corporate bond underwriting activities. The PCAF standard(2) requires a weighting factor of 33%.

- In line with the PCAF consultation paper(3) and the published standard(2), to estimate greenhouse gas emissions, NWM Group sourced customer-level emissions data, where possible. If customer-level data is unavailable, emission sector averages (with a PCAF data quality score of 5) are used for emission intensities from 2022 and applied against 2023 underwriting volumes(6)

- Currently, there is not a commonly agreed methodology for measuring the carbon footprint of green bonds. NWM Group shows the breakdown of conventional versus green bonds to highlight the expected difference of facilitated emissions associated with the conventional versus green bond underwriting. Sustainable-linked and sustainability bond activities are treated as conventional bonds for the purpose of estimating and reporting on facilitated emissions(5).

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(1) Where NWM Group is a facilitator (active or passive) as defined by the PCAF consultation paper(3) and published standard(2).

(2) https://carbonaccountingfinancials.com/files/PCAF-PartB-Facilitated-Emissions-Standard-Dec2023.pdf

(3) September 2022 - PCAF launches public consultation on Capital Markets Facilitated Emissions methodology (carbonaccountingfinancials.com)

(4) Includes public debt: all types of bonds issued for general purposes. Facilitated debt investments in private companies (including private credit), public equity: common stock (IPOs and follow-on issuances) and preferred shares and facilitated equity investments in private companies (including private placements) are not included, since this is not business that NWM Group undertakes. Syndicated loans are within the scope of PCAF's Facilitated Emissions Standard. However, where these remain on NWM Group's balance sheet they are included in the financed emission estimates and excluded them from the estimate of facilitated emissions.

(5) NatWest Group 2023 climate and sustainable funding and financing inclusion criteria was used to determine the assets, activities and companies eligible for inclusion. https://www.natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/climate-and-sustainable-funding-and-financing-inclusion-criteria-2021-V1.3.pdf

(6) NWM Group aims to estimate facilitated emissions using the latest data available, recognising there may be a lag between the availability of emissions data and the date of record for reporting. As a consequence of this lag, more recent changes in a counterparties activities may not be reflected in the estimate of facilitated emissions. NWM Group continues to refine its estimates as NWM Group enhances its understanding, calculation methodologies and data. Also, methodologies to calculate emissions for certain sectors are still under development. Based on these limitations, NWM Group expects its estimates to change as NWM Group improves the granularity and coverage of customer climate data and develop methodologies further.

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, processes, 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 2023

- A review of the NatWest Group Risk Directory was completed and benchmarked against industry standard, to ensure comprehensive coverage of all operational risks.
- The operational risk policy was reviewed, refreshed, and supported by the development of a suite of new risk standards, operational guidance and risk toolkits to enable effective policy application.
- The enhanced risk and control self-assessment approach continued to be rolled out and embedded with a focus on material operational risks across key end-to-end processes.
- Given the risk associated with the processing of payments, and as such, a NatWest Group-wide programme on the movement of funds was mobilised, which focused on enhancing payment related controls.

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 quantitative and qualitative statements encompass the full range of operational risks faced by its legal entities, businesses, and functions.

The Risk appetite statement and measures for operational risk are approved at least annually by the NWM Group Board on the NWM Group Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Mitigation

Risks are mitigated by applying key preventative and detective controls. This is 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.

All residual risks that exceed the target appetite position are subject to action plans to bring them within appetite.

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's customer-facing business areas, as well as the heads of its support functions. NatWest Group uses this process as an effective means to provide 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 and progress on control environment improvements, are reported to Board Risk Committee. They are also shared with internal and external auditors.

The CEC process helps to ensure compliance with the NatWest Group Policy Framework, Sarbanes-Oxley 404 requirements concerning internal control over financial reporting, and certain requirements of the UK Corporate Governance Code.

Monitoring and Measurement

Operational risk is measured and managed through continuous assessment and regular reporting to NWM Group's senior risk committees and at Board-level.

Risk and control self-assessments are used across all business areas and support functions to identify and assess material operational risks, conduct risks and key controls. All risks and controls are mapped to NatWest Group's Risk Directory. Risk assessments are refreshed at an appropriate frequency and dynamically in response to internal and external events via a triggers process to ensure they remain relevant and that they capture any emerging risks.

The process is designed to confirm that risks are effectively managed in line with risk appetite. Key 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 NWM'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 and Security

NWM Group manages and monitors operational resilience through its enhanced risk and control self-assessment methodology. This is underpinned by setting and monitoring of forward-looking risk indicators and performance metrics for the operational resilience of important business services. Progress continues on meeting regulatory 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 NWM 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. NWM Group has not experienced a cyber security breach or associated material loss in the last three years.

All financial impacts and recoveries associated with an operational risk event are reported against the date they were recorded in NatWest Group's financial accounts. A single event can result in multiple losses (or recoveries) that may take time to crystallise. Losses and recoveries with a financial accounting date in 2023 may relate to events that occurred, or were identified in, prior years. NatWest Group purchases insurance, against specific losses, including cyber-attacks, and to comply with statutory or contractual requirements.

Model risk

Definition

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. 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 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), valuation of positions, calculating regulatory capital and liquidity requirements and automation of operational processes. The models used for stress-testing purposes also play a key role in ensuring NWM Group holds sufficient capital, even in stressed market scenarios.

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

Key Developments in 2023

- Following extensive model remediation work, NWM Group returned to being within model risk appetite in April 2023. Ongoing remediation work continues to be a key focus to further strengthen the model risk appetite position and is closely monitored.

- NWM Group's model risk management practices continued to evolve, supported by a dedicated model risk management enhancement programme, set up in response to the PRA's Supervisory Statement 1/23. An updated Group model risk policy was approved by the NatWest Group Board Risk Committee.

- Implementation of model risk procedures, aligned to the delivery and embedding of the enterprise-wide risk management framework, continued. This was supported by significant model inventory design enhancements and a bank-wide model risk data remediation exercise. This activity improved the quality and completeness of model risk data held within the model inventory system and enabled enhanced insights and reporting capabilities.

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 validation leads. Model risk owners are responsible for model approval and ongoing performance monitoring. Model validation leads, 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.

The NWM Group model management committee is used to escalate model risk matters to senior management where required.

The committee also supports model risk owners in their approvals of models 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. The NatWest Group Model Risk Oversight committee further enhances model risk governance by providing a platform for executive level discussion on emerging risks, identification of systemic risks and the evolution of model risk management practices. NWM Group is considered in scope of 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 risk appetite and associated measures are approved by the NWM Group Board on recommendation of the Board Risk Committee at least annually and aligns to the NatWest Group's model risk appetite statement. The first line is responsible for monitoring performance against appetite, reporting on the model population and remediating models outside appetite.

Monitoring and Measurement

Model risk is measured and managed through continuous assessment and regular reporting to NatWest Group's senior risk committees and at Board level.

Policies, toolkits and model standards related to the development, validation, approval, implementation, 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 material 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. A quantitative approach is used to determine the risk rating of each model based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across 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.

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

The three primary drivers of reputational risk are: failure in internal risk management systems, processes or culture; NWM Group's actions materially conflicting with stakeholder expectations; and contagion (when NWM Group's reputation is damaged by failures in key sectors including the Group's supply chain or other partnerships.)

Key Developments in 2023

- Reputational risks were elevated in relation to the departure of Alison Rose as NatWest Group Chief Executive Officer and issues that had arisen in connection with account closures decisions that attracted significant public and media attention. Relevant updates to the Reputational Risk Framework are being implemented following an independent legal review of customer account closures and internal reviews.

- Reputational risk registers are in place across all relevant business areas.

- New environmental, social and ethical (ESE) risk acceptance criteria were created to support the management of human rights risk and will be implemented in 2024.

- All climate focused ESE risk acceptance criteria (mining and metals, power generation and oil and gas) underwent a review to ensure they reflect the current risk landscape.

Governance

A reputational risk policy supports reputational risk management across NWM Group. Reputational risk registers are used to manage reputational risks identified within relevant business areas. These are reported to the relevant NatWest Markets business risk committee.

Material reputational risks to NWM Group are escalated via the NatWest Group reputational risk register which is reported at every meeting of the NatWest Group Reputational Risk Committee. The NatWest Group Reputational Risk Committee also opines on matters that represent material reputational risks. The NatWest Group Executive and Board Risk Committees oversee the identification and reporting of reputational risk via the NatWest group Risk Report.

Risk Appetite

NWM Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures which are set at NatWest Group level.

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 via reputational risk registers at NatWest Markets business or legal entity level. They are escalated, where appropriate, to the relevant NatWest Markets executive committee and where material, to the NatWest Group Reputational Risk Committee.

Additional key risk indicators for material risks being monitored are also reported to Group Reputational Risk Committee and to the Executive and Board Risk Committees via the NatWest Group Risk Report.

Mitigation

Standards of conduct are in place across NWM 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 NWM Group's top and emerging threats process (where sufficiently material) as well as through the NatWest Group and business level reputational risk registers.

NatWest Group has in recent years been the subject of investigations and reviews by a number of regulators and governmental authorities, some of which have resulted in past fines, settlements and public censure. See Note 25 ('*Litigation and regulatory matters*') to the 2023 Financial Statements. for details of material matters currently affecting NatWest Markets.

REGULATION AND SUPERVISION

NWM Plc and the wider NatWest Group are subject to extensive financial services laws, regulations, administrative actions and policies in the UK and each location in which NWM Plc and NatWest Group operate. The following is a summary of the principal applicable legal regimes (and does not purport to be exhaustive).

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 depositaries 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, promoting effective competition in the interests of consumers, and facilitating the international competitiveness of the UK economy and its growth in the medium and long term. 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 was initially referred to as retained EU law and is now called "assimilated law". Over time, EU-derived rules and regulations relating to financial services will be repealed and, in most cases, replaced by rules developed by the UK's financial services regulators within a legislative framework established by Parliament and the government. The primary UK financial services statute is the Financial Services and Markets Act (as amended, "FSMA"), 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 is 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.

Prudential 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. HM 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, NWM Plc 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.

Bank Resolution Regime

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 that 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.

Conduct Regulation

Consumer Duty

The FCA published final rules relating to how regulated firms are to interact with and provide services to retail customers, including a new Principle, which requires firms to act to deliver good outcomes for retail customers (the "Consumer Duty"). The Consumer Duty regime also sets "cross-cutting rules", which explain how firms should act to deliver good outcomes and apply to all areas of firm conduct as well as the "four outcomes", which set more detailed expectations for firm conduct in relation to: (i) the governance of products and services; (ii) price and value; (iii) consumer understanding; and (iv) consumer support. The new rules came into force from 31 July 2023 to new and existing products or services and will apply to closed products and services (products that are no longer marketed or distributed to retail customers, nor open to renewal) from 31 July 2024.

The FCA business plan for 2023/2024 outlines that the FCA continues to focus on appropriate treatment of consumers struggling with debt due to cost of living pressures; monitoring firms' implementation of the new Consumer Duty will be an integral part of the FCA's approach to ensuring consistent treatment of customers.

Anti-Money Laundering ("AML") initiatives, financial crime prevention 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 were to fail to comply with relevant regulations or to maintain and implement adequate and appropriate programmes 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 EU Fifth Anti-Money Laundering Directive ("**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 NWM Plc 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 EU Sixth Anti-Money Laundering Directive ("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.

NWM Plc'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 NWM Plc'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 NWM Plc as ultra-high risk. The effectiveness of those controls is reviewed periodically.

NWM Plc 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 NWM Plc operates.

NWM Plc continues to improve its sanctions compliance controls to respond to risks of new or expanding sanctions regimes.

The Bribery Act 2010 contains offences relating to bribing another person, being bribed and bribing foreign public officials. It also contains an offence for commercial organisations for failing to prevent bribery. The Ministry of Justice has published guidance about procedures which commercial organisations can put into place to help prevent against persons associated with them engaging in such activity.

With effect from 30 September 2017, the Criminal Finances Act 2017 introduced a new criminal offence for businesses that fail to take adequate steps to prevent their associates (employees, agents or other persons who perform services for or on behalf of the business concerned) from facilitating tax evasion. Only where the business has put in place reasonable prevention procedures to prevent facilitation of tax evasion by their associates will it have a defence. HMRC has published guidance on the types of processes and procedures that may be put in place by businesses to limit the risk of representatives criminally facilitating tax evasion.

The Modern Slavery Act 2015 requires companies supplying goods or services with a total global annual turnover of thirty-six million pounds sterling (£36 million) or more that are carrying out a business, or part of a business, in the UK to publish a slavery and human trafficking statement each financial year. The total turnover is calculated taking into account the turnover of any subsidiary undertakings.

The Economic Crime and Corporate Transparency Act 2023 (the "**ECCTA**") introduces a number of key changes in relation to financial crime prevention. Among other things, the ECCTA creates a strict criminal liability for larger firms (like those in the NWM) that did not have reasonable procedures to prevent a fraud committed by an associated person (including employees and outsourced providers).

The Criminal Justice Bill 2023 was introduced in the House of Commons in November 2023. Among other things, the bill will extend the new changes to corporate criminal liability and the identification principle, brought in for economic crimes by the ECCTA, to all crimes.

Sustainability Disclosure Requirements and Anti-Greenwashing Regulation

NWM is subject to an increasing array of supervision and regulation relating to climate change and broader sustainability matters. In the UK, these include mandatory requirements by the FCA and under the Companies Act 2006 to make climate-related disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures. In addition, in August 2023 the FCA set out its intention to consult in 2024 on rules and guidance for listed companies to disclose in line with the UK-endorsed ISSB standards and the Transition Plan Taskforce Disclosure Framework published in October 2023 as a complementary package. Further regulatory requirements may emerge as part of the developing UK sustainability-related disclosure requirements.

As an adviser to the UK's Department of Business and Trade, the Financial Reporting Council has recently published its Call for Evidence to inform the proposed endorsement of the ISSB disclosure standards. This will be followed by an FCA consultation, expected in the first half of 2024, on updating Task Force on Climate-related Financial Disclosures aligned disclosure rules for listed companies to refer to the UK-endorsed ISSB standards.

The FCA has also stated that it would publish guidance as to how regulated firms should comply with its anti-greenwashing rule including the requirements for sustainability claims that will become effective on 31 May 2024 (currently the subject of FCA consultation paper (GC23/3)).

Forthcoming Regulatory Changes and Relevant Regulatory Initiatives

Wholesale markets reform and the future regulatory framework

In March 2022, HM Treasury set out the direction of travel for UK wholesale markets regulation when it published feedback on the UK Wholesale Markets Review. The FSMA 2023 contains the framework for this process of wholesale markets reforms. The reforms, which are gradually being put in place, are being made through amendments to legislation (such as the EU Regulation on Markets in Financial Instruments ("**MiFIR**"), as incorporated into UK law) and through giving powers to the FCA to take parts of the UK's MiFID II framework into the FCA rulebooks, with a view to leading the reforms in some key areas, including (among others):

- the UK equity and non-equity transparency requirements;
- the introduction of a framework for UK consolidated tape providers; and
- changes to the unbundling requirements applicable to investment research.

The FCA is due to either consult on or introduce reforms in this area over the course of 2024. Similar changes are planned at European Union level, with a raft of changes to MiFID II and MiFIR expected to be introduced in 2024.

The government's plans for the future regulatory framework – now rebranded a Smarter Regulatory Framework (the "**SRF**") – are underpinned by the FSMA 2023. Under the FSMA 2023, HM Treasury and the PRA and the FCA are empowered to shape how regulation is maintained and made, including in relation to how assimilated law is removed from the statute books. The government has identified 43 files of retained EU law which need to be dealt with under its Smarter Regulatory Framework programme. Some of this law will be repealed without replacement. Additionally changes planned as part of the SRF include:

- revoking and replacing the EU Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products (PRIIPs) (as it forms part of UK domestic law) with a new disclosure regime that is tailored to the UK;
- a new "Designated Activities Regime" to allow certain financial activities to be regulated without requiring the persons providing them to seek authorisation; and
- expansion of the regulatory perimeter – for example, under the FSMA 2023, the PRA and the FCA have been granted the power to regulate access to cash, critical third parties and cryptoassets.

Changes to the EU Regulation on OTC derivatives, central counterparties and trade repositories ("**EMIR**") (as incorporated into UK law, "**UK EMIR**") are also planned. UK EMIR will be revoked under the FSMA 2023 and replaced by new rules in the regulators' rulebooks. The timing for completing this process is unclear; however, new technical standards on the reporting requirements and procedures for data quality under UK EMIR will apply from

30 September 2024. The new reporting rules extend the level of detail to be reported, require reconciliation by trade repositories of the reports made by each counterparty, and provide for enhanced responsibilities for notifying regulators of errors and omissions. Additionally, during 2023, regulators moved to extend several temporary exemptions under UK EMIR. These include temporary exemptions from clearing for pension schemes; clearing and margining for intragroup transactions with counterparties in non-equivalent jurisdictions; and margin requirements for certain equity and index options.

The FSMA 2023 introduced the concept of digital settlement assets ("**DSAs**") and gives HM Treasury powers to bring DSAs under financial regulation as needed. This aims to future-proofs the UK regulatory regime for innovations in the digital asset space, potentially laying the groundwork for stricter future regulation of crypto assets and stable coins.

Changes to individual accountability and the Senior Managers and Certification Regime ("**SMCR**") have been mooted by HM Treasury. In his Edinburgh Reforms speech in December 2022, the Chancellor of the Exchequer explained that HM Treasury's call for evidence would be an information-gathering exercise to garner views on the effectiveness, scope and proportionality of the SMCR, and to seek views on potential improvements and reforms. The extent of the potential changes is unclear at this stage, although early indications provided by the PRA and the FCA are that the changes will not engender a radical shift in approach.

The FCA has recently introduced restrictions in relation to financial promotions of higher risk investments and cryptoassets. Additional restrictions on approving financial promotions came into force on 7 February 2024. From this date, authorised persons, such as banks, wishing to approve financial promotions must seek permission from the FCA to do so, unless an exemption is available.

On 11 January 2024, the FCA announced that it is using its powers under s.166 FMSA to review historical motor finance discretionary commission arrangements and sales across several firms. If the FCA finds that there has been widespread misconduct and that consumers have lost out, it will work to ensure that individuals receive an appropriate settlement. This could result in an industry-wide consumer redress scheme.

The banking industry is under increasing pressure to rely on artificial intelligence to achieve the speed, agility, and flexibility innate to a fintech. Banks must balance this objective with continuing to manage the scale, security standards, and regulatory requirements of a traditional financial-services enterprise.

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:

	First elected to the Board of Directors
Non-Executive Directors	
Frank Dangeard, *Chairman*	2016
Vivek Ahuja	2018
Tamsin Rowe	2019
Anne Simpson	2020
Sabrina Wilson	2023
Executive Directors	
Robert Begbie, *Chief Executive Officer*	2019
Simon Lowe, *Chief Financial Officer*	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, STJ Advisors Group Limited and the UK Competition and Markets Authority (CMA). 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 joined the NWM Plc Board in 2018. Mr. Ahuja was previously 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 also serves on the board of PZ Cussons plc.

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 NWM Plc 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 Plc 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

Ms. Sabrina Wilson

Sabrina Wilson joined the NWM Plc Board in September 2023. Ms Wilson has more than 25 years' experience in financial services and global markets, having held a variety of senior roles in New York, London and Singapore for Citigroup, JP Morgan, Goldman Sachs and Deutsche Bank.

Most recently, she was Chief Operating Officer of Copper Technologies (UK) Limited, a digital asset custodian, prime and infrastructure solutions provider. Prior to this, she was Global Co-Head of Citigroup's Futures, OTC Clearing and FX Prime Brokerage business. She also oversaw a period of development of the bank's global execution and algorithmic platforms in futures and cash equities. Ms. Wilson has deep experience in clearing, prime brokerage and digital assets. As well as holding executive appointments at a senior level, Sabrina has served as a non-executive director of TS Imagine since December 2021 and was a member of the European Advisory Board of the Futures Industry Association from 2017 to 2022.

Ms. Wilson serves as a member of the following principal Committees of the Issuer:

- Audit Committee
- 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:

	Position	Year of birth	Appointed on the Executive Management
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

	2023	2022
	£'000	
Directors' remuneration		
Non-Executive Directors emoluments	319	315
Chairman and executive directors – emoluments	2,477	2,481
	2,796	2,796
Amounts receivable under LTIPs, share option and other plans	604	249
Total	3,400	3,045

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,153,000 (2022 - £1,946,000).

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 29 ('*Directors' and key management remuneration*') to the 2023 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.

	2023	2022
	£'000	
Short term benefits	12,635	14,532
Post-employment benefits	592	557
Share based payments	3,878	4,729
	17,105	19,818

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 Note 28 ('*Directors' and key management remuneration*') to the 2023 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.

As at March 15, HM Treasury's holding in NatWest Group plc's ordinary shares was 30.98% 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 0.382 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. Related parties where stakes of 10 per cent or more are held are disclosed. 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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