
Serving our customers every day

Risk and capital management

Risk management framework

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 172 to 282) is within the scope of the Independent auditor's report.

Introduction

NatWest Group operates an 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 NatWest 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 NatWest Group and its subsidiaries. It aligns risk management with NatWest Group's overall strategic objectives. The framework, which is designed and maintained by NatWest Group's independent Risk function, is owned by the Chief Risk Officer. It is reviewed and approved annually by the Board. The framework incorporates risk governance, NatWest Group's three lines of defence operating model and the Risk function's mandate.

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

While all NatWest 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 NatWest 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 NatWest Group's ability to meet its strategic objectives.

Both top and emerging threats may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Culture

NatWest Group's multi-year programme to enhance risk management capability at different levels of the organisation 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 NatWest Group to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

NatWest 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 NatWest 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 NatWest Group, colleagues, customers, communities and shareholders safe and secure.
- Understand their role in managing risk, remaining clear and capable, grounded in knowledge of regulatory obligations.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses, reporting and communicating these transparently.
- Challenge others' attitudes, ideas and actions.

The target intelligent risk-taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious.

These aim to act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

Training

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

Our Code

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

- These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision-making and a clear focus on good customer outcomes.
- Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned (for more information on this process refer to page 135). The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk management framework continued

Governance

Committee structure

The diagram shows NatWest Group's governance structure in 2023 and the main purposes of each committee.

NatWest Group plc Board

Ensures there is a framework of prudent and effective controls which enables risks to be assessed and managed. It reviews and approves the Enterprise-Wide Risk Management Framework (EWRMF) (including NatWest Group's risk appetite framework) and approves the risk appetite for principal risks. Monitors performance against risk appetite, considers material risks and reviews the effectiveness of risk management and internal control systems.

Group Board Risk Committee

Provides oversight and advice to the Board on current and potential future risk exposures; future risk profile including risk appetite; and the approval and effectiveness of the EWRMF. Reviews NatWest Group's performance relative to risk appetite; the effectiveness of internal controls required to manage risk; all material risk exposures and management's recommendations to monitor, control and mitigate them, including all principal risks. Approves the Key Risk Policies[(1)] and provides input on remuneration decisions from a risk management perspective. Approves the Risk Management Strategy and oversees its effective delivery. Reviews and recommends to the Board the assumptions, scenarios and metrics used for stress tests.

Group Audit Committee

Assists the Board in carrying out its responsibilities relating to accounting policies, internal control and financial reporting functions, including consideration of any relevant non-financial disclosures or related controls which may impact the financial statements. Reviews NatWest Group's internal controls systems relating to financial management and compliance with laws and/or regulations relating to financial reporting, accounting issues, and safeguarding of assets. Reviews the procedures for monitoring the effectiveness of these controls.

Group Executive Risk Committee

Supports the NatWest Group CRO and other accountable executives in discharging risk management accountabilities. Reviews, challenges and debates all material risk exposures across NatWest Group and the performance of NatWest Group relative to risk appetite. Reviews the EWRMF, Key Risk Policies[(1)] and Risk Management Strategy and supports their recommendation to Group BRC. Oversees implementation of the EWRMF.

Group Executive Committee

Supports the Group CEO in discharging their individual accountabilities including matters relating to strategy, financials, capital, and operational issues. Considers material or enterprise wide risk and control matters across the Group as appropriate. Supports the Group CEO in identifying matters for escalation to the Board or an appropriate Board Committee.

Group Asset & Liability Management Committee[(2)]

Supports the Group CFO in overseeing the effective management of NatWest Group's current and future balance sheet in line with chosen business strategy and Board-approved risk appetite, under normal and stress conditions and in the escalation of matters to the appropriate Executive or Board Committee. Supports the Group CFO's and Group CRO's recommendation to Group BRC of the assumptions, scenarios and metrics used for stress tests.

Group Executive Disclosure Committee[(3)]

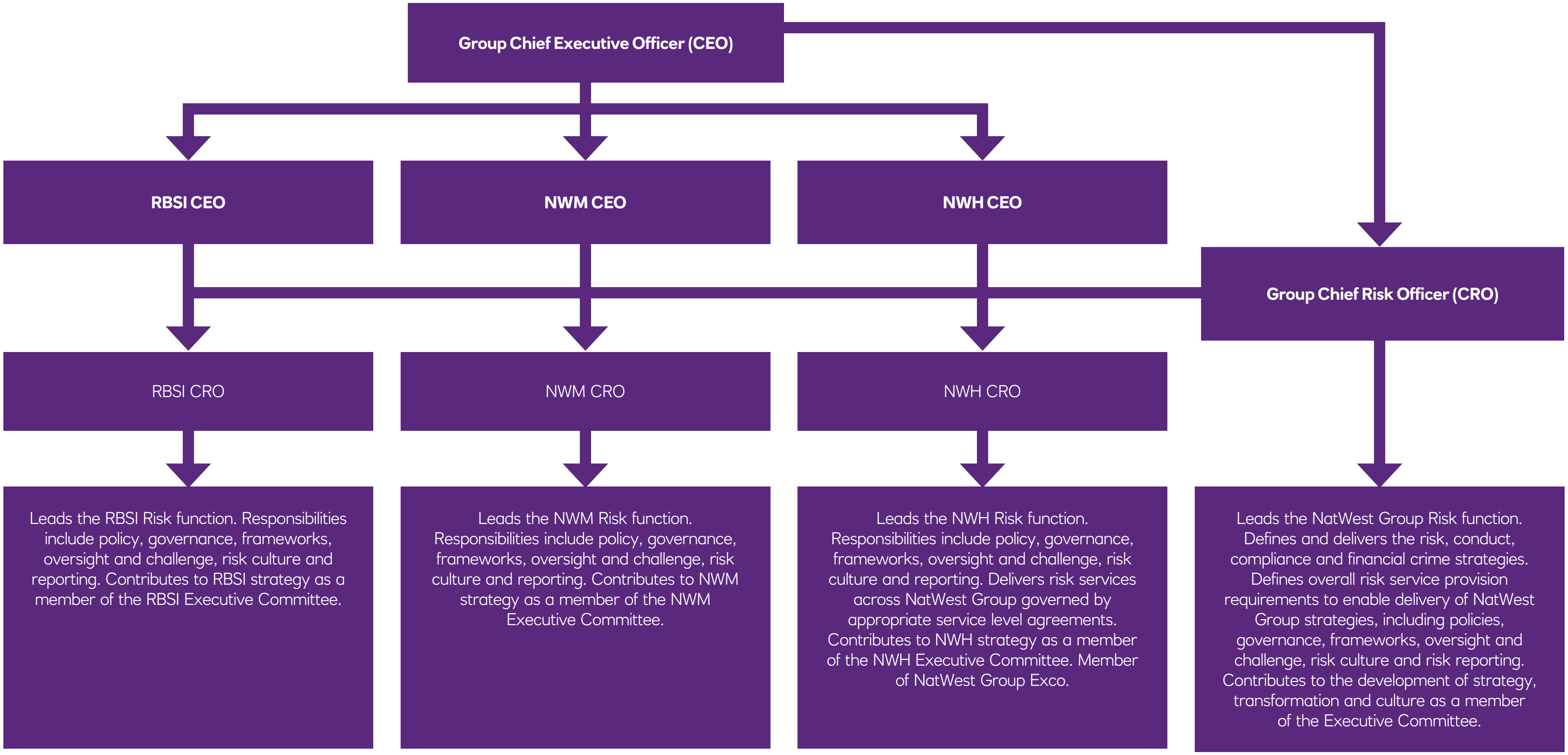
Supports the Group CFO in discharging their individual accountabilities, including the review of all material financial and non-financial disclosures made by NatWest Group to ensure that they are accurate, complete and fairly represent the business and financial condition of NatWest Group with no material misstatements or omissions.

(1) Risk Policies are in place for each principal risk and define, at a high level, the cascade of qualitative expectation, guidance and standards that stipulate the nature and extent of permissible risk taking. They are consistently applied across the Group and subsidiary legal entities and form part of the qualitative expression of risk appetite for each principal risk.
(2) In addition, the Group Technical Asset & Liability Management Committee, chaired by the Group Treasurer, provides oversight of capital and balance sheet management in line with approved risk appetite under normal and stress conditions. Reviews and challenges the financial strategy, risk management, balance sheet and remuneration and policy implications of the Group's pension schemes.
(3) The EDC Disclosures Steering Group has been established by the Group CFO to (i) review and approve the Group's responses to Environmental, Social and Governance (ESG) surveys where ESG content is considered material to Investors or decision-useful to users of the reports; (ii) to assess whether the Group should respond to and review new ad hoc survey requests; (iii) to review and approve ESG disclosures published on the Group's website and externally that are material to investors or decision useful to users of the reports; and (iv) to review and recommend to the Group EDC, ESG related disclosures in the quarterly, and annual suite of results releases.

Risk management framework continued

Risk management structure

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



(1) The Group Chief Executive Officer also performs the NWH Chief Executive Officer role.
(2) The Group Chief Risk Officer also performs the NWH Chief Risk Officer role, is a member of NatWest Group Exco, NatWest Group ERC and an attendee at NatWest Group BRC.
(3) The NWH Risk function provides risk management services across NWH, including to the NatWest Group Chief Risk Officer and – where agreed – to NWM and RBSI Chief Risk Officers. These services are managed, as appropriate, through service level agreements.
(4) The NWH Risk function is independent of the NWH customer-facing business segments and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWH. Risk committees in the customer businesses oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The Directors of Risk, (Retail Banking; Commercial & Institutional Banking (Ring-Fenced Bank); Wealth Businesses; Digital X and Functions; Finance and Treasury and Non-financial Risk; the Head of Restructuring and the Chief Operating Officer report to the NWH Chief Risk Officer. The Director of Risk, Ulster Bank Ireland DAC reports to the Ulster Bank Ireland DAC Chief Executive. They also have a reporting line to the NWH Chief Risk Officer and to the Chair of the Ulster Bank Ireland DAC Board Risk Committee.
(5) The Chief Risk Officers for NWM and RBSI have dual reporting lines into the Group Chief Risk Officer and the respective Chief Executive Officers of their entities. There are additional reporting lines to the NWM and RBSI Board Risk Committee chairs and a right of access to the respective Risk Committees.

Risk management framework continued

Three lines of defence

NatWest Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. This supports the embedding of effective risk management throughout the organisation. All roles below the CEO sit within one of the three lines. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the risk management framework and is therefore considered to be outside the three lines of defence principles.

First line of defence

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

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

Third line of defence

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

The third line of defence is responsible for providing independent 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 NatWest Group and its subsidiary companies achieving their objectives.

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

Risk appetite

Risk appetite defines the type and aggregate level of risk NatWest 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 at least annually.

For certain principal risks, risk capacity defines the maximum level of risk NatWest 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 NatWest 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 NatWest 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.

Risk management framework continued

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 NatWest Group is well placed to meet its priorities and long-term targets, even in challenging economic environments. This supports NatWest 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.

NatWest Group's risk profile is continually monitored and frequently reviewed. Management focus is concentrated on all principal risks as well as the top and emerging threats that may correlate to them. Risk profile relative to risk appetite is reported regularly to senior management and the Board.

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

Identification and measurement

Identification and measurement within the risk management process comprises:

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

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

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

Testing and monitoring

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

Independent control testing of the NWH Group Risk function is completed on principal processes and controls impacting the financial statements, in line with section 404 of the Sarbanes-Oxley Act 2002, which focusses on the formalised evaluation, testing and reporting of significant internal controls over financial reporting and the associated control environment.

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

Risk management framework continued

Stress testing

Stress testing – capital management

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

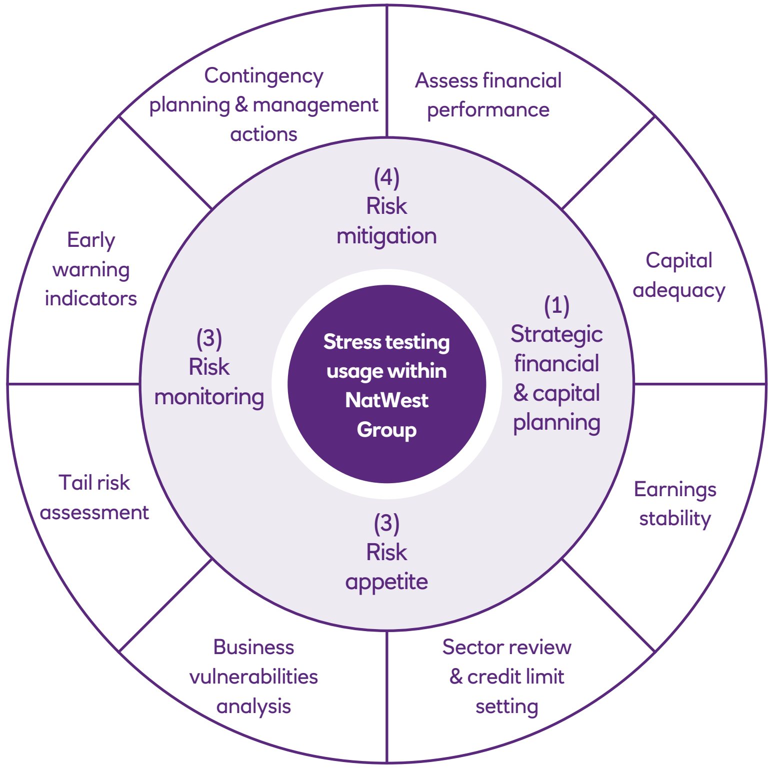
Stress testing includes:

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

The process for stress testing consists of four broad stages:

Define scenarios	– Identify macro and NatWest Group specific vulnerabilities and risks. – Define and calibrate scenarios to examine risks and vulnerabilities. – Formal governance process to agree scenarios.
Assess impact	– Translate scenarios into risk drivers. – Assess impact to current and projected P&L and balance sheet across NatWest Group.
Calculate results and assess implications	– Aggregate impacts into overall results. – Results form part of the risk management process. – Scenario results are used to inform 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. Approval of scenarios is delegated to the NatWest Group Board Risk Committee by the NatWest Group Board.

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



Specific areas that involve capital management include:

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

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

Risk management framework continued

Capital sufficiency – going concern forward-looking view

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

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

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Internal assessment of liquidity

Under the liquidity risk management framework, NatWest Group maintains the Internal Liquidity Adequacy Assessment Process. This includes assessment of net stressed liquidity outflows under a range of severe but plausible stress scenarios. Each scenario evaluates either an idiosyncratic, market-wide or combined stress event as described in the table below.

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

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

Risk management framework continued

Stress testing – recovery and resolution planning

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

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

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

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

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

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Traded market risk

NatWest 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.

NatWest 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.

Risk management framework continued

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 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.

Internal scenarios – climate

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. NatWest Group remained above its CET1 capital and Tier 1 leverage ratio hurdle rates in stress and was not required to strengthen its capital position as a result of the stress tests. The results of this stress test, and other relevant information, will be used to help inform NatWest Group capital buffers (both the UK countercyclical capital buffer rate and PRA buffers).

The 2022 stress test 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.

Further details can be found at: https://www.bankofengland.co.uk/stress-testing/2023/bank-of-england-stress-testing-results

Following the UK's exit from the European Union, only relevant European subsidiaries of NatWest Group take part in the European Banking Authority stress tests. NatWest Group itself does not participate.

NatWest 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.

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 NatWest Group are lending, off-balance sheet products, derivatives and securities financing, and debt securities. NatWest Group is also exposed to settlement risk through foreign exchange, trade finance and payments activities.

Key developments in 2023

- Personal lending grew as a result of strong demand across both mortgages and unsecured lending, although mortgage demand reduced during the second half of the year in line with trends in the UK mortgage market. Adjustments were made to affordability assumptions and stress rates to ensure that lending continued to be assessed appropriately, given the high interest rate and inflationary environment. Support for customers was proactively promoted during the year and the number of customers requesting support (primarily forbearance) increased gradually. Although there was an increase in arrears during the year, this was partly driven by overall growth in Retail Banking portfolios in recent years, as well as adjustments to lending criteria following COVID-19. Indicators of difficulty to pay remain at or below levels observed before COVID-19.
- Wholesale lending increased during the year, driven by financial institutions sectors. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are deemed to represent a heightened risk, including due to cost of living, supply chain and inflationary pressures.
- Overall expected credit loss (ECL) increased during 2023 reflecting portfolio growth alongside broadly stable portfolio performance. There were Stage 3 default flow increases, particularly in the Personal portfolio, but these were broadly in line with expectations due to growth and normalisation of risk parameters. This was mitigated by a net ECL reduction from 2023 updates to economic scenarios and weightings. ECL post model adjustments increased during the year reflecting continued economic uncertainty from inflation, higher interest rates and liquidity concerns.
- NatWest Group continued to align its financial planning process with the climate transition planning process. This included adding climate policy and technology-related transition assumptions into NatWest Group's base case macroeconomic scenario used for financial planning and assessment of ECL in this IFRS 9 reporting period. This resulted in an increase in ECL of £6 million.
- Several models were redeveloped in 2023, most notably IFRS 9 probability of default (PD) and loss given default (LGD) models for business loans and stress testing models for Personal mortgages, financial institutions and non-UK corporates economic response models for Wholesale lending.

Credit risk continued

Governance (audited)

The credit risk function provides oversight and challenge of frontline credit risk management activities. 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 NatWest Group and business unit provisions and model committees.
- Development and approval of credit grading models.
- Providing regular reporting on credit risk to the Board Risk Committee and Board.

Risk appetite

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

Personal

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

Wholesale

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

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 PDs. Performing loans are defined as AQ1-AQ9 (where the 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. NatWest Group mitigates counterparty credit risk through collateralisation and netting agreements, which allow amounts owed by NatWest Group to a counterparty to be netted against amounts the counterparty owes NatWest 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 NatWest Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

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

Credit risk continued

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

Within the Private Banking and RBSI segments, properties securing loans greater than £2.5 million or €3 million are revalued every three years.

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

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

Assessment and monitoring

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

Personal

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

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

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

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

Wholesale

Wholesale customers, including corporates, banks and other financial institutions are 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 quality through PD credit grades or performance against a combination of risk triggers in business banking, and LGD are reviewed and if appropriate reapproved annually. The review process assesses borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; compliance with terms and conditions; and refinancing risk.

Credit risk continued

Problem debt management

Personal

Early problem identification

Pre-emptive triggers are in place to help identify customers that may be at risk of being in financial difficulty. These triggers are both internal, using NatWest Group data, and external using information from credit reference agencies. Proactive contact is then made with the customer to establish if they require help with managing their finances. By adopting this approach, the aim is to prevent a customer's financial position deteriorating.

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

In July 2023, Mortgage Charter support was introduced for residential mortgage customers. Mortgage Charter support includes temporary interest only or term extensions at the customer's request. A request for Mortgage Charter does not, of itself trigger transfer to a specialist team.

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NatWest Group and requested to remedy the position. If the situation is not resolved then, where appropriate, the Collections team will become more involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions.

In the event that an affordable and sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team.

For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has triggered any other unlikeliness to pay indicators, in which case it is categorised as Stage 3.

Recoveries

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

Wholesale

Early problem identification

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

There is an equivalent process for Business Banking customers, with problem debt cases reallocated to increased monitoring and support under a Portfolio Management Relationship team or the Financial Health and Support Team. Broader macro-economic trends including commodity prices, foreign exchange rates and consumer and government spend are also tracked, helping inform decisions on sector risk appetite. Customer level early warning indicators are regularly reviewed to ensure alignment with prevailing economic conditions, ensuring both the volume and focus of alerts is aligned to the point-in-time risk within each sector.

The aligned Risk of Credit Loss and Viability framework

This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. Expert judgment is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NatWest 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 NatWest Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

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

Credit risk continued

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

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

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

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

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

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

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

Restructuring
Where customers are categorised as Risk of Credit Loss and the lending exposure is above £1 million, relationships are supported by the Restructuring team. The objective of Restructuring is to protect NatWest Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered. Helping viable customers return to financial health and restoring a normal banking relationship is always the preferred outcome; however, where this is not possible, NatWest Group will work with customers to achieve a solvent outcome.

Throughout this period, the mainstream relationship manager will remain an integral part of the customer relationship. Insolvency is considered as a last resort and if deemed necessary, NatWest Group will work to recover its capital in a fair and efficient manner, while upholding the fair treatment of customers and NatWest Group's core values.

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

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

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

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

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

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

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

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

Credit risk continued

Provisioning for forbearance (audited)

Personal

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

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so.

The loan would continue to be reported as forborne until it meets the exit criteria set out by the appropriate regulatory guidance.

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

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

Wholesale

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

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

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

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

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan can be returned to performing status once the exit criteria, as set out by regulatory guidance, are met. Refer to pages 213 and 216 for further details on Wholesale and Personal forbearance.

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.

NatWest 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.

For accounting policy information refer to Accounting policy 2.3

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:

Credit risk continued

- **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

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

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

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

LGD estimates

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

Personal

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

Wholesale

Forward-looking economic information is incorporated into LGD estimates using the existing 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

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

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

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

Wholesale
For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective 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 NatWest 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 NatWest Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to high inflation, high interest rates and supply chain disruption.

Credit risk continued

ECL post model adjustments

The table below shows ECL post model adjustments.

	Retail Banking			Commercial	Central items	
	Mortgages	Other	Private Banking	& Institutional	& other (1)	Total
2023	£m	£m	£m	£m	£m	£m
Deferred model calibrations	**-**	**-**	**1**	**23**	**-**	**24**
Economic uncertainty	**118**	**39**	**13**	**256**	**3**	**429**
Other adjustments	**1**	**-**	**-**	**8**	**23**	**32**
Total	**119**	**39**	**14**	**287**	**26**	**485**
Of which:						
- Stage 1	***75***	***14***	***6***	***115***	***10***	***220***
- Stage 2	***31***	***25***	***8***	***167***	***9***	***240***
- Stage 3	***13***	***-***	***-***	***5***	***7***	***25***
2022						
Economic uncertainty	102	51	6	191	2	352
Other adjustments	8	20	-	16	15	59
Total	110	71	6	207	17	411
Of which:						
- Stage 1	*62*	*27*	*3*	*63*	*-*	*155*
- Stage 2	*32*	*44*	*3*	*139*	*16*	*234*
- Stage 3	*16*	*-*	*-*	*5*	*1*	*22*

Post model adjustments increased since 31 December 2022, with notable shifts in all categories. This reflected:

- The addition of deferred model calibration post model adjustments to account for elevated refinance risks on deteriorated exposures largely due to pressures from inflation and liquidity.
- The increase in the economic uncertainty post model adjustments for Wholesale portfolios relating to inflation, supply chain and liquidity prompted by continued affordability risks, as a result of higher interest rates and sustained inflation. This was partially offset by a reduction in COVID-19 related post model adjustments.
- **Retail Banking** – The post model adjustments for economic uncertainty increased slightly to £157 million at 31 December 2023, from £153 million at 31 December 2022. Continued consumer affordability risks, as a result of higher interest rates and sustained inflation, prompted an uplift in the cost of living post model adjustment (up from £127 million to £144 million). The cost of living post model adjustment captured the risk on segments in the Retail Banking portfolio that are more susceptible to the effects of cost of living rises. It focused on key affordability lenses, including customers with lower income in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock. This increase during the year was partly offset by some LGD post model adjustment reductions. Additionally, the judgemental post model adjustment relating to the modelling of cards EAD (£20 million at 31 December 2022) was discontinued at H1 2023 and the latest update to the post model adjustment for legacy higher risk interest only residential mortgages resulted in a £7 million reduction in the post model adjustment from 31 December 2022, reflecting latest analysis of the portfolio segment.
- **Commercial & Institutional** – The post model adjustments for economic uncertainty increased to £256 million at 31 December 2023, from £191 million at 31 December 2022. It included an overlay of £50 million at 31 December 2023, from £108 million at 31 December 2022, to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. The inflation and supply chain post model adjustment was maintained with a mechanistic adjustment, via a sector-level downgrade, being applied to the sectors that were considered most at risk from these headwinds. A number of additional sectors were added to the sector-level downgrade reflecting the ongoing pressures from inflation being higher for longer plus broader concerns around reducing cash reserves across many sectors. The impact of the sector-level downgrades is a post model adjustment increase to £206 million at 31 December 2023 from £83 million at 31 December 2022, reflecting these significant headwinds which are not fully captured in the models. The £23 million judgemental overlay for deferred model calibrations relates to refinance risk with the existing mechanistic modelling approach not fully capturing the risk on deteriorated exposures. Other adjustments included an overlay of £7 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Credit risk continued

Significant increase in credit risk (SICR) (audited)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). NatWest 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 NatWest Group and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

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

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

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

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

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

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

Asset lifetimes (audited)

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

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

In the case of credit cards, the most significant judgment is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £110 million (2022 – £80 million). However, credit card balances originated under the 0% balance transfer product and representing approximately 37% (2022 – 19%) of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

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

Credit risk continued

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 significant economic loss drivers for the most material portfolios are shown in the table below:

Portfolio	Economic loss drivers
UK Personal mortgages	UK unemployment rate, sterling swap rate, UK house price index, UK real wage
UK Personal unsecured	UK unemployment rate, sterling swap rate, UK real wage
UK corporates	UK stock price index, UK gross domestic product, Bank of England base rate
UK commercial real estate	UK stock price index, UK commercial property price index, UK GDP, Bank of England base rate

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.

Credit risk continued

Economic loss drivers (audited)

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.

Main macroeconomic variables

	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.
(2) 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.

Credit risk continued

Economic loss drivers (audited)

Climate transition

During 2023, NatWest Group continued to align its financial planning process with the climate transition planning process. This included adding climate policy and technology related transition assumptions into NatWest Group's base case macroeconomic scenario used for financial planning and assessment of ECL in this IFRS 9 reporting period. This resulted in an increase in ECL of less than £1 million.

As in the initial iteration of the Climate transition plan, included in NatWest Group's 2022 Climate-related Disclosures Report, NatWest Group assesses the effects of climate transition policies within the base case macroeconomic scenario, using the UK Climate Change Committee (CCC) Balanced Net Zero (BNZ) scenario, aligned with the UK CCC sixth carbon budget, as a starting point. In addition, NatWest Group included estimated average policy delay into the climate economic assumptions for IFRS 9 purposes, based on the credibility ratings for sectoral policies provided by the UK CCC 2022 Progress Report to Parliament, to reflect estimated time delays based on credibility ratings as follows:

– **Credible policies** – estimated zero years of delayed adjustment to the BNZ pathway for the associated policy.
– **Policies with some or significant risk** – estimated three and five years of delay respectively for the associated policy.
– **Policies with insufficient plans** – estimated ten years of delay for the associated policy.

The base case macroeconomic scenario now explicitly includes assumptions about the changes in transition policy expressed as an additional implicit carbon price. Implicit carbon price is an additional cost related to greenhouse gas emissions as a result of climate transition policy.

NatWest Group assumes that between now and 2028, the transition policy will change slowly, and the implicit carbon price will increase modestly by £10.5/tCO2e, which is consistent with the UK CCC BNZ scenario. The base case macroeconomic scenario also included assumptions about abatement technology development and specific sectors' transition, for example, the switch from fossil fuels to renewable energy sources. NatWest Group will continue to enhance this analysis, including updates in the UK CCC 2023 Progress Report to Parliament published in June 2023.

While previous NatWest Group IFRS 9 base case scenarios included some climate transition considerations, they were based on all enacted policies and available technologies. The new approach described here applies to explicitly identifying the effect of additional climate transition policy.

NatWest Group and its customers have a dependency on timely and appropriate government policies to provide the necessary impetus for technology development and customer behaviour changes, to enable the UK's successful transition to net zero. Policy delays and risks outlined in the UK CCC 2022 and 2023 Progress Reports, if not adequately addressed in a timely manner, put at risk the UK's net zero transition and in turn that of NatWest Group and its customers.

For this first iteration of climate economic assumptions included within the base case macroeconomic scenario, NatWest Group focused on policy and technology related transition risks. It is assumed that in more extreme scenarios it is likely that climate policy changes would offset adverse/benign economic conditions. NatWest Group's tools, methodologies and assessment of climate risks will continue to evolve to further align financial planning and climate transition planning processes.

Probability weightings of scenarios

NatWest 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.

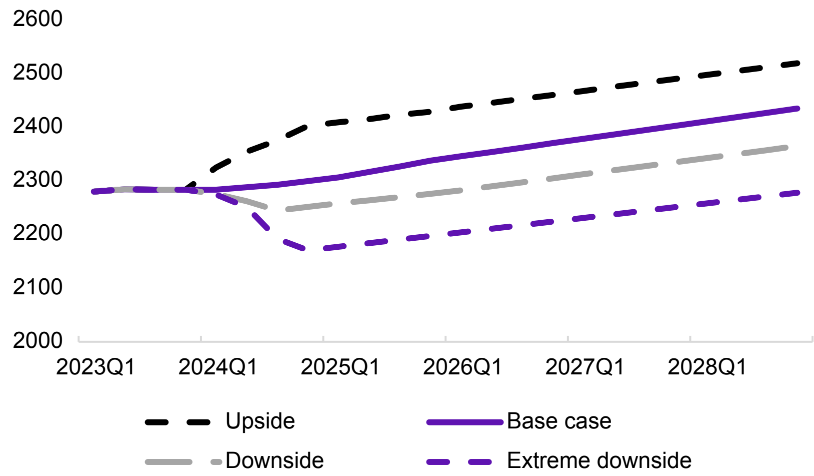
The approach involves comparing UK GDP paths for NatWest Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability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

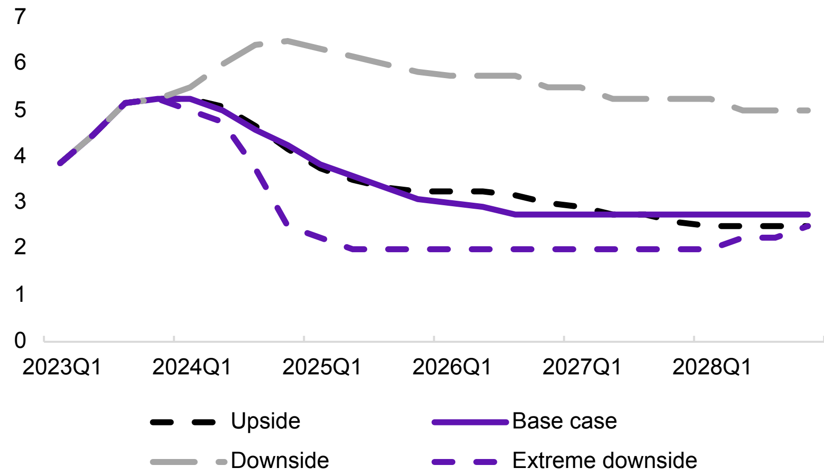
Credit risk continued

Economic loss drivers

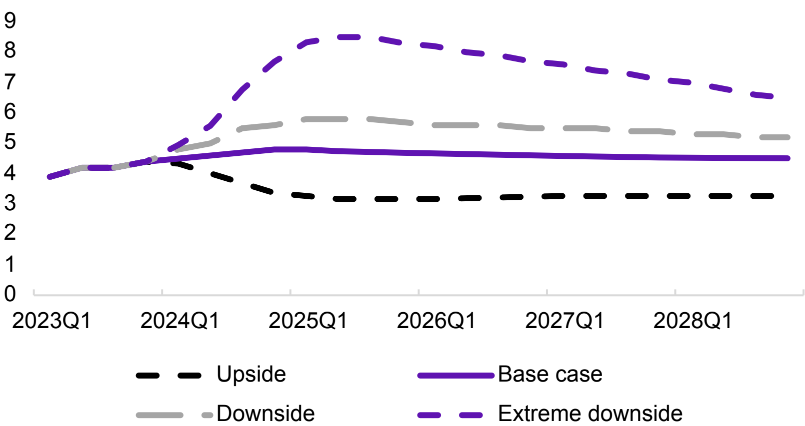
UK gross domestic product (£bn)



Bank of England base rate (%)



UK unemployment rate (%)



Credit risk continued

Economic loss drivers (audited)

Annual figures

	GDP - annual growth				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
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

	Consumer price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
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

	Unemployment rate - annual average				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted 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

	Bank of England base rate - annual average				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted 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

	House price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
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

	UK stock price index - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
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

	Commercial real estate price - four quarter change				
	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
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

Credit risk continued

Economic loss drivers (audited)

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 - highest four quarter change	**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 - extreme level	**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 Personal lending

Personal lending follows a discrete scenario approach. The PD, EAD, LGD and resultant ECL for each discrete scenario is calculated using product specific economic response models. Probability weighted averages across the suite of economic scenarios are then calculated for each of the model outputs, with the weighted PD being used for staging purposes.

Business Banking utilises the Personal lending methodology rather than the Wholesale lending methodology.

Use of the scenarios in Wholesale 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. NatWest 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

During 2023, the monitoring framework for the retail model suite was enhanced to enable more granular performance tracking at key segment levels, such as balance transfers versus non-balance transfers for the credit cards models. A new Business Banking PD, EAD and LGD model suite was redeveloped in 2023, ensuring appropriate treatment of government-guaranteed loans.

In addition, the retail economic response models, which are used to bring forward-looking information into the IFRS 9 PD models, were redeveloped to bring in more inflationary drivers. In Wholesale 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.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

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

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

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

NatWest 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.

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	173,982	174,642	175,311	171,320	165,143
Retail Banking - unsecured	8,802	8,838	8,992	8,652	8,334
Wholesale - property	26,933	27,088	27,200	26,645	22,326
Wholesale - non-property	123,228	124,107	124,742	122,243	104,657
	332,945	334,675	336,245	328,860	300,460
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	86	86	84	84	79
Retail Banking - unsecured	221	222	219	221	211
Wholesale - property	102	80	61	131	184
Wholesale - non-property	276	246	211	331	434
	685	634	575	767	908
Stage 1 coverage					
Retail Banking - mortgages	0.05%	0.05%	0.05%	0.05%	0.05%
Retail Banking - unsecured	2.51%	2.51%	2.44%	2.55%	2.53%
Wholesale - property	0.38%	0.30%	0.22%	0.49%	0.82%
Wholesale - non-property	0.22%	0.20%	0.17%	0.27%	0.41%
	0.21%	0.19%	0.17%	0.23%	0.30%
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	17,825	17,165	16,496	20,487	26,664
Retail Banking - unsecured	3,772	3,736	3,582	3,922	4,240
Wholesale - property	3,306	3,151	3,039	3,594	7,913
Wholesale - non-property	13,512	12,633	11,998	14,497	32,083
	38,415	36,685	35,115	42,500	70,900
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	60	56	48	70	100
Retail Banking - unsecured	445	435	383	487	554
Wholesale - property	93	80	68	111	273
Wholesale - non-property	364	310	264	432	789
	962	881	763	1,100	1,716
Stage 2 coverage					
Retail Banking - mortgages	0.34%	0.33%	0.29%	0.34%	0.38%
Retail Banking - unsecured	11.80%	11.64%	10.69%	12.42%	13.07%
Wholesale - property	2.81%	2.54%	2.24%	3.09%	3.45%
Wholesale - non-property	2.69%	2.45%	2.20%	2.98%	2.46%
	2.50%	2.40%	2.17%	2.59%	2.42%

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	191,807	191,807	191,807	191,807	191,807
Retail Banking - unsecured	12,574	12,574	12,574	12,574	12,574
Wholesale - property	30,239	30,239	30,239	30,239	30,239
Wholesale - non-property	136,740	136,740	136,740	136,740	136,740
	371,360	371,360	371,360	371,360	371,360
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	146	142	132	154	179
Retail Banking - unsecured	666	657	602	708	765
Wholesale - property	195	160	129	242	457
Wholesale - non-property	640	556	475	763	1,223
	1,647	1,515	1,338	1,867	2,624
Stage 1 and Stage 2 coverage					
Retail Banking - mortgages	0.08%	0.07%	0.07%	0.08%	0.09%
Retail Banking - unsecured	5.30%	5.23%	4.79%	5.63%	6.08%
Wholesale - property	0.64%	0.53%	0.43%	0.80%	1.51%
Wholesale - non-property	0.47%	0.41%	0.35%	0.56%	0.89%
	0.44%	0.41%	0.36%	0.50%	0.71%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposure	1,647	1,515	1,338	1,867	2,624
ECL on UBIDAC modelled exposures	8	8	8	8	8
ECL on non-modelled exposures	30	30	30	30	30
Total Stage 1 and Stage 2 ECL (£m)	1,685	1,553	1,376	1,905	2,662
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(132)	(309)	220	977
Reconciliation to Stage 1 and Stage 2 flow exposure (£m)					
Modelled loans	371,360	371,360	371,360	371,360	371,360
UBIDAC loans	318	318	318	318	318
Non-modelled loans	19,522	19,522	19,522	19,522	19,522
Other asset classes	153,439	153,439	153,439	153,439	153,439

(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 exposure relating to bonds and cash.
(3) Exposures related to Ulster Bank RoI continuing operations were not included in the simulations, the current Ulster Bank RoI ECL has been included across all scenarios to enable reconciliation to other disclosures.
(4) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 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.
(5) Refer to the Economic loss drivers section for details of economic scenarios.
(6) Refer to the NatWest Group plc 2022 Annual Report and Accounts for 2022 comparatives.

Credit risk continued

Measurement uncertainty and ECL adequacy (audited)

- If the economics were as negative as observed in the extreme downside (i.e. 100% probability weighting), total Stage 1 and Stage 2 ECL was simulated to increase by around £1 billion (approximately 58%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was mainly due to commercial real estate prices which showed negative growth until 2025 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- 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, high interest rates during 2023 and supply chain disruption, NatWest 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 NatWest Group operates.

Movement in ECL provision (1)

The table below shows the main ECL provision movements during the year.

	ECL provision £m
At 1 January 2023	**3,434**
Transfers to disposal groups and reclassifications	**(80)**
Changes in economic forecasts	**(125)**
Changes in risk metrics and exposure: Stage 1 and Stage 2	**95**
Changes in risk metrics and exposure: Stage 3	**557**
Judgmental changes:	
Changes in post model adjustments for Stage 1, Stage 2 and Stage 3	**74**
Write-offs and other	**(310)**
At 31 December 2023	**3,645**
At 1 January 2022	3,806
2022 movements	(372)
At 31 December 2022	3,434

(1) The above table is not within the scope of the independent auditors' report.

- During the year, overall ECL increased reflecting portfolio growth alongside broadly stable portfolio performance. There were Stage 3 default flow increases, particularly in the Personal portfolio, but these were broadly in line with expectations due to growth and normalisation of risk parameters. This was mitigated by a net ECL reduction from 2023 updates to economic scenarios and weightings.
- Judgemental ECL post model adjustments, increased from 31 December 2022, reflecting continued economic uncertainty from inflation being higher for longer, higher interest rates and liquidity concerns, and represented 13% of total ECL (2022 – 12%).
- For the Wholesale portfolio, default levels were lower than historic trends as the effects of higher inflation, supply chain disruption and higher interest rates, had to date, not led to a significant change in defaults.
- Stage 3 balances increased due to default flows, as described above, alongside reduced write-off activity in 2023.

Credit risk – Banking activities

Introduction

This section details the credit risk profile of NatWest Group's banking activities. Refer to Accounting policy 2.3 and Note 15 to the consolidated financial statements for policies and critical judgments relating to impairment loss determination.

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

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

	31 December 2023			31 December 2022		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	**553.8**			554.3		
In scope of IFRS 9 ECL framework	**545.3**			550.3		
% in scope	**98%**			99%		
Loans to customers - in scope - amortised cost	**385.3**	**3.6**	**381.7**	370.1	3.3	366.8
Loans to customers - in scope - FVOCI	**0.1**	**-**	**0.1**	0.1	-	0.1
Loans to banks - in scope - amortised cost	**6.7**	**-**	**6.7**	6.9	-	6.9
Total loans - in scope	**392.1**	**3.6**	**388.5**	377.1	3.3	373.8
Stage 1	**348.6**	**0.7**	**347.9**	325.2	0.6	324.6
Stage 2	**37.9**	**0.9**	**37.0**	46.8	0.9	45.9
Stage 3	**5.6**	**2.0**	**3.6**	5.1	1.8	3.3
Other financial assets - in scope - amortised cost	**124.9**	**-**	**124.9**	156.4	-	156.4
Other financial assets - in scope - FVOCI	**28.3**	**-**	**28.3**	16.8	-	16.8
Total other financial assets - in scope	**153.2**	**-**	**153.2**	173.2	-	173.2
Stage 1	**152.0**	**-**	**152.0**	172.4	-	172.4
Stage 2	**1.2**	**-**	**1.2**	0.8	-	0.8
Out of scope of IFRS 9 ECL framework	**8.5**	**na**	**8.5**	4.0	na	4.0
Loans to customers - out of scope - amortised cost	**(0.4)**	**na**	**(0.4)**	(0.4)	na	(0.4)
Loans to banks - out of scope - amortised cost	**0.3**	**na**	**0.3**	0.2	na	0.2
Other financial assets - out of scope - amortised cost	**8.3**	**na**	**8.3**	4.1	na	4.1
Other financial assets - out of scope - FVOCI	**0.3**	**na**	**0.3**	0.1	na	0.1

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £8.6 billion (2022 – £4.3 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of £0.3 billion (2022 – £0.4 billion) as not within the IFRS 9 ECL framework by definition.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £(0.3) billion (2022 – £(0.6) billion).

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the consolidated financial statements, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. These were offset by £0.1 billion (2022 – £(0.1) 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 £132.0 billion (2022 – £137.2 billion) comprised Stage 1 £120.6 billion (2022 – £119.2 billion); Stage 2 £10.7 billion (2022 – £17.3 billion); and Stage 3 £0.7 billion (2022 – £0.7 billion).

The ECL relating to off balance sheet exposures was £0.1 billion (2022 – £0.1 billion). The total ECL in the remainder of the Credit risk section of £3.6 billion (2022 – £3.4 billion) included ECL for both on and off-balance sheet exposures for non-disposal groups.

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

2023	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI (1)					
Stage 1	182,297	17,565	119,047	29,677	348,586
Stage 2	21,208	906	15,771	6	37,891
Stage 3	3,133	258	2,162	10	5,563
Of which: individual	*-*	*186*	*845*	*-*	*1,031*
Of which: collective	*3,133*	*72*	*1,317*	*10*	*4,532*
Subtotal excluding disposal group loans	206,638	18,729	136,980	29,693	392,040
Disposal group loans				67	67
Total				29,760	392,107
ECL provisions (2)					
Stage 1	306	20	356	27	709
Stage 2	502	20	447	7	976
Stage 3	1,097	34	819	10	1,960
Of which: individual	*-*	*34*	*298*	*-*	*332*
Of which: collective	*1,097*	*-*	*521*	*10*	*1,628*
Subtotal excluding ECL provisions on disposal group loans	1,905	74	1,622	44	3,645
ECL provisions on disposal group loans				36	36
Total				80	3,681
ECL provisions coverage (3)					
Stage 1 (%)	0.17	0.11	0.30	0.09	0.20
Stage 2 (%)	2.37	2.21	2.83	nm	2.58
Stage 3 (%)	35.01	13.18	37.88	100.00	35.23
ECL provisions coverage excluding disposal group loans	0.92	0.40	1.18	0.15	0.93
ECL provisions coverage on disposal group loans				53.73	53.73
Total				0.27	0.94
Impairment (releases)/losses					
ECL (release)/charge (4)	465	14	94	5	578
Stage 1	(172)	(9)	(222)	6	(397)
Stage 2	440	15	182	8	645
Stage 3	197	8	134	(9)	330
Of which: individual	*-*	*8*	*80*	*1*	*89*
Of which: collective	*197*	*-*	*54*	*(10)*	*241*
Continuing operations	465	14	94	5	578
Discontinued operations				(6)	(6)
Total				(1)	572
Amounts written-off	188	2	122	7	319
Of which: individual	*-*	*2*	*40*	*-*	*42*
Of which: collective	*188*	*-*	*82*	*7*	*277*

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

2022	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Loans - amortised cost and FVOCI (1)					
Stage 1	174,727	18,367	108,791	23,339	325,224
Stage 2	21,561	801	24,226	245	46,833
Stage 3	2,565	242	2,166	123	5,096
Of which: individual	-	*168*	*905*	*48*	*1,121*
Of which: collective	*2,565*	*74*	*1,261*	*75*	*3,975*
Subtotal excluding disposal group loans	198,853	19,410	135,183	23,707	377,153
Disposal group loans				1,502	1,502
Total				25,209	378,655
ECL provisions (2)					
Stage 1	251	21	342	18	632
Stage 2	450	14	534	45	1,043
Stage 3	917	26	747	69	1,759
Of which: individual	-	*26*	*251*	*10*	*287*
Of which: collective	*917*	-	*496*	*59*	*1,472*
Subtotal excluding ECL provisions on disposal group loans	1,618	61	1,623	132	3,434
ECL provisions on disposal group loans				53	53
Total				185	3,487
ECL provisions coverage (3)					
Stage 1 (%)	0.14	0.11	0.31	0.08	0.19
Stage 2 (%)	2.09	1.75	2.20	18.37	2.23
Stage 3 (%)	35.75	10.74	34.49	56.10	34.52
ECL provisions coverage excluding disposal group loans	0.81	0.31	1.20	0.56	0.91
ECL provisions coverage on disposal group loans				3.53	3.53
Total				0.73	0.92
Impairment (releases)/losses					
ECL (release)/charge (4)	229	(2)	122	(12)	337
Stage 1	(146)	2	(135)	(11)	(290)
Stage 2	268	(7)	108	24	393
Stage 3	107	3	149	(25)	234
Of which: individual	-	*3*	*57*	*(6)*	*54*
Of which: collective	*107*	-	*92*	*(19)*	*180*
Continuing operations	229	(2)	122	(12)	337
Discontinued operations				(71)	(71)
Total				(83)	266
Amounts written-off	216	15	224	27	482
Of which: individual	-	*15*	*153*	-	*168*
Of which: collective	*216*	-	*71*	*27*	*314*

(1) Includes loans to customers and banks.
(2) Includes £9 million (2022 – £3 million) related to assets classified as FVOCI and £0.1 billion (2022 – £0.1 billion) related to off-balance sheet exposures.
(3) 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.
(4) Includes a £16 million release (2022 – £3 million charge) related to other financial assets, of which £6 million charge (2022 – nil) related to assets classified as FVOCI, and includes a £9 million release (2022 – £5 million release) related to contingent liabilities.
(5) The table shows gross loans only and excludes amounts that were 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 £103.1 billion (2022 – £143.3 billion) and debt securities of £50.1 billion (2022 – £29.9 billion).

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
					Loan	Contingent				
	Stage 1	Stage 2	Stage 3	Total	commitments	liabilities	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	**2**	**4**	**2**	**8**	**-**	**-**	**-**	**1**	**1**	**2**
Wholesale	**6**	**15**	**38**	**59**	**1**	**2**	**3**	**7**	**24**	**34**
Total	**8**	**19**	**40**	**67**	**1**	**2**	**3**	**8**	**25**	**36**
2022										
Personal	-	-	-	-	-	-	-	-	-	-
Wholesale	1,269	193	40	1,502	413	19	17	19	17	53
Total	1,269	193	40	1,502	413	19	17	19	17	53

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	Gross loans							ECL provisions (2)						
		Stage 2 (1)							Stage 2 (1)					
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking	**182,297**	**20,128**	**738**	**342**	**21,208**	**3,133**	**206,638**	**306**	**453**	**15**	**34**	**502**	**1,097**	**1,905**
Private Banking	**17,565**	**772**	**77**	**57**	**906**	**258**	**18,729**	**20**	**18**	**1**	**1**	**20**	**34**	**74**
Personal	***14,296***	***158***	***73***	***24***	***255***	***209***	***14,760***	***3***	***2***	-	-	***2***	***20***	***25***
Wholesale	***3,269***	***614***	***4***	***33***	***651***	***49***	***3,969***	***17***	***16***	***1***	***1***	***18***	***14***	***49***
Commercial & Institutional	**119,047**	**14,689**	**657**	**425**	**15,771**	**2,162**	**136,980**	**356**	**415**	**21**	**11**	**447**	**819**	**1,622**
Personal	***2,268***	***15***	***21***	***7***	***43***	***52***	***2,363***	***2***	-	-	-	-	***16***	***18***
Wholesale	***116,779***	***14,674***	***636***	***418***	***15,728***	***2,110***	***134,617***	***354***	***415***	***21***	***11***	***447***	***803***	***1,604***
Central items & other	**29,677**	**5**	-	**1**	**6**	**10**	**29,693**	**27**	**6**	-	**1**	**7**	**10**	**44**
Personal	***4***	***2***	-	***1***	***3***	***6***	***13***	***5***	***1***	-	***1***	***2***	***9***	***16***
Wholesale	***29,673***	***3***	-	-	***3***	***4***	***29,680***	***22***	***5***	-	-	***5***	***1***	***28***
Total loans	**348,586**	**35,594**	**1,472**	**825**	**37,891**	**5,563**	**392,040**	**709**	**892**	**37**	**47**	**976**	**1,960**	**3,645**
Of which:														
Personal	***198,865***	***20,303***	***832***	***374***	***21,509***	***3,400***	***223,774***	***316***	***456***	***15***	***35***	***506***	***1,142***	***1,964***
Wholesale	***149,721***	***15,291***	***640***	***451***	***16,382***	***2,163***	***168,266***	***393***	***436***	***22***	***12***	***470***	***818***	***1,681***
2022														
Retail Banking	174,727	20,653	605	303	21,561	2,565	198,853	251	406	14	30	450	917	1,618
Private Banking	18,367	730	39	32	801	242	19,410	21	14	-	-	14	26	61
Personal	*15,182*	*122*	*35*	*16*	*173*	*207*	*15,562*	*5*	*1*	-	-	*1*	*17*	*23*
Wholesale	*3,185*	*608*	*4*	*16*	*628*	*35*	*3,848*	*16*	*13*	-	-	*13*	*9*	*38*
Commercial & Institutional	108,791	22,520	956	750	24,226	2,166	135,183	342	491	26	17	534	747	1,623
Personal	*2,475*	*17*	*17*	*7*	*41*	*46*	*2,562*	*3*	*1*	-	-	*1*	*12*	*16*
Wholesale	*106,316*	*22,503*	*939*	*743*	*24,185*	*2,120*	*132,621*	*339*	*490*	*26*	*17*	*533*	*735*	*1,607*
Central items & other	23,339	234	4	7	245	123	23,707	18	42	1	2	45	69	132
Personal	*54*	*70*	*3*	*6*	*79*	*13*	*146*	*1*	*11*	*1*	*2*	*14*	*11*	*26*
Wholesale	*23,285*	*164*	*1*	*1*	*166*	*110*	*23,561*	*17*	*31*	-	-	*31*	*58*	*106*
Total loans	325,224	44,137	1,604	1,092	46,833	5,096	377,153	632	953	41	49	1,043	1,759	3,434
Of which:														
Personal	*192,438*	*20,862*	*660*	*332*	*21,854*	*2,831*	*217,123*	*260*	*419*	*15*	*32*	*466*	*957*	*1,683*
Wholesale	*132,786*	*23,275*	*944*	*760*	*24,979*	*2,265*	*160,030*	*372*	*534*	*26*	*17*	*577*	*802*	*1,751*

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	ECL provisions coverage							ECL	
		Stage 2 (1,2)							
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Total (release) /charge	Amounts written-off
2023	%	%	%	%	%	%	%	£m	£m
Retail Banking	**0.17**	**2.25**	**2.03**	**9.94**	**2.37**	**35.01**	**0.92**	**465**	**188**
Private Banking	**0.11**	**2.33**	**1.30**	**1.75**	**2.21**	**13.18**	**0.40**	**14**	**2**
Personal	***0.02***	***1.27***	**-**	**-**	***0.78***	***9.57***	***0.17***	***(3)***	***2***
Wholesale	***0.52***	***2.61***	***25.00***	***3.03***	***2.76***	***28.57***	***1.23***	***17***	**-**
Commercial & Institutional	**0.30**	**2.83**	**3.20**	**2.59**	**2.83**	**37.88**	**1.18**	**94**	**122**
Personal	***0.09***	**-**	**-**	**-**	**-**	***30.77***	***0.76***	***5***	***1***
Wholesale	***0.30***	***2.83***	***3.30***	***2.63***	***2.84***	***38.06***	***1.19***	***89***	***121***
Central items & other	**0.09**	**nm**	**-**	***nm***	**nm**	***nm***	**0.15**	**5**	**7**
Personal	***nm***	***nm***	**-**	***nm***	***nm***	***nm***	***nm***	***15***	***2***
Wholesale	***0.07***	***nm***	**-**	**-**	***nm***	***25.00***	***0.09***	***(10)***	***5***
Total loans	**0.20**	**2.51**	**2.51**	**5.70**	**2.58**	**35.23**	**0.93**	**578**	**319**
Of which:									
Personal	***0.16***	***2.25***	***1.80***	***9.36***	***2.35***	***33.59***	***0.88***	***482***	***193***
Wholesale	***0.26***	***2.85***	***3.44***	***2.66***	***2.87***	***37.82***	***1.00***	***96***	***126***
2022									
Retail Banking	0.14	1.97	2.31	9.90	2.09	35.75	0.81	229	216
Private Banking	0.11	1.92	-	-	1.75	10.74	0.31	(2)	15
Personal	*0.03*	*0.82*	-	-	*0.58*	*8.21*	*0.15*	*(3)*	*2*
Wholesale	*0.50*	*2.14*	-	-	*2.07*	*25.71*	*0.99*	*1*	*13*
Commercial & Institutional	0.31	2.18	2.72	2.27	2.20	34.49	1.20	122	224
Personal	*0.12*	*5.88*	-	-	*2.44*	*26.09*	*0.62*	*4*	*2*
Wholesale	*0.32*	*2.18*	*2.77*	*2.29*	*2.20*	*34.67*	*1.21*	*118*	*222*
Central items & other	0.08	17.95	25.00	28.57	18.37	56.10	0.56	(12)	27
Personal	*1.85*	*15.71*	*33.33*	*33.33*	*17.72*	*84.62*	*17.81*	*11*	*1*
Wholesale	*0.07*	*18.90*	-	-	*18.67*	*52.73*	*0.45*	*(23)*	*26*
Total loans	0.19	2.16	2.56	4.49	2.23	34.52	0.91	337	482
Of which:									
Personal	*0.14*	*2.01*	*2.27*	*9.64*	*2.13*	*33.80*	*0.78*	*241*	*221*
Wholesale	*0.28*	*2.29*	*2.75*	*2.24*	*2.31*	*35.41*	*1.09*	*96*	*261*

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
(2) Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

- **Retail Banking** – Balance sheet growth continued during H2 2023, although at a reduced pace compared to H1 2023, reflecting the wider UK mortgage market trends. Unsecured balances growth in H2 2023, primarily in credit cards, was a continuation of the strong customer demand seen in the first half of the year. Lending criteria and affordability assumptions continue to be reviewed to ensure new business is assessed appropriately in the higher interest rate and inflationary environment. While portfolio performance continued to remain stable, total ECL coverage increased. The rise in coverage was reflective of increased Stage 3 ECL on unsecured portfolios, mainly due to reduced write-off activity, however, Stage 3 inflows were higher this year, in line with growth and normalisation of risk parameters. The modest increase in good book coverage during the year reflected a slight increase in early arrears levels and a rise in the unsecured mix of the portfolio. Furthermore, post model adjustments to capture increased affordability pressures on customers due to high inflation and interest rates have increased during the year, ensuring ECL reflects the continued uncertainty despite modelled ECL reductions due to improved forward-looking economic updates since the end of 2022.
- **Commercial & Institutional** – Growth in exposure in Commercial & Institutional was driven by increased exposure to financial institutions, partially offset by reductions in other sectors including retail. There were also continued repayments of COVID-19 government lending schemes, and strategic reductions in certain sectors. Sector appetite continues to be reviewed regularly, with particular focus on sector clusters and sub-sectors that are vulnerable to inflationary and supply chain pressures or deemed to represent a heightened risk. Stage 2 ECL reduced due to positive portfolio performance and improvements in the latest economic scenarios. Coverage decreased due to portfolio growth with ECL broadly flat, but coverage on Stage 1 and Stage 2 was significantly above pre-COVID-19 levels, reflecting continued economic uncertainty.
- **Other** – Balance sheet growth in 2023 compared to 2022 was mainly due to an increase in central items held in the course of treasury related management activities.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Personal				Wholesale					
	Mortgages (1)	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	208,275	5,904	9,595	223,774	31,207	77,339	57,087	2,633	168,266	392,040
- UK	208,275	5,893	9,592	223,760	30,703	65,033	39,906	2,016	137,658	361,418
- RoI	-	11	3	14	9	888	279	-	1,176	1,190
- Other Europe	-	-	-	-	375	5,096	7,865	399	13,735	13,735
- RoW	-	-	-	-	120	6,322	9,037	218	15,697	15,697
Loans by stage	208,275	5,904	9,595	223,774	31,207	77,339	57,087	2,633	168,266	392,040
- Stage 1	188,140	3,742	6,983	198,865	27,316	63,690	56,105	2,610	149,721	348,586
- Stage 2	17,854	2,022	1,633	21,509	3,270	12,145	966	1	16,382	37,891
- Stage 3	2,281	140	979	3,400	621	1,504	16	22	2,163	5,563
- Of which: individual	122	-	20	142	240	625	2	22	889	1,031
- Of which: collective	2,159	140	959	3,258	381	879	14	-	1,274	4,532
Loans - past due analysis (2)	208,275	5,904	9,595	223,774	31,207	77,339	57,087	2,633	168,266	392,040
- Not past due	205,405	5,743	8,578	219,726	30,264	74,052	56,735	2,633	163,684	383,410
- Past due 1-30 days	1,178	41	71	1,290	491	2,222	332	-	3,045	4,335
- Past due 31-90 days	518	38	112	668	179	437	12	-	628	1,296
- Past due 91-180 days	445	32	103	580	42	71	2	-	115	695
- Past due >180 days	729	50	731	1,510	231	557	6	-	794	2,304
Loans - Stage 2	17,854	2,022	1,633	21,509	3,270	12,145	966	1	16,382	37,891
- Not past due	16,803	1,971	1,529	20,303	3,071	11,287	932	1	15,291	35,594
- Past due 1-30 days	765	27	40	832	100	516	24	-	640	1,472
- Past due 31-90 days	286	24	64	374	99	342	10	-	451	825
Weighted average life (3)										
- ECL measurement (years)	9	3	6	6	6	6	2	-	6	6
Weighted average 12 months PDs (3)										
- IFRS 9 (%)	0.50	3.45	5.29	0.75	1.45	1.59	0.19	0.37	1.07	0.89
- Basel (%)	0.67	3.37	3.15	0.84	0.94	1.25	0.17	0.37	0.81	0.83
ECL provisions by geography	420	376	1,168	1,964	398	1,201	66	16	1,681	3,645
- UK	420	365	1,163	1,948	384	999	38	13	1,434	3,382
- RoI	-	11	5	16	-	6	1	-	7	23
- Other Europe	-	-	-	-	7	146	12	-	165	165
- RoW	-	-	-	-	7	50	15	3	75	75

For the notes to this table refer to page 211.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
	Mortgages (1)	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ECL provisions by stage	420	376	1,168	1,964	398	1,201	66	16	1,681	3,645
- Stage 1	88	76	152	316	102	234	44	13	393	709
- Stage 2	61	207	238	506	98	356	15	1	470	976
- Stage 3	271	93	778	1,142	198	611	7	2	818	1,960
- Of which: individual	12	-	14	26	60	242	2	2	306	332
- Of which: collective	259	93	764	1,116	138	369	5	-	512	1,628
ECL provisions coverage (%)	0.20	6.37	12.17	0.88	1.28	1.55	0.12	0.61	1.00	0.93
- Stage 1 (%)	0.05	2.03	2.18	0.16	0.37	0.37	0.08	0.50	0.26	0.20
- Stage 2 (%)	0.34	10.24	14.57	2.35	3.00	2.93	1.55	100.00	2.87	2.58
- Stage 3 (%)	11.88	66.43	79.47	33.59	31.88	40.63	43.75	9.09	37.82	35.23
ECL (release)/charge	35	193	254	482	34	58	6	(2)	96	578
- UK	35	184	249	468	42	61	(4)	(2)	97	565
- RoI	-	9	5	14	(2)	(8)	1	-	(9)	5
- Other Europe	-	-	-	-	(6)	55	11	-	60	60
- RoW	-	-	-	-	-	(50)	(2)	-	(52)	(52)
Amounts written-off	32	70	91	193	39	86	1	-	126	319
Loans by residual maturity	208,275	5,904	9,595	223,774	31,207	77,339	57,087	2,633	168,266	392,040
- <1 year	3,375	3,398	3,169	9,942	5,696	25,312	43,497	489	74,994	84,936
- 1-5 year	9,508	2,506	5,431	17,445	17,216	32,573	11,616	1,872	63,277	80,722
- > 5 < 15 year	46,453	-	993	47,446	5,701	14,167	1,939	199	22,006	69,452
- > 15 year	148,939	-	2	148,941	2,594	5,287	35	73	7,989	156,930
Other financial assets by asset quality (4)	-	-	-	-	1	2,689	26,816	123,683	153,189	153,189
- AQ1-AQ4	-	-	-	-	1	2,689	26,084	123,683	152,457	152,457
- AQ5-AQ8	-	-	-	-	-	-	732	-	732	732
Off-balance sheet	9,843	17,284	8,462	35,589	14,205	59,716	22,221	227	96,369	131,958
- Loan commitments	9,843	17,284	8,417	35,544	13,861	57,081	20,765	227	91,934	127,478
- Financial guarantees	-	-	45	45	344	2,635	1,456	-	4,435	4,480
Off-balance sheet by asset quality (4)	9,843	17,284	8,462	35,589	14,205	59,716	22,221	227	96,369	131,958
- AQ1-AQ4	9,099	448	7,271	16,818	10,916	36,380	20,644	165	68,105	84,923
- AQ5-AQ8	721	16,518	1,162	18,401	3,266	23,030	1,574	45	27,915	46,316
- AQ9	7	6	4	17	3	12	-	-	15	32
- AQ10	16	312	25	353	20	294	3	17	334	687

For the notes to this table refer to page 211.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
	Mortgages (1)	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	Total
2022 (5)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	202,957	4,460	9,706	217,123	31,036	78,060	48,138	2,796	160,030	377,153
- UK	*202,957*	*4,420*	*9,602*	*216,979*	*29,935*	*65,867*	*32,480*	*2,253*	*130,535*	*347,514*
- RoI	*-*	*40*	*104*	*144*	*34*	*1,102*	*74*	*-*	*1,210*	*1,354*
- Other Europe	*-*	*-*	*-*	*-*	*607*	*4,815*	*6,967*	*346*	*12,735*	*12,735*
- RoW	*-*	*-*	*-*	*-*	*460*	*6,276*	*8,617*	*197*	*15,550*	*15,550*
Loans by stage	202,957	4,460	9,706	217,123	31,036	78,060	48,138	2,796	160,030	377,153
- Stage 1	*182,245*	*3,275*	*6,918*	*192,438*	*26,300*	*56,955*	*46,738*	*2,793*	*132,786*	*325,224*
- Stage 2	*18,787*	*1,076*	*1,991*	*21,854*	*4,035*	*19,590*	*1,353*	*1*	*24,979*	*46,833*
- Stage 3	*1,925*	*109*	*797*	*2,831*	*701*	*1,515*	*47*	*2*	*2,265*	*5,096*
- Of which: individual	*172*	*-*	*13*	*185*	*309*	*592*	*33*	*2*	*936*	*1,121*
- Of which: collective	*1,753*	*109*	*784*	*2,646*	*392*	*923*	*14*	*-*	*1,329*	*3,975*
Loans - past due analysis (2)	202,957	4,460	9,706	217,123	31,036	78,060	48,138	2,796	160,030	377,153
- Not past due	*200,634*	*4,335*	*8,825*	*213,794*	*29,986*	*74,251*	*47,824*	*2,796*	*154,857*	*368,651*
- Past due 1-30 days	*916*	*33*	*86*	*1,035*	*462*	*2,637*	*278*	*-*	*3,377*	*4,412*
- Past due 31-90 days	*510*	*29*	*104*	*643*	*297*	*563*	*5*	*-*	*865*	*1,508*
- Past due 91-180 days	*380*	*24*	*79*	*483*	*48*	*35*	*24*	*-*	*107*	*590*
- Past due >180 days	*517*	*39*	*612*	*1,168*	*243*	*574*	*7*	*-*	*824*	*1,992*
Loans - Stage 2	18,787	1,076	1,991	21,854	4,035	19,590	1,353	1	24,979	46,833
- Not past due	*17,951*	*1,039*	*1,872*	*20,862*	*3,595*	*18,335*	*1,344*	*1*	*23,275*	*44,137*
- Past due 1-30 days	*588*	*19*	*53*	*660*	*180*	*759*	*5*	*-*	*944*	*1,604*
- Past due 31-90 days	*248*	*18*	*66*	*332*	*260*	*496*	*4*	*-*	*760*	*1,092*
Weighted average life (3)										
- ECL measurement (years)	8	2	6	5	4	6	3	-	5	5
Weighted average 12 months PDs (3)										
- IFRS 9 (%)	0.50	2.62	4.78	0.71	1.84	2.05	0.23	0.24	1.41	1.01
- Basel (%)	0.65	2.97	3.11	0.79	1.01	1.40	0.16	0.24	0.92	0.85
ECL provisions by geography	376	257	1,050	1,683	420	1,251	63	17	1,751	3,434
- UK	*376*	*254*	*1,027*	*1,657*	*386*	*1,004*	*42*	*13*	*1,445*	*3,102*
- RoI	*-*	*3*	*23*	*26*	*13*	*66*	*1*	*-*	*80*	*106*
- Other Europe	*-*	*-*	*-*	*-*	*13*	*76*	*7*	*-*	*96*	*96*
- RoW	*-*	*-*	*-*	*-*	*8*	*105*	*13*	*4*	*130*	*130*

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					
	Mortgages (1)	Credit cards	Other personal	Total	Property	Other wholesale	FI	Sovereign	Total	Total
2022 (5)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
ECL provisions by stage	376	257	1,050	1,683	420	1,251	63	17	1,751	3,434
- Stage 1	*81*	*62*	*117*	*260*	*99*	*226*	*32*	*15*	*372*	*632*
- Stage 2	*62*	*122*	*282*	*466*	*98*	*465*	*14*	*-*	*577*	*1,043*
- Stage 3	*233*	*73*	*651*	*957*	*223*	*560*	*17*	*2*	*802*	*1,759*
- Of which: individual	*18*	*-*	*10*	*28*	*79*	*165*	*13*	*2*	*259*	*287*
- Of which: collective	*215*	*73*	*641*	*929*	*144*	*395*	*4*	*-*	*543*	*1,472*
ECL provisions coverage (%)	0.19	5.76	10.82	0.78	1.35	1.60	0.13	0.61	1.09	0.91
- Stage 1 (%)	*0.04*	*1.89*	*1.69*	*0.14*	*0.38*	*0.40*	*0.07*	*0.54*	*0.28*	*0.19*
- Stage 2 (%)	*0.33*	*11.34*	*14.16*	*2.13*	*2.43*	*2.37*	*1.03*	*-*	*2.31*	*2.23*
- Stage 3 (%)	*12.10*	*66.97*	*81.68*	*33.80*	*31.81*	*36.96*	*36.17*	*100.00*	*35.41*	*34.52*
ECL (release)/charge	(74)	56	259	241	108	(27)	19	(4)	96	337
- UK	*(74)*	*57*	*247*	*230*	*103*	*(51)*	*14*	*(4)*	*62*	*292*
- RoI	*-*	*(1)*	*12*	*11*	*1*	*(26)*	*(2)*	*-*	*(27)*	*(16)*
- Other Europe	*-*	*-*	*-*	*-*	*1*	*04*	*1*	*(1)*	*5*	*5*
- RoW	*-*	*-*	*-*	*-*	*3*	*46*	*6*	*1*	*56*	*56*
Amounts written-off	31	67	123	221	34	187	40	-	261	482
Loans by residual maturity	202,957	4,460	9,706	217,123	31,036	78,060	48,138	2,796	160,030	377,153
- <1 year	*3,347*	*2,655*	*3,368*	*9,370*	*6,118*	*26,971*	*36,192*	*906*	*70,187*	*79,557*
- 1-5 year	*10,968*	*1,805*	*5,387*	*18,160*	*16,768*	*33,071*	*10,380*	*1,630*	*61,849*	*80,009*
- > 5 < 15 year	*46,500*	*-*	*950*	*47,450*	*5,259*	*13,392*	*1,379*	*184*	*20,214*	*67,664*
- > 15 year	*142,142*	*-*	*1*	*142,143*	*2,891*	*4,626*	*187*	*76*	*7,780*	*149,923*
Other financial assets by asset quality (4)	-	-	-	-	49	581	14,704	157,860	173,194	173,194
- AQ1-AQ4	*-*	*-*	*-*	*-*	*-*	*567*	*14,156*	*157,860*	*172,583*	*172,583*
- AQ5-AQ8	*-*	*-*	*-*	*-*	*49*	*14*	*548*	*-*	*611*	*611*
Off-balance sheet	18,782	15,848	8,547	43,177	14,308	59,718	19,555	268	93,849	137,026
- Loan commitments	*18,782*	*15,848*	*8,496*	*43,126*	*13,895*	*56,500*	*18,223*	*268*	*88,886*	*132,012*
- Financial guarantees	*-*	*-*	*51*	*51*	*413*	*3,218*	*1,332*	*-*	*4,963*	*5,014*
Off-balance sheet by asset quality (4)	18,782	15,848	8,547	43,177	14,308	59,718	19,555	268	93,849	137,026
- AQ1-AQ4	*17,676*	*436*	*7,353*	*25,465*	*11,573*	*37,265*	*17,899*	*205*	*66,942*	*92,407*
- AQ5-AQ8	*1,089*	*15,048*	*1,170*	*17,307*	*2,706*	*22,094*	*1,655*	*62*	*26,517*	*43,824*
- AQ9	*2*	*74*	*4*	*80*	*4*	*25*	*-*	*-*	*29*	*109*
- AQ10	*15*	*290*	*20*	*325*	*25*	*334*	*1*	*1*	*361*	*686*

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking and RBS International mortgages are reported in UK, reflecting the country of lending origination and includes crown dependencies.
(2) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by the IFRS 9 guidance for a SICR.
(3) Not within the scope of the Independent auditors' report.
(4) AQ bandings are based on Basel PDs and mapping is as follows:

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

£0.3 billion (2022 – £0.3 billion) of AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for the Personal portfolio and selected sectors of the Wholesale portfolio including those 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
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	198,865	21,509	3,400	223,774	35,544	45	316	506	1,142	1,964
Mortgages	188,140	17,854	2,281	208,275	9,843	-	88	61	271	420
Credit cards	3,742	2,022	140	5,904	17,284	-	76	207	93	376
Other personal	6,983	1,633	979	9,595	8,417	45	152	238	778	1,168
Wholesale	149,721	16,382	2,163	168,266	91,934	4,435	393	470	818	1,681
Property	27,316	3,270	621	31,207	13,861	344	102	98	198	398
Financial institutions (1)	56,105	966	16	57,087	20,765	1,456	44	15	7	66
Sovereigns	2,610	1	22	2,633	227	-	13	1	2	16
Other wholesale	63,690	12,145	1,504	77,339	57,081	2,635	234	356	611	1,201
Of which:										
Agriculture	*3,851*	*1,011*	*90*	*4,952*	*950*	*21*	*19*	*35*	*34*	*88*
Airlines and aerospace	*1,525*	*454*	*3*	*1,982*	*1,788*	*178*	*4*	*7*	*2*	*13*
Automotive	*7,223*	*1,008*	*76*	*8,307*	*3,844*	*103*	*18*	*18*	*26*	*62*
Building materials	*1,204*	*282*	*72*	*1,558*	*1,475*	*72*	*6*	*9*	*8*	*23*
Chemicals	*354*	*62*	*4*	*420*	*785*	*13*	*1*	*9*	*1*	*11*
Industrials	*2,269*	*543*	*70*	*2,882*	*2,896*	*148*	*10*	*18*	*23*	*51*
Land transport & logistics	*4,231*	*578*	*61*	*4,870*	*3,025*	*184*	*11*	*14*	*18*	*43*
Leisure	*4,394*	*2,245*	*288*	*6,927*	*1,887*	*145*	*31*	*74*	*91*	*196*
Mining & metals	*241*	*32*	*4*	*277*	*545*	*7*	*-*	*-*	*4*	*4*
Oil and gas	*915*	*125*	*27*	*1,067*	*1,959*	*237*	*3*	*2*	*29*	*34*
Power utilities	*5,604*	*418*	*40*	*6,062*	*8,257*	*554*	*13*	*13*	*24*	*50*
Retail	*5,846*	*1,318*	*224*	*7,388*	*4,717*	*429*	*23*	*35*	*118*	*176*
Shipping	*207*	*35*	*3*	*245*	*71*	*31*	*-*	*1*	*2*	*3*
Water & waste	*3,536*	*173*	*13*	*3,722*	*1,904*	*84*	*4*	*5*	*4*	*13*
Total	348,586	37,891	5,563	392,040	127,478	4,480	709	976	1,960	3,645

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2022 (2)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Personal	192,438	21,854	2,831	217,123	43,126	51	260	466	957	1,683
Mortgages	182,245	18,787	1,925	202,957	18,782	-	81	62	233	376
Credit cards	3,275	1,076	109	4,460	15,848	-	62	122	73	257
Other personal	6,918	1,991	797	9,706	8,496	51	117	282	651	1,050
Wholesale	132,786	24,979	2,265	160,030	88,886	4,963	372	577	802	1,751
Property	26,300	4,035	701	31,036	13,895	413	99	98	223	420
Financial institutions (1)	46,738	1,353	47	48,138	18,223	1,332	32	14	17	63
Sovereigns	2,793	1	2	2,796	269	-	15	-	2	17
Other wholesale	56,955	19,590	1,515	78,060	56,499	3,218	226	465	560	1,251
Of which:										
Agriculture	*3,646*	*1,034*	*93*	*4,773*	*968*	*24*	*21*	*31*	*43*	*95*
Airlines and aerospace	*483*	*1,232*	*19*	*1,734*	*1,715*	*174*	*2*	*40*	*8*	*50*
Automotive	*5,776*	*1,498*	*30*	*7,304*	*4,009*	*99*	*18*	*18*	*11*	*47*
Building materials	*1,244*	*284*	*15*	*1,543*	*1,407*	*78*	*7*	*7*	*7*	*21*
Chemicals	*384*	*117*	*1*	*502*	*650*	*12*	*1*	*2*	*1*	*4*
Industrials	*2,148*	*1,037*	*82*	*3,267*	*3,135*	*195*	*10*	*16*	*24*	*50*
Land transport & logistics	*3,863*	*1,304*	*72*	*5,239*	*3,373*	*190*	*13*	*34*	*18*	*65*
Leisure	*3,416*	*3,787*	*260*	*7,463*	*1,907*	*102*	*27*	*147*	*115*	*289*
Mining & metals	*173*	*230*	*5*	*408*	*545*	*5*	*-*	*1*	*5*	*6*
Oil and gas	*953*	*159*	*60*	*1,172*	*2,157*	*248*	*3*	*3*	*31*	*37*
Power utilities	*4,228*	*406*	*6*	*4,640*	*6,960*	*1,182*	*9*	*11*	*1*	*21*
Retail	*6,497*	*1,746*	*150*	*8,393*	*4,682*	*416*	*21*	*29*	*68*	*118*
Shipping	*161*	*151*	*14*	*326*	*110*	*22*	*-*	*7*	*6*	*13*
Water & waste	*3,026*	*335*	*7*	*3,368*	*2,143*	*101*	*4*	*4*	*4*	*12*
Total	325,224	46,833	5,096	377,153	132,012	5,014	632	1,043	1,759	3,434

(1) Financial institutions include transactions, such as securitisations, where the underlying assets may be in other sectors.
(2) Previously published sectors for the Wholesale portfolio have been re-presented to reflect updated internal sector reporting.

Credit risk – Banking activities continued

Wholesale forbearance (audited)

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

2023	Property £m	Financial institution £m	Sovereign £m	Other £m	Total £m
Forbearance (flow)	**916**	**56**	**22**	**2,568**	**3,562**
Forbearance (stock)	**1,071**	**70**	**22**	**3,752**	**4,915**
Heightened Monitoring and Risk of Credit Loss	**1,089**	**276**	**-**	**4,119**	**5,484**
2022					
Forbearance (flow)	723	105	-	2,598	3,426
Forbearance (stock)	900	107	-	4,742	5,749
Heightened Monitoring and Risk of Credit Loss	920	112	-	3,501	4,533

Sector analysis – portfolio summary (audited)

– **Loans by geography and sector** – In line with NatWest Group's strategic focus, exposures continued to be mainly in the UK. Exposure to the Republic of Ireland reduced during 2023 as part of the phased withdrawal of Ulster Bank RoI.
– **Loans by stage** – There was an increase in Stage 1 exposure due to mortgage growth in Personal and lending to financial institutions in Wholesale. An overall improvement in forward-looking economics during 2023 drove a reduction in IFRS 9 PDs, meaning a reduction in the proportion of most portfolio segments triggering PD deterioration rules, resulting in a net migration of exposures from Stage 2 into Stage 1 during 2023.
– **Loans – Past due analysis** – In Personal, the value of arrears increased during 2023 as expected with portfolio growth in recent years and adjustments to lending criteria following COVID-19.
– **Weighted average 12 months PDs** – IFRS 9 PDs remained broadly stable overall, with some increases in Personal portfolios, most notably in credit cards which had a PD modelling update. In Wholesale, some reductions were observed in PDs in corporate and property portfolios, linked to the economic scenario updates during the year.
– **ECL provisions by stage** – Portfolio growth was the key driver behind an increase in Stage 1 provisions. Stage 2 provisions reduced during 2023, reflecting broadly stable credit performance of the portfolios and the effect of improved 2023 forward-looking scenario updates. As outlined previously, Stage 3 provisions have yet to be materially affected by the customer affordability risks linked to the current economic uncertainty prevalent in the UK. However, there has been an increase in Stage 3 ECL linked to a modest rise in default levels and reduced write-off activity.

Credit risk – Banking activities continued

Wholesale support schemes (1)

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

	Gross carrying amount								ECL on associated debt		
	BBL				Associated debt						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
31 December 2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale											
Property	661	150	27	838	687	202	82	971	7	13	33
Financial institutions	16	3	1	20	7	2	-	9	-	-	-
Other	2,210	495	231	2,936	2,080	849	163	3,092	24	53	93
Total	2,887	648	259	3,794	2,774	1,053	245	4,072	31	66	126

	Gross carrying amount								ECL on associated debt		
	BBL				Associated debt						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
31 December 2022	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale											
Property	966	186	48	1,200	874	205	60	1,139	10	14	26
Financial institutions	24	4	-	28	9	2	-	11	-	-	1
Other	3,233	641	342	4,216	2,338	884	117	3,339	26	57	70
Total	4,223	831	390	5,444	3,221	1,091	177	4,489	36	71	97

(1) Not within the scope of the independent auditors' report.

Sector analysis – portfolio summary (audited)

- **ECL provisions coverage –** Overall provisions coverage remained broadly consistent with 31 December 2022. This was mainly a result of continued stable portfolio performance and MES economics-driven modelled ECL releases contrasted with increased economic uncertainty, captured through ECL post model adjustments.
- **ECL charge –** The impairment charge for 2023 of £578 million primarily reflected the underlying Stage 3 charges and portfolio growth.
- **Loans by residual maturity –** The maturity profile of the portfolios remained consistent with prior periods. In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending, cards and other exposures were concentrated in less than five years. In Wholesale, more than 80% of exposures mature in less than five years.
- **Other financial assets by asset quality** – Consisting almost entirely of cash and balances at central banks and debt securities held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- **Off-balance sheet exposures by asset quality** – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value decreased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality was aligned to the wider portfolio. In Wholesale, off-balance sheet exposures increased due to a rise in securitisations lending within financial institutions, with asset quality in line with existing off-balance sheet exposures.
- **Wholesale forbearance –** Increased levels of forbearance were observed in Q4 2023. The retail, leisure, commercial real estate and power and utilities sectors represented the largest share of completed forbearance. Labour shortages/increased cost of labour, rising energy prices, supply chain issues and higher interest rates continue to weigh on these sectors. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- **Heightened Monitoring and Risk of Credit Loss –** Risk of Credit Loss framework exposures and inflows increased in 2023 compared to 2022. Heightened inflows were seen in the mobility and logistics, renewables and utilities, and technology, media and telecoms sector clusters, offset by decreases in consumer industries. Heightened inflows were seen in the automotive, media, power utilities and leveraged funds sectors, partially offset by leisure, airlines and aerospace and land transport and logistics. Retail SME customers do not form part of the Wholesale Risk of Credit Loss framework. Customers in financial difficulty within this group are managed by specialist problem debt management teams. The balances in arrears and recoveries remained flat in 2023, with inflows continuing to be driven by Bounce Back Loan Scheme (BBLS) exposures. Excluding BBLS balances, the debt value for this population that are in problem debt/recoveries also remained stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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

	Gross		Maximum credit risk		CREM by type			CREM coverage		Exposure post CREM	
	exposure	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3
2023	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets											
Cash and balances at central banks	**103.1**	**-**	**103.1**	**-**	**-**	**-**	**-**	**-**	**-**	**103.1**	**-**
Loans - amortised cost (3)	**392.0**	**3.5**	**388.5**	**3.5**	**37.4**	**248.2**	**21.8**	**307.4**	**3.1**	**81.1**	**0.4**
Personal (4)	***223.7***	***1.9***	***221.8***	***2.2***	***0.9***	***207.5***	***-***	***208.4***	***2.0***	***13.4***	***0.2***
Wholesale (5)	***168.3***	***1.6***	***166.7***	***1.3***	***36.5***	***40.7***	***21.8***	***99.0***	***1.1***	***67.7***	***0.2***
Debt securities	**50.1**	**-**	**50.1**	**-**	**-**	**-**	**-**	**-**	**-**	**50.1**	**-**
Total financial assets	**545.2**	**3.5**	**541.7**	**3.5**	**37.4**	**248.2**	**21.8**	**307.4**	**3.1**	**234.3**	**0.4**
Contingent liabilities and commitments											
Personal (6,7)	**35.6**	**-**	**35.6**	**0.3**	**1.0**	**4.0**	**-**	**5.0**	**-**	**30.6**	**0.3**
Wholesale	**96.4**	**0.1**	**96.3**	**0.4**	**2.6**	**7.1**	**4.1**	**13.8**	**0.1**	**82.5**	**0.3**
Total off-balance sheet	**132.0**	**0.1**	**131.9**	**0.7**	**3.6**	**11.1**	**4.1**	**18.8**	**0.1**	**113.1**	**0.6**
Total exposure	**677.2**	**3.6**	**673.6**	**4.2**	**41.0**	**259.3**	**25.9**	**326.2**	**3.2**	**347.4**	**1.0**
2022											
Financial assets											
Cash and balances at central banks	143.2	-	143.2	-	-	-	-	-	-	143.2	-
Loans - amortised cost (3)	377.2	3.3	373.9	3.4	31.8	243.1	21.7	296.6	3.0	77.3	0.4
Personal (4)	*217.2*	*1.7*	*215.5*	*1.9*	*0.9*	*202.1*	*-*	*203.0*	*1.7*	*12.5*	*0.2*
Wholesale (5)	*160.0*	*1.6*	*158.4*	*1.5*	*30.9*	*41.0*	*21.7*	*93.6*	*1.3*	*64.8*	*0.2*
Debt securities	29.9	-	29.9	-	-	-	-	-	-	29.9	-
Total financial assets	550.3	3.3	547.0	3.4	31.8	243.1	21.7	296.6	3.0	250.4	0.4
Contingent liabilities and commitments											
Personal (6,7)	43.2	-	43.2	0.3	0.7	4.4	-	5.1	-	38.1	0.3
Wholesale	93.9	0.1	93.8	0.4	3.1	7.4	4.0	14.5	0.1	79.3	0.3
Total off-balance sheet	137.0	0.1	136.9	0.7	3.8	11.8	4.0	19.6	0.1	117.3	0.6
Total exposure	687.3	3.4	683.9	4.1	35.6	254.9	25.7	316.2	3.1	367.7	1.0

(1) Includes cash and securities collateral.
(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NatWest Group a legal right to set off the financial asset against a financial liability due to the same counterparty.
(3) NatWest Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment; inventories and trade debtors; and guarantees of lending from parties other than the borrower. NatWest Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.
(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.
(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.
(6) £0.3 billion (2022 – £0.3 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.
(7) The Personal gross exposure value includes £5.9 billion (2022 – £14.0 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio (audited)

Disclosures in the Personal portfolio section include drawn exposure (gross of provisions).

	2023				
Personal lending	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Mortgages	192,915	13,222	2,200	-	208,337
Of which:					
Owner occupied	174,167	11,629	1,464	-	187,260
Buy-to-let	18,748	1,593	736	-	21,077
Interest only	25,805	11,631	461	-	37,897
Mixed (1)	10,068	25	10	-	10,103
ECL provisions (2)	397	12	6	-	415
Other personal lending (3)	13,758	1,395	222	13	15,388
ECL provisions (2)	1,508	12	2	16	1,538
Total personal lending	206,673	14,617	2,422	13	223,725
Mortgage LTV ratios					
- Owner occupied	55%	59%	56%	-	55%
- Stage 1	*55%*	*59%*	*54%*	-	*55%*
- Stage 2	*54%*	*63%*	*54%*	-	*54%*
- Stage 3	*48%*	*61%*	*72%*	-	*49%*
- Buy-to-let	52%	59%	52%	-	53%
- Stage 1	*52%*	*60%*	*52%*	-	*53%*
- Stage 2	*50%*	*57%*	*49%*	-	*50%*
- Stage 3	*50%*	*53%*	*58%*	-	*51%*
Gross new mortgage lending	29,664	1,400	180	-	31,244
Of which:					
Owner occupied	27,718	1,267	136	-	29,121
- LTV > 90%	1,173	-	-	-	1,173
Weighted average LTV (4)	70%	63%	69%	-	70%
Buy-to-let	1,946	133	44	-	2,123
Weighted average LTV (4)	58%	65%	52%	-	58%
Interest only	2,680	1,224	23	-	3,927
Mixed (1)	1,568	2	-	-	1,570
Mortgage forbearance					
Forbearance flow (5)	569	22	9	-	600
Forbearance stock	1,416	28	15	-	1,459
Current	*950*	*10*	*6*	-	*966*
1-3 months in arrears	*116*	*2*	*2*	-	*120*
>3 months in arrears	*350*	*16*	*7*	-	*373*

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

Credit risk – Banking activities continued

Personal portfolio (audited)

	2022				
Personal lending	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
Mortgages	186,891	13,709	2,357	-	202,957
Of which:					
Owner occupied	168,790	12,096	1,541	-	182,427
Buy-to-let	18,101	1,613	816	-	20,530
Interest only	21,469	11,877	519	-	33,865
Mixed (1)	9,768	1	16	-	9,785
ECL provisions (2)	355	9	6	-	370
Other personal lending (3)	11,935	1,853	267	143	14,198
ECL provisions (2)	1,257	15	3	26	1,301
Total personal lending	198,826	15,562	2,624	143	217,155
Mortgage LTV ratios					
- Owner occupied	52%	59%	56%	-	53%
- Stage 1	*52%*	*59%*	*56%*	-	*53%*
- Stage 2	*52%*	*61%*	*60%*	-	*52%*
- Stage 3	*45%*	*59%*	*74%*	-	*47%*
- Buy-to-let	50%	59%	53%	-	51%
- Stage 1	*51%*	*59%*	*53%*	-	*52%*
- Stage 2	*49%*	*53%*	*48%*	-	*49%*
- Stage 3	*47%*	*55%*	*57%*	-	*50%*
Gross new mortgage lending	41,227	2,968	327	-	44,522
Of which:					
Owner occupied	36,305	2,701	221	-	39,227
- LTV > 90%	1,265	-	-	-	1,265
Weighted average LTV (4)	69%	65%	65%	-	69%
Buy-to-let	4,922	267	106	-	5,295
Weighted average LTV (4)	64%	66%	60%	-	64%
Interest only	5,323	2,664	62	-	8,049
Mixed (1)	2,309	-	2	-	2,311
Mortgage forbearance					
Forbearance flow (5)	182	7	4	-	193
Forbearance stock	1,015	16	8	-	1,039
Current	*649*	*8*	*6*	-	*663*
1-3 months in arrears	*133*	-	*2*	-	*135*
>3 months in arrears	*233*	*8*	-	-	*241*

(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.
(2) Retail Banking excludes a non-material amount of lending and provisions held on relatively small legacy portfolios.
(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.
(4) New mortgage lending LTV reflects the LTV at the time of lending.
(5) Forbearance flows only include an account once per year, although some accounts may be subject to multiple forbearance deals. Forbearance deals post default are excluded from these flows.

For the key points to this table refer to the following page.

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band for the Retail Banking portfolio. Mortgage lending not within the scope of governance and post model adjustments reflected portfolios carried at fair value.

	Mortgages				ECL provisions				ECL provisions coverage			
Retail Banking	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	68,092	7,447	1,145	76,684	27	18	134	179	0.0	0.2	11.7	0.2
>50% and ≤70%	65,777	7,011	767	73,555	35	26	85	146	0.1	0.4	11.1	0.2
>70% and ≤80%	22,537	1,633	113	24,283	13	7	15	35	0.1	0.4	13.3	0.1
>80% and ≤90%	13,583	1,143	47	14,773	9	6	7	22	0.1	0.5	14.9	0.1
>90% and ≤100%	3,008	370	14	3,392	2	3	3	8	0.1	0.8	21.4	0.2
>100%	22	6	11	39	-	-	5	5	-	-	45.5	12.8
Total with LTVs	173,019	17,610	2,097	192,726	86	60	249	395	0.1	0.3	11.9	0.2
Other	186	1	2	189	1	-	1	2	0.5	-	50.0	1.1
Total	173,205	17,611	2,099	192,915	87	60	250	397	0.1	0.3	11.9	0.2
2022												
≤50%	71,321	8,257	1,036	80,614	26	20	121	167	-	0.2	11.7	0.2
>50% and ≤70%	68,178	7,792	616	76,586	32	30	71	133	-	0.4	11.5	0.2
>70% and ≤80%	17,602	1,602	62	19,266	7	6	11	24	-	0.4	17.7	0.1
>80% and ≤90%	7,918	944	17	8,879	6	5	5	16	0.1	0.5	29.4	0.2
>90% and ≤100%	1,409	18	6	1,433	3	-	2	5	0.2	-	33.3	0.3
>100%	35	7	10	52	2	-	4	6	5.7	-	40.0	11.5
Total with LTVs	166,463	18,620	1,747	186,830	76	61	214	351	-	0.3	12.3	0.2
Other	59	1	1	61	3	-	1	4	5.1	-	100.0	6.6
Total	166,522	18,621	1,748	186,891	79	61	215	355	-	0.3	12.3	0.2

- Growth in the mortgage portfolio decreased in the second half of 2023, consistent with trends in the wider UK mortgage market.
- Mortgage portfolio LTV increased, partly due to the higher relative proportion of new business from recent years' strong lending performance, as well as easing of house prices reflected in the Office for National Statistics house price indices.
- The proportion of overall interest only mortgage balances increased in 2023 driven by the implementation of the Mortgage Charter. Interest only new lending reduced during the year consistent with the reduction in buy-to-let new lending.
- Portfolios and new business were closely monitored against agreed operating limits. These included loan-to-value ratios, buy-to-let concentrations, new-build concentrations and credit quality. Lending criteria, affordability calculations and assumptions for new lending were adjusted during the year, considering inflationary pressure and interest rate rises, to maintain credit quality in line with appetite and to ensure customers are assessed fairly.
- Support for customers was proactively promoted during the year. The flow and stock of forbearance increased during the year. The reported forbearance values included customers who used Mortgage Charter support if indicators of financial stress were already present before Mortgage Charter support was taken. The number of customers requesting support outside of Mortgage Charter (primarily forbearance) increased gradually during the year, but remained within expectations.
- Other personal lending balances increased during the year mainly as a result of credit card new business. Lending criteria were carefully managed and the credit quality (based on new business PD) of the new business written improved, compared to 2022.
- As noted previously, ECL increased. For further details on the movements in ECL provisions at product level, refer to the Flow statements section.

Credit risk – Banking activities continued

Personal portfolio (audited)

Retail Banking mortgage LTV distribution by region

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

	≤50%	50%≤80%	80%≤100%	>100%	Total	Weighted average LTV	Other	Total	Total	Flood risk (1) Lending at high/ very high risk (2)
2023	£m	£m	£m	£m	£m	%	£m	£m	%	%
South East	**14,645**	**18,510**	**3,107**	**1**	**36,263**	**54**	**2**	**36,265**	**19**	**5.0**
Greater London	**14,689**	**18,044**	**2,366**	**1**	**35,100**	**53**	**3**	**35,103**	**18**	**6.1**
Scotland	**5,051**	**5,938**	**1,445**	**1**	**12,435**	**54**	**2**	**12,437**	**6**	**4.2**
North West	**7,314**	**8,629**	**1,881**	**2**	**17,826**	**54**	**2**	**17,828**	**9**	**4.9**
South West	**7,308**	**8,296**	**1,379**	**1**	**16,984**	**53**	**1**	**16,985**	**9**	**3.7**
West Midlands	**5,391**	**7,072**	**1,404**	**1**	**13,868**	**55**	**1**	**13,869**	**7**	**2.5**
East of England	**8,576**	**11,810**	**2,208**	**-**	**22,594**	**55**	**2**	**22,596**	**12**	**4.5**
Rest of the UK	**13,711**	**19,540**	**4,374**	**32**	**37,657**	**56**	**175**	**37,832**	**20**	**4.5**
Total	**76,685**	**97,839**	**18,164**	**39**	**192,727**	**54**	**188**	**192,915**	**100**	**4.7**
2022										
South East	15,856	17,670	1,396	1	34,923	51	3	34,926	19	4.1
Greater London	15,200	17,550	1,336	1	34,087	51	3	34,090	18	2.3
Scotland	5,024	6,174	1,163	1	12,362	54	1	12,363	7	3.2
North West	7,670	8,672	1,236	2	17,580	52	2	17,582	9	2.2
South West	7,874	7,922	627	-	16,423	50	1	16,424	9	3.0
West Midlands	5,477	7,014	862	1	13,354	53	1	13,355	7	1.2
East of England	9,241	11,492	987	2	21,722	52	2	21,724	12	2.1
Rest of the UK	14,312	19,408	2,712	43	36,475	54	48	36,523	19	3.2
Total	80,654	95,902	10,319	51	186,926	52	61	186,987	100	2.8

(1) Not within the scope of the independent auditors' report.
(2) Flood risk is modelled by calculating an estimated loss for each flood source different types of flooding (Fluvial, pluvial, tidal), annualised for each source and combined for a total flood score. Flood defences are considered where available. Flood scores are allocated per property based on the potential annualised loss (£) to a property dependent on the type, frequency and depth of flooding modelled across different return periods. The scoring ranges from 0 to 100, with 0 being lowest and 100 being the highest risk. A score of 61 and above is considered to be high risk and properties with a score of 81 and above considered to be very high risk after flood mitigants are taken into account.

Credit risk – Banking activities continued

Personal portfolio (audited)

Retail Banking fixed rate mortgages by roll-off date (1)

The table below shows gross fixed rate mortgage lending for Retail Banking, by roll-off date.

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail Banking mortgages - gross exposure	£m	£m	£m	£m	£m	£m	£m	£m
Fixed rate roll-off								
< 1 year	**30,867**	**3,670**	**295**	**34,832**	37,391	4,644	276	42,311
>1 year < 2 years	**39,013**	**3,513**	**290**	**42,816**	32,266	4,063	240	36,569
> 2 years	**87,402**	**7,461**	**590**	**95,453**	84,116	7,103	438	91,657
Total	**157,282**	**14,644**	**1,175**	**173,101**	153,773	15,810	954	170,537

Retail Banking mortgages by Energy Performance Certificate (EPC) rating (1)

The table below represents the energy efficiency of Retail Banking residential mortgages.

	31 December 2023			31 December 2022		
	Owner occupied	Buy-to-let	Total	Owner occupied	Buy-to-let	Total
EPC rating	£bn	£bn	£bn	£bn	£bn	£bn
A	**547**	**13**	**560**	424	12	436
B	**21,566**	**1,458**	**23,024**	19,874	1,342	21,216
C	**29,764**	**5,712**	**35,476**	28,049	5,228	33,277
D	**46,924**	**6,056**	**52,980**	47,497	6,033	53,530
E	**16,027**	**1,557**	**17,584**	17,153	1,687	18,840
F	**3,360**	**62**	**3,422**	3,691	86	3,777
G	**736**	**16**	**752**	789	21	810
Unclassified	**55,243**	**3,874**	**59,117**	51,313	3,692	55,005
Total	**174,167**	**18,748**	**192,915**	168,790	18,101	186,891

(1) Not within the scope of the independent auditors' report.
(2) As at 31 December 2023, £140.8 billion, 67.6%, of the total residential mortgages portfolio had Energy Performance Certificate (EPC) data available (2022 – £138.8 billion, 68.3%). Of which, 44.1% were rated as EPC A to C (2022 – 41.6%).

Credit risk – Banking activities continued

Commercial real estate (CRE)

CRE LTV distribution by stage (audited)

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

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
≤50%	7,173	664	61	7,898	38	15	9	62	0.5	2.3	14.8	0.8
>50% and ≤70%	3,165	619	94	3,878	22	21	18	61	0.7	3.4	19.1	1.6
>70% and ≤100%	319	112	84	515	3	6	21	30	0.9	5.4	25.0	5.8
>100%	241	6	26	273	1	1	16	18	0.4	16.7	61.5	6.6
Total with LTVs	10,898	1,401	265	12,564	64	43	64	171	0.6	3.1	24.2	1.4
Total portfolio average LTV	47%	51%	72%	48%								
Other (1)	2,189	390	45	2,624	10	7	19	36	0.5	1.8	42.2	1.4
Investment	13,087	1,791	310	15,188	74	50	83	207	0.6	2.8	26.8	1.4
Development (2)	1,717	147	49	1,913	12	5	25	42	0.7	3.4	51.0	2.2
Total	14,804	1,938	359	17,101	86	55	108	249	0.6	2.8	30.1	1.5
2022												
≤50%	7,010	658	57	7,725	36	12	16	64	0.5	1.8	28.1	0.8
>50% and ≤70%	3,515	798	43	4,356	23	18	12	53	0.7	2.3	27.9	1.2
>70% and ≤100%	259	82	156	497	1	3	42	46	0.4	3.7	26.9	9.1
>100%	102	10	23	135	1	1	14	16	1.0	10.0	60.9	11.8
Total with LTVs	10,886	1,548	279	12,713	61	34	84	179	0.6	2.2	30.1	1.4
Total portfolio average LTV	45%	52%	75%	47%								
Other (1)	1,800	627	55	2,482	9	15	27	51	0.5	2.4	49.1	2.0
Investment	12,686	2,175	334	15,195	70	49	111	230	0.6	2.3	33.2	1.5
Development (2)	1,553	332	57	1,942	13	8	28	49	0.8	2.4	49.1	2.5
Total	14,239	2,507	391	17,137	83	57	139	279	0.6	2.3	35.6	1.6

(1) Relates mainly to business banking and unsecured corporate lending.
(2) Relates to the development of commercial and residential properties. LTV is not a meaningful measure for this type of lending activity.

- **Overall** – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NatWest Group.
- **2023 trends** – In H2 2023, conditions were impacted by the uncertain interest rate outlook. Investment volumes were at historic lows for much of 2023, and values continued to drift downwards in some sectors. There were some early signs of improving sentiment following a sharp reduction in medium-term interest rates, but valuations remain somewhat uncertain, particularly in the office sector.
- **Credit quality** – The CRE portfolio has coped well to date with the fall in capital values and increase in rates, with no significant increase to loans coming into the Risk of Credit Loss Framework.
- **Risk appetite** – Lending appetite is subject to regular review.

Credit risk – Banking activities continued

Flow statements (audited)

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

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
NatWest Group total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	507,539	632	48,482	1,043	5,231	1,759	561,252	3,434
Currency translation and other adjustments	(2,462)	3	(232)	6	128	145	(2,566)	154
Transfers from Stage 1 to Stage 2	(49,502)	(318)	49,502	318	-	-	-	-
Transfers from Stage 2 to Stage 1	47,264	762	(47,264)	(762)	-	-	-	-
Transfers to Stage 3	(336)	(6)	(3,221)	(293)	3,557	299	-	-
Transfers from Stage 3	311	32	631	61	(942)	(93)	-	-
Net re-measurement of ECL on stage transfer		(544)		810		241		507
Changes in risk parameters		(52)		17		306		271
Other changes in net exposure	1,530	205	(7,516)	(188)	(1,946)	(193)	(7,932)	(176)
Other (P&L only items)		(6)		6		(24)		(24)
Income statement (releases)/charges		(397)		645		330		578
Transfers to disposal groups and fair value	1	(5)	(86)	(34)	(90)	(41)	(175)	(80)
Amounts written-off	-	-	(2)	(2)	(317)	(317)	(319)	(319)
Unwinding of discount	-	-		-		(146)		(146)
At 31 December 2023	504,345	709	40,294	976	5,621	1,960	550,260	3,645
Net carrying amount	503,636		39,318		3,661		546,615	
At 1 January 2022	546,178	302	35,557	1,478	5,238	2,026	586,973	3,806
2022 movements	(38,639)	330	12,925	(435)	(7)	(267)	(25,721)	(372)
At 31 December 2022	507,539	632	48,482	1,043	5,231	1,759	561,252	3,434
Net carrying amount	506,907		47,439		3,472		557,818	

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - mortgages	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	165,264	79	18,831	61	1,762	215	185,857	355
Currency translation and other adjustments	-	(1)	-	1	78	77	78	77
Transfers from Stage 1 to Stage 2	(18,779)	(19)	18,779	19	-	-	-	-
Transfers from Stage 2 to Stage 1	16,742	37	(16,742)	(37)	-	-	-	-
Transfers to Stage 3	(61)	-	(1,028)	(7)	1,089	7	-	-
Transfers from Stage 3	40	1	294	7	(334)	(8)	-	-
Net re-measurement of ECL on stage transfer		(21)		27		6		12
Changes in risk parameters		24		(5)		72		91
Other changes in net exposure	10,832	(13)	(2,307)	(6)	(497)	(43)	8,028	(62)
Other (P&L only items)		-		-		(9)		(9)
Income statement (releases)/charges		(10)		16		26		32
Amounts written-off	-	-	-	-	(30)	(30)	(30)	(30)
Unwinding of discount		-		-		(46)		(46)
At 31 December 2023	174,038	87	17,827	60	2,068	250	193,933	397
Net carrying amount	173,951		17,767		1,818		193,536	
At 1 January 2022	159,966	24	10,748	155	1,267	250	171,981	429
2022 movements	5,298	55	8,083	(94)	495	(35)	13,876	(74)
At 31 December 2022	165,264	79	18,831	61	1,762	215	185,857	355
Net carrying amount	165,185		18,770		1,547		185,502	

- ECL levels for mortgages increased during 2023, reflecting continued strong growth. While portfolio performance remained stable, increased economic uncertainty is captured through ECL post model adjustments (reflected in changes in risk parameters).
- There were net flows into Stage 2 from Stage 1 with an upward trend in early arrears coupled with the collective migration into Stage 2 of higher risk customers utilising new Mortgage Charter treatments (approximately £0.9 billion exposure). PDs remained broadly stable due to the impact of improved economics since 2022 and balance paydown within Stage 2 resulted in a lower Stage 2 balance in 2023.
- The increase in the cost of living post model adjustment during 2023 proportionately allocated more ECL to Stage 1 given the forward-looking nature of the affordability threat. Refer to the Governance and post model adjustments section for more information.
- The Stage 3 inflows remained broadly stable, albeit with signs of an upward drift in default rates, reflecting slightly poorer arrears performance on mortgages recently rolled off onto higher product rates. Furthermore, the increase in Stage 3 ECL overall reflected recent house price index deterioration.
- The relatively small ECL cost for net re-measurement on stage transfer included the effect of risk targeted ECL adjustments, when previously in the good book. Refer to the Governance and post model adjustments section for further details.
- Write-off occurs once the repossessed property has been sold and there is a residual shortfall balance remaining outstanding. This would typically be within five years from default but can be longer.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - credit cards	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	3,062	61	1,098	120	113	71	4,273	252
Currency translation and other adjustments	-	-	-	-	4	4	4	4
Transfers from Stage 1 to Stage 2	(1,933)	(42)	1,933	42	-	-	-	-
Transfers from Stage 2 to Stage 1	753	52	(753)	(52)	-	-	-	-
Transfers to Stage 3	(21)	(1)	(122)	(45)	143	46	-	-
Transfers from Stage 3	2	1	7	3	(9)	(4)	-	-
Net re-measurement of ECL on stage transfer		(31)		162		41		172
Changes in risk parameters		18		25		8		51
Other changes in net exposure	1,612	12	(117)	(51)	(36)	(1)	1,459	(40)
Other (P&L only items)		-		-		1		1
Income statement (releases)/charges		(1)		136		49		184
Amounts written-off	-	-	-	-	(69)	(69)	(69)	(69)
Unwinding of discount		-		-		(7)		(7)
At 31 December 2023	3,475	70	2,046	204	146	89	5,667	363
Net carrying amount	3,405		1,842		57		5,304	
At 1 January 2022	2,740	58	947	141	91	60	3,778	259
2022 movements	322	3	151	(21)	22	11	495	(7)
At 31 December 2022	3,062	61	1,098	120	113	71	4,273	252
Net carrying amount	3,001		978		42		4,021	

- The overall increase in ECL was mainly due to the increase in Stage 2 ECL.
- While portfolio performance remained stable, a net flow into Stage 2 from Stage 1 was observed as PDs increased with observed unemployment and PD modelling updates capturing more economic downside.
- Credit card balances continued to grow since the 2022 year end, in line with industry trends in the UK, reflecting strong customer demand, while sustaining robust risk appetite.
- Stage 3 inflows remained relatively stable during the year, although there was a modest upward trend in default levels, in line with growth and normalisation of risk parameters.
- Charge-off (analogous to partial write-off) typically occurs after 12 missed payments.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Retail Banking - other personal unsecured	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	**4,784**	**111**	**2,028**	**269**	**779**	**631**	**7,591**	**1,011**
Currency translation and other adjustments	**-**	**-**	**-**	**-**	**26**	**26**	**26**	**26**
Transfers from Stage 1 to Stage 2	**(2,775)**	**(118)**	**2,775**	**118**	**-**	**-**	**-**	**-**
Transfers from Stage 2 to Stage 1	**2,284**	**317**	**(2,284)**	**(317)**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(61)**	**(3)**	**(326)**	**(128)**	**387**	**131**	**-**	**-**
Transfers from Stage 3	**7**	**3**	**23**	**9**	**(30)**	**(12)**	**-**	**-**
Net re-measurement of ECL on stage transfer		**(224)**		**329**		**53**	**-**	**158**
Changes in risk parameters		**(41)**		**14**		**82**		**55**
Other changes in net exposure	**1,001**	**104**	**(558)**	**(55)**	**(111)**	**(33)**	**332**	**16**
Other (P&L only items)		**-**		**-**		**20**		**20**
Income statement (releases)/charges		**(161)**		**288**		**122**		**249**
Amounts written-off	**-**	**-**	**(1)**	**(1)**	**(88)**	**(88)**	**(89)**	**(89)**
Unwinding of discount		**-**		**-**		**(32)**		**(32)**
At 31 December 2023	**5,240**	**149**	**1,657**	**238**	**963**	**758**	**7,860**	**1,145**
Net carrying amount	**5,091**		**1,419**		**205**		**6,715**	
At 1 January 2022	4,548	52	1,967	294	629	540	7,144	886
2022 movements	236	59	61	(25)	150	91	447	125
At 31 December 2022	4,784	111	2,028	269	779	631	7,591	1,011
Net carrying amount	4,673		1,759		148		6,580	

- Total ECL increased, mainly in Stage 3. While default levels were broadly stable, they were higher than in 2022. This increase was in line with growth and normalisation of risk parameters. Furthermore, write-off levels were lower during 2023, which sustained a higher Stage 3 ECL position at 31 December 2023.
- A slight rise in early arrears levels since 2022 and modest PD increases during the year resulted in a net migration from Stage 1 into Stage 2. However, good book ECL and coverage levels were largely consistent with 2022, with the improved economic outlook since 2022 mitigating further IFRS 9 PD increases and balance paydown within Stage 2.
- Unsecured retail balances grew steadily until Q3 2023 but, in line with industry trends in the UK, stabilised in the last quarter of the year.
- Write-off occurs once recovery activity with the customer has been concluded or there are no further recoveries expected, but no later than six years after default.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional total	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	160,352	342	24,711	534	2,198	747	187,261	1,623
Currency translation and other adjustments	(1,702)	1	(226)	(1)	26	46	(1,902)	46
Inter-group transfers	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(23,886)	(129)	23,886	129	-	-	-	-
Transfers from Stage 2 to Stage 1	25,353	334	(25,353)	(334)	-	-	-	-
Transfers to Stage 3	(109)	(2)	(1,523)	(90)	1,632	92	-	-
Transfers from Stage 3	180	27	266	34	(446)	(61)	-	-
Net re-measurement of ECL on stage transfer		(253)		276		129		152
Changes in risk parameters		(62)		(42)		136		32
Other changes in net exposure	16,114	98	(4,731)	(58)	(1,128)	(95)	10,255	(55)
Other (P&L only items)		(5)		6		(36)		(35)
Income statement (releases)/charges		(222)		182		134		94
Amounts written-off	-	-	(1)	(1)	(121)	(121)	(122)	(122)
Unwinding of discount		-		-		(54)		(54)
At 31 December 2022	176,302	356	17,029	447	2,161	819	195,492	1,622
Net carrying amount	175,946		16,582		1,342		193,870	
At 1 January 2022	152,224	129	19,731	785	2,155	750	174,110	1,664
2022 movements	8,128	213	4,980	(251)	43	(3)	13,151	(41)
At 31 December 2022	160,352	342	24,711	534	2,198	747	187,261	1,623
Net carrying amount	160,010		24,177		1,451		185,638	

- Growth in exposures was mainly driven by financial institutions sectors.
- ECL remained broadly stable during 2023 reflecting stable portfolio performance.
- Reductions in modelled ECL from improving economic variables and risk metrics were partially offset by increases in post model adjustments to capture continued economic uncertainty.
- Stage 3 ECL increased mainly due to charges on a few individual customers.
- Overall impairment charges were low as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - corporate	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	53,595	218	19,235	431	1,434	504	74,264	1,153
Currency translation and other adjustments	(419)	2	(180)	-	25	41	(574)	43
Inter-group transfers	88	1	(66)	-	(30)	(2)	(8)	(1)
Transfers from Stage 1 to Stage 2	(17,161)	(96)	17,161	96	-	-	-	-
Transfers from Stage 2 to Stage 1	18,525	246	(18,525)	(246)	-	-	-	-
Transfers to Stage 3	(91)	(2)	(1,098)	(69)	1,189	71	-	-
Transfers from Stage 3	124	21	204	26	(328)	(47)	-	-
Net re-measurement of ECL on stage transfer		(189)		202		103		116
Changes in risk parameters		(36)		(44)		126		46
Other changes in net exposure	6,741	61	(4,455)	(51)	(758)	(75)	1,528	(65)
Other (P&L only items)		(5)		5		(37)		(37)
Income statement (releases)/charges		(169)		112		117		60
Amounts written-off	-	-	(1)	(1)	(78)	(78)	(79)	(79)
Unwinding of discount		-		-		(41)		(41)
At 31 December 2023	61,402	226	12,275	344	1,454	602	75,131	1,172
Net carrying amount	61,176		11,931		852		73,959	

- There was modest exposure growth, with increased new lending largely offset by repayments.
- ECL remained broadly flat but reductions in Stage 2 ECL from repayments were offset by an increase in Stage 3 from a few individual customers.
- Overall impairment charges were low as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults. The 2023 charge was largely driven by charges on a few individual customers.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - property	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	24,878	92	3,986	89	628	214	29,492	395
Currency translation and other adjustments	(6)	(1)	(8)	-	1	(2)	(13)	(3)
Inter-group transfers	(38)	-	(8)	-	7	1	(39)	1
Transfers from Stage 1 to Stage 2	(5,010)	(30)	5,010	30	-	-	-	-
Transfers from Stage 2 to Stage 1	4,498	77	(4,498)	(77)	-	-	-	-
Transfers to Stage 3	(14)	(1)	(401)	(20)	415	21	-	-
Transfers from Stage 3	43	4	56	7	(99)	(11)	-	-
Net re-measurement of ECL on stage transfer		(54)		64		24		34
Changes in risk parameters		(24)		2		8		(14)
Other changes in net exposure	1,689	31	(982)	(6)	(313)	(16)	394	9
Other (P&L only items)		-		-		-		-
Income statement (releases)/charges		(47)		60		16		29
Amounts written-off	-	-	-	-	(33)	(33)	(33)	(33)
Unwinding of discount		-		-		(11)		(11)
At 31 December 2023	26,040	94	3,155	89	606	195	29,801	378
Net carrying amount	25,946		3,066		411		29,423	

- The property portfolio remained stable throughout 2023 with minor movements on exposure and ECL.
- Overall, there was a small reduction on ECL as write-offs exceeded impairment charges.
- Impairment charges were lower than historic trends, as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Commercial & Institutional - other	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2023	81,879	32	1,490	14	136	29	83,505	75
Currency translation and other adjustments	(1,278)	(1)	(38)	-	-	5	(1,316)	4
Inter-group transfers	(49)	-	74	-	22	-	47	-
Transfers from Stage 1 to Stage 2	(1,716)	(3)	1,716	3	-	-	-	-
Transfers from Stage 2 to Stage 1	2,330	12	(2,330)	(12)	-	-	-	-
Transfers to Stage 3	(4)	-	(24)	(1)	28	1	-	-
Transfers from Stage 3	15	2	6	-	(21)	(2)	-	-
Net re-measurement of ECL on stage transfer		(11)		11		3		3
Changes in risk parameters		(2)		1		-		(1)
Other changes in net exposure	7,683	7	705	(2)	(56)	(4)	8,332	1
Other (P&L only items)		-		-		2		2
Income statement (releases)/charges		(6)		10		1		5
Amounts written-off	-	-	-	-	(8)	(8)	(8)	(8)
Unwinding of discount		-		-		(2)		(2)
At 31 December 2023	88,860	36	1,599	14	101	22	90,560	72
Net carrying amount	88,824		1,585		79		90,488	

- Growth in exposure was observed due to increased lending in the securitisation sector.
- The growth was within high quality assets, so ECL was broadly flat with write-offs exceeding impairment charges.
- Overall impairment charges were low as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Stage 2 decomposition arrears status and contributing factors

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

	UK mortgages		Credit cards		Other		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2023	£m	£m	£m	£m	£m	£m	£m	£m
Personal								
Currently >30 DPD	**291**	**1**	**14**	**7**	**51**	**19**	**356**	**27**
Currently <=30 DPD	**17,563**	**60**	**2,008**	**200**	**1,582**	**219**	**21,153**	**479**
- PD deterioration	***12,807***	***48***	***1,455***	***160***	***831***	***126***	***15,093***	***334***
- PD persistence	***2,317***	***6***	***481***	***32***	***373***	***33***	***3,171***	***71***
- Other driver (adverse credit, forbearance etc)	***2,439***	***6***	***72***	***8***	***378***	***60***	***2,889***	***74***
Total Stage 2	***17,854***	***61***	**2,022**	**207**	**1,633**	**238**	**21,509**	**506**
2022								
Personal								
Currently >30 DPD	205	1	10	5	52	18	267	24
Currently <=30 DPD	18,582	61	1,066	117	1,939	264	21,587	442
- PD deterioration	*16,342*	*56*	*805*	*97*	*1,093*	*150*	*18,240*	*303*
- PD persistence	*867*	*2*	*200*	*13*	*185*	*16*	*1,252*	*31*
- Other driver (adverse credit, forbearance etc)	*1,373*	*3*	*61*	*7*	*661*	*98*	*2,095*	*108*
Total Stage 2	18,787	62	1,076	122	1,991	282	21,854	466

- The levels of PD driven deterioration decreased in 2023, mainly in the mortgage portfolio. The economic scenario updates during 2023 resulted in a reduction in lifetime PDs for the mortgage and personal loan portfolios. This drove a segment of lower risk cases out of PD SICR deterioration (and captured in PD persistence in the case of Q4 MES update).
- The PD modelling update during H1 2023 on the credit card portfolio resulted in more downside risk captured through modelled ECL and this, alongside modest increase in early arrears levels, led to more PD SICR deterioration being captured during 2023.
- Higher risk mortgage customers who utilised the new Mortgage Charter measures were collectively migrated into Stage 2, approximately £0.9 billion of exposures, and captured in the other driver category.
- Accounts that are less than 30 days past due continue to represent the vast majority of the Stage 2 population, whilst noting that the greater than 30 days past due population increased during 2023. As expected, ECL coverage was higher in accounts that were more than 30 days past due than those in Stage 2 for other reasons.

Credit risk – Banking activities continued

Stage 2 decomposition arrears status and contributing factors

	Property		Corporate		Financial institutions		Sovereign		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Wholesale										
Currently >30 DPD	**99**	**4**	**342**	**9**	**10**	**-**	**-**	**-**	**451**	**13**
Currently <=30 DPD	**3,171**	**94**	**11,803**	**347**	**956**	**15**	**1**	**1**	**15,931**	**457**
- PD deterioration	***2,166***	***72***	***7,465***	***222***	***750***	***8***	***-***	***-***	***10,381***	***302***
- PD persistence	***220***	***4***	***838***	***16***	***13***	***-***	***-***	***-***	***1,071***	***20***
- Other driver (forbearance, RoCL etc)	***785***	***18***	***3,500***	***109***	***193***	***7***	***1***	***1***	***4,479***	***135***
Total Stage 2	**3,270**	**98**	**12,145**	**356**	**966**	**15**	**1**	**1**	**16,382**	**470**
2022										
Wholesale										
Currently >30 DPD	255	3	487	11	3	-	-	-	745	14
Currently <=30 DPD	3,780	95	19,103	454	1,350	14	1	-	24,234	563
- PD deterioration	*2,503*	*62*	*15,714*	*357*	*1,230*	*10*	-	-	19,447	*429*
- PD persistence	*81*	*3*	*269*	*9*	*5*	-	-	-	*355*	*12*
- Other driver (forbearance, RoCL etc)	*1,196*	*30*	*3,120*	*88*	*115*	*4*	*1*	-	*4,432*	*122*
Total Stage 2	4,035	98	19,590	465	1,353	14	1	-	24,979	577

- The improved economic outlook, including a more optimistic forecast for stock index and commercial real estate valuations, resulted in a reduction of IFRS 9 PDs. Consequently, compared to 2022, a large proportion of exposure no longer exhibited a SICR and migrated back into Stage 1 resulting in a reduction in Stage 2 exposure.
- PD deterioration remained the primary trigger for identifying a SICR and Stage 2 treatment.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	UK mortgages		Credit cards		Other		Total	
2023	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Personal trigger (1)								
PD movement	**12,969**	**72.5**	**1,469**	**72.7**	**866**	**52.9**	**15,304**	**71.1**
PD persistence	**2,317**	**13.0**	**481**	**23.8**	**374**	**22.9**	**3,172**	**14.7**
Adverse credit bureau recorded with credit reference agency	**1,047**	**5.9**	**49**	**2.4**	**99**	**6.1**	**1,195**	**5.6**
Forbearance support provided	**137**	**0.8**	**1**	**-**	**11**	**0.7**	**149**	**0.7**
Customers in collections	**178**	**1.0**	**2**	**0.1**	**8**	**0.5**	**188**	**0.9**
Collective SICR and other reasons (2)	**1,087**	**6.1**	**20**	**1.0**	**266**	**16.3**	**1,373**	**6.4**
Days past due >30	**119**	**0.7**	**-**	**-**	**9**	**0.6**	**128**	**0.6**
	17,854	**100.0**	**2,022**	**100.0**	**1,633**	**100.0**	**21,509**	**100.0**
2022								
Personal trigger (1)								
PD movement	16,477	87.7	814	75.7	1,129	56.7	18,420	84.3
PD persistence	866	4.6	200	18.6	186	9.3	1,252	5.7
Adverse credit bureau recorded with credit reference agency	929	4.9	52	4.8	96	4.8	1,077	4.9
Forbearance support provided	101	0.5	1	0.1	17	0.9	119	0.5
Customers in collections	153	0.8	2	0.2	4	0.2	159	0.7
Collective SICR and other reasons (2)	195	1.0	7	0.7	546	27.4	748	3.4
Days past due >30	66	0.4	-	-	13	0.7	79	0.4
	18,787	100.0	1,076	100.0	1,991	100.0	21,854	100.0

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

- PD-related SICR triggers continued to represent the vast majority of Stage 2.
- The levels of PD driven deterioration decreased in 2023, mainly in the mortgage portfolio. The economic scenario updates during 2023 resulted in a reduction in lifetime PDs for the mortgage and personal loan portfolios, which drove a segment of lower risk cases out of PD SICR deterioration.
- The Q4 2023 economic modelling updates that reduced PDs on mortgages and loans are captured in PD persistence category (for at least three months).
- The PD modelling update during H1 2023 on the credit card portfolio resulted in more downside risk captured through modelled ECL and this, alongside modest increase in early arrears levels, led to more PD SICR deterioration being captured during 2023.
- Higher risk mortgage customers who utilised the new Mortgage Charter measures are collectively migrated into Stage 2, approximately £0.9 billion of exposures. This is captured in the collective SICR and other reasons category.

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

	Property		Corporate		Financial institutions		Sovereign		Total	
2023	£m	%	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)										
PD movement	**2,211**	**67.6**	**7,611**	**62.5**	**760**	**78.7**	**-**	**-**	**10,582**	**64.6**
PD persistence	**223**	**6.8**	**847**	**7.0**	**13**	**1.3**	**-**	**-**	**1,083**	**6.6**
Risk of Credit Loss	**563**	**17.2**	**2,630**	**21.7**	**120**	**12.4**	**-**	**-**	**3,313**	**20.2**
Forbearance support provided	**49**	**1.6**	**373**	**3.1**	**-**	**-**	**-**	**-**	**422**	**2.6**
Customers in collections	**7**	**0.2**	**23**	**0.2**	**-**	**-**	**-**	**-**	**30**	**0.2**
Collective SICR and other reasons (2)	**70**	**2.1**	**457**	**3.8**	**72**	**7.5**	**1**	**100.0**	**600**	**3.7**
Days past due >30	**147**	**4.5**	**204**	**1.7**	**1**	**0.1**	**-**	**-**	**352**	**2.1**
	3,270	**100.0**	**12,145**	**100.0**	**966**	**100.0**	**1**	**100.0**	**16,382**	**100.0**
2022										
Wholesale trigger (1)										
PD movement	2,569	63.7	15,962	81.5	1,231	91.0	-	-	19,762	79.2
PD persistence	82	2.0	269	1.4	5	0.4	-	-	356	1.4
Risk of Credit Loss	596	14.8	1,664	8.5	32	2.4	-	-	2,292	9.2
Forbearance support provided	41	1.0	476	2.4	19	1.4	-	-	536	2.1
Customers in collections	13	0.3	44	0.2	-	-	-	-	57	0.2
Collective SICR and other reasons (2)	566	14.0	970	5.0	64	4.7	1	100.0	1,601	6.4
Days past due >30	168	4.2	205	1.0	2	0.1	-	-	375	1.5
	4,035	100.0	19,590	100.0	1,353	100.0	1	100.0	24,979	100.0

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

– PD deterioration continued to be the primary trigger of migration of exposures from Stage 1 into Stage 2. As the economic outlook improved, there was a reduction in cases triggering Stage 2.
– Moving exposures on to the Risk of Credit Loss framework remained an important backstop indicator of a SICR. The exposures classified under the Stage 2 Risk of Credit Loss framework trigger increased over the year, as less exposures were captured under the PD deterioration Stage 2 trigger.

Credit risk – Banking activities continued

Stage 3 vintage analysis

The table below shows estimated vintage analysis of the material Stage 3 portfolios.

	2023		2022	
	Retail Banking mortgages (1)	Wholesale	Retail Banking mortgages (1)	Wholesale
Stage 3 loans (£bn)	2.0	2.2	1.7	2.3
Vintage (time in default):				
<1 year	45%	40%	43%	46%
1-3 years	32%	35%	26%	26%
3-5 years	9%	12%	12%	10%
>5 years	14%	13%	19%	18%
	100%	100%	100%	100%

(1) Retail Banking excludes a non-material amount of lending held on relatively small legacy portfolios.
(2) Comparative data for Wholesale has been re-presented to correct the ageing profile.

- The increase in the proportion of loans in Stage 3 for less than three years was mainly due to the adoption of the new regulatory definition of default from January 2022, including cases captured due to the regulatory default probation rules alone (which represented approximately 11% of Stage 3 Retail Banking mortgages and 9% of Stage 3 Wholesale balances).

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Personal portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
UK mortgages												
AQ1-AQ4	110,694	7,572	-	118,266	51	20	-	71	0.1	0.3	-	0.1
AQ5-AQ8	77,290	9,578	-	86,868	37	37	-	74	0.1	0.4	-	0.1
AQ9	156	704	-	860	-	4	-	4	-	0.6	-	0.5
AQ10	-	-	2,281	2,281	-	-	271	271	-	-	11.9	11.9
	188,140	17,854	2,281	208,275	88	61	271	420	0.1	0.3	11.9	0.2
Credit cards												
AQ1-AQ4	124	-	-	124	1	-	-	1	0.8	-	-	0.8
AQ5-AQ8	3,612	1,965	-	5,577	75	193	-	268	2.1	9.8	-	4.8
AQ9	6	57	-	63	-	14	-	14	-	24.6	-	22.2
AQ10	-	-	140	140	-	-	93	93	-	-	66.4	66.4
	3,742	2,022	140	5,904	76	207	93	376	2.0	10.2	66.4	6.4
Other personal												
AQ1-AQ4	764	150	-	914	11	23	-	34	1.4	15.3	-	3.7
AQ5-AQ8	6,178	1,374	-	7,552	138	180	-	318	2.2	13.1	-	4.2
AQ9	41	109	-	150	3	35	-	38	7.3	32.1	-	25.3
AQ10	-	-	979	979	-	-	778	778	-	-	79.5	79.5
	6,983	1,633	979	9,595	152	238	778	1,168	2.2	14.6	79.5	12.2
Total												
AQ1-AQ4	111,582	7,722	-	119,304	63	43	-	106	0.1	0.6	-	0.1
AQ5-AQ8	87,080	12,917	-	99,997	250	410	-	660	0.3	3.2	-	0.7
AQ9	203	870	-	1,073	3	53	-	56	1.5	6.1	-	5.2
AQ10	-	-	3,400	3,400	-	-	1,142	1,142	-	-	33.6	33.6
	198,865	21,509	3,400	223,774	316	506	1,142	1,964	0.2	2.4	33.6	0.9

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
UK mortgages												
AQ1-AQ4	116,559	9,208	-	125,767	45	24	-	69	0.0	0.3	-	0.1
AQ5-AQ8	65,510	8,962	-	74,472	36	34	-	70	0.1	0.4	-	0.1
AQ9	176	617	-	793	-	4	-	4	-	0.7	-	0.5
AQ10	-	-	1,925	1,925	-	-	233	233	-	-	12.1	12.1
	182,245	18,787	1,925	202,957	81	62	233	376	00	0.3	12.1	0.2
Credit cards												
AQ1-AQ4	98	-	-	98	-	-	-	-	-	-	-	-
AQ5-AQ8	3,172	1,036	-	4,208	61	112	-	173	1.9	10.8	-	4.1
AQ9	5	40	-	45	1	10	-	11	20.0	25.0	-	24.4
AQ10	-	-	109	109	-	-	73	73	-	-	67.0	67.0
	3,275	1,076	109	4,460	62	122	73	257	1.9	11.3	67.0	5.8
Other personal												
AQ1-AQ4	1,047	128	-	1,175	11	17	-	28	1.1	13.3	-	2.4
AQ5-AQ8	5,843	1,732	-	7,575	104	224	-	328	1.8	12.9	-	4.3
AQ9	28	131	-	159	2	41	-	43	7.1	31.3	-	27.0
AQ10	-	-	797	797	-	-	651	651	-	-	81.7	81.7
	6,918	1,991	797	9,706	117	282	651	1,050	1.7	14.2	81.7	10.8
Total personal												
AQ1-AQ4	117,704	9,336	-	127,040	56	41	-	97	0.1	0.4	-	0.1
AQ5-AQ8	74,525	11,730	-	86,255	201	370	-	571	0.3	3.2	-	0.7
AQ9	209	788	-	997	3	55	-	58	1.4	7.0	-	5.8
AQ10	-	-	2,831	2,831	-	-	957	957	-	-	33.8	33.8
	192,438	21,854	2,831	217,123	260	466	957	1,683	0.1	2.1	33.8	0.8

– In the Personal portfolio, the majority of exposures were in AQ4 and AQ5 within mortgages. The higher proportion of UK mortgage loans in bands AQ5-AQ8 was reflected in the overall average Basel PD for mortgages marginally increasing from 0.65% to 0.67%.

– In other personal, the relatively high level of exposures in AQ10 reflected that impaired assets can be held on the balance sheet, with commensurate ECL provision, for up to six years after default. Furthermore, write-off levels were lower during 2023 than 2022.

Credit risk – Banking activities continued

Asset quality (audited)

The table below shows asset quality bands of gross loans and ECL, by stage, for the Wholesale portfolio.

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Property												
AQ1-AQ4	14,961	405	-	15,366	16	5	-	21	0.1	1.2	-	0.1
AQ5-AQ8	12,346	2,799	-	15,145	86	88	-	174	0.7	3.1	-	1.2
AQ9	9	66	-	75	-	5	-	5	-	7.6	-	6.7
AQ10	-	-	621	621	-	-	198	198	-	-	31.9	31.9
	27,316	3,270	621	31,207	102	98	198	398	0.4	3.0	31.9	1.3
Other												
AQ1-AQ4	25,914	937	-	26,851	27	13	-	40	0.1	1.4	-	0.2
AQ5-AQ8	37,738	10,935	-	48,673	207	323	-	530	0.6	3.0	-	1.1
AQ9	38	273	-	311	-	20	-	20	-	7.3	-	6.4
AQ10	-	-	1,504	1,504	-	-	611	611	-	-	40.6	40.6
	63,690	12,145	1,504	77,339	234	356	611	1,201	0.4	2.9	40.6	1.6
Financial institutions												
AQ1-AQ4	52,702	665	-	53,367	28	6	-	34	0.1	0.9	-	0.1
AQ5-AQ8	3,402	284	-	3,686	16	9	-	25	0.5	3.2	-	0.7
AQ9	1	17	-	18	-	-	-	-	-	-	-	-
AQ10	-	-	16	16	-	-	7	7	-	-	43.8	43.8
	56,105	966	16	57,087	44	15	7	66	0.1	1.6	43.8	0.1
Sovereign												
AQ1-AQ4	2,487	1	-	2,488	13	1	-	14	0.5	100.0	-	0.6
AQ5-AQ8	123	-	-	123	-	-	-	-	-	-	-	-
AQ9	-	-	-	-	-	-	-	-	-	-	-	-
AQ10	-	-	22	22	-	-	2	2	-	-	9.1	9.1
	2,610	1	22	2,633	13	1	2	16	0.5	100.0	9.1	0.6
Total												
AQ1-AQ4	96,064	2,008	-	98,072	84	25	-	109	0.1	1.3	-	0.1
AQ5-AQ8	53,609	14,018	-	67,627	309	420	-	729	0.6	3.0	-	1.1
AQ9	48	356	-	404	-	25	-	25	-	7.0	-	6.2
AQ10	-	-	2,163	2,163	-	-	818	818	-	-	37.8	37.8
	149,721	16,382	2,163	168,266	393	470	818	1,681	0.3	2.9	37.8	1.0

Credit risk – Banking activities continued

Asset quality (audited)

	Gross loans				ECL provisions				ECL provisions coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2022	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
Property												
AQ1-AQ4	14,497	542	-	15,039	16	4	-	20	0.1	0.7	-	0.1
AQ5-AQ8	11,792	3,401	-	15,193	83	89	-	172	0.7	2.6	-	1.1
AQ9	11	92	-	103	-	5	-	5	-	5.4	-	4.9
AQ10	-	-	701	701	-	-	223	223	-	-	31.8	31.8
	26,300	4,035	701	31,036	99	98	223	420	0.4	2.4	31.8	1.4
Other												
AQ1-AQ4	20,409	5,316	-	25,725	24	38	-	62	0.1	0.7	-	0.2
AQ5-AQ8	36,511	13,942	-	50,453	202	404	-	606	0.6	2.9	-	1.2
AQ9	35	332	-	367	-	23	-	23	-	6.9	-	6.3
AQ10	-	-	1,515	1,515	-	-	560	560	-	-	37.0	37.0
	56,955	19,590	1,515	78,060	226	465	560	1,251	0.4	2.4	37.0	1.6
Financial institutions												
AQ1-AQ4	44,257	914	-	45,171	18	5	-	23	0.0	0.6	-	0.1
AQ5-AQ8	2,479	429	-	2,908	14	9	-	23	0.6	2.1	-	0.8
AQ9	2	10	-	12	-	-	-	-	-	-	-	-
AQ10	-	-	47	47	-	-	17	17	-	-	36.2	36.2
	46,738	1,353	47	48,138	32	14	17	63	0.1	1.0	36.2	0.1
Sovereign												
AQ1-AQ4	2,678	1	-	2,679	15	-	-	15	0.6	-	-	0.6
AQ5-AQ8	115	-	-	115	-	-	-	-	-	-	-	-
AQ9	-	-	-	-	-	-	-	-	-	-	-	-
AQ10	-	-	2	2	-	-	2	2	-	-	100.0	100.0
	2,793	1	2	2,796	15	-	2	17	0.5	—	100.0	0.6
Total												
AQ1-AQ4	81,841	6,773	-	88,614	73	47	-	120	0.1	0.7	-	0.1
AQ5-AQ8	50,897	17,772	-	68,669	299	502	-	801	0.6	2.8	-	1.2
AQ9	48	434	-	482	-	28	-	28	-	6.5	-	5.8
AQ10	-	-	2,265	2,265	-	-	802	802	-	-	35.4	35.4
	132,786	24,979	2,265	160,030	372	577	802	1,751	0.3	2.3	35.4	1.1

- Asset quality remained stable.
- Customer credit grades were reassessed as and when a request for financing was made, a scheduled customer credit review performed or a material credit event specific to that customer occurred. Credit grades are reassessed for all customers at least annually.
- ECL provisions coverage showed the expected trend, with increased coverage in the weaker asset quality bands within Stage 2 compared to Stage 1 and within Stage 3 compared to Stage 2.

Credit risk – Trading activities

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

Securities financing transactions and collateral (audited)

The table below shows securities financing transactions in Commercial & Institutional and Central items & other. Balance sheet captions include balances held at all classifications under IFRS.

	Reverse Repos			Repos		
2023	Total £m	Of which: can be offset £m	Outside netting arrangements £m	Total £m	Of which: can be offset £m	Outside netting arrangements £m
Gross	77,508	77,050	458	66,767	66,047	720
IFRS offset	(25,903)	(25,903)	-	(25,903)	(25,903)	-
Carrying value	51,605	51,147	458	40,864	40,144	720
Master netting arrangements	(669)	(669)	-	(669)	(669)	-
Securities collateral	(50,287)	(50,287)	-	(39,475)	(39,475)	-
Potential for offset not recognised under IFRS	(50,956)	(50,956)	-	(40,144)	(40,144)	-
Net	649	191	458	720	-	720
2022						
Gross	61,775	61,241	534	55,226	50,743	4,483
IFRS offset	(20,211)	(20,211)	-	(20,211)	(20,211)	-
Carrying value	41,564	41,030	534	35,015	30,532	4,483
Master netting arrangements	(2,445)	(2,445)	-	(2,445)	(2,445)	-
Securities collateral	(38,387)	(38,387)	-	(28,087)	(28,087)	-
Potential for offset not recognised under IFRS	(40,832)	(40,832)	-	(30,532)	(30,532)	-
Net	732	198	534	4,483	-	4,483

Credit risk – Trading activities continued

Derivatives (audited)

The table below shows 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. A significant proportion of the derivatives relate to trading activities in Commercial & Institutional. The table also includes hedging derivatives in Central items & other.

	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						99,501	96,264		118,275	116,158
IFRS offset						(20,597)	(23,869)		(18,730)	(22,111)
Carrying value	3,244	3,025	6,012	1,122	13,403	78,904	72,395	13,925	99,545	94,047
Of which:										
Interest rate (1)	2,952	1,623	5,466	227	10,268	44,563	38,483	10,742	53,480	48,535
Exchange rate	291	1,397	537	895	3,120	34,161	33,586	3,168	45,829	45,237
Credit	1	5	9	-	15	180	326	15	236	275
Carrying value					13,403	78,904	72,395	13,925	99,545	94,047
Counterparty mark-to-market netting						(60,355)	(60,355)		(77,365)	(77,365)
Cash collateral						(12,284)	(6,788)		(14,079)	(9,761)
Securities collateral						(3,408)	(1,664)		(4,571)	(1,185)
Net exposure						2,857	3,588		3,530	5,736
Banks (2)						335	555		648	711
Other financial institutions (3)						1,422	1,304		1,732	1,969
Corporate (4)						1,063	1,690		1,068	2,969
Government (5)						37	39		82	87
Net exposure						2,857	3,588		3,530	5,736
UK						1,283	1,912		1,271	2,878
Europe						800	1,209		1,196	2,015
US						607	381		753	626
RoW						167	86		310	217
Net exposure						2,857	3,588		3,530	5,736
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						2,382			3,014	
AQ5-AQ8						471			500	
AQ9-AQ10						4			16	
Net exposure						2,857			3,530	

(1) The notional amount of interest rate derivatives includes £7,280 billion (2022 – £8,065 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with whom NatWest 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 NatWest Group's external rating.
(4) Mainly large corporates with whom NatWest 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 – Trading activities continued

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 13 on Trading assets and liabilities for details on short positions.

	Central and local government					
	UK	US	Other	Financial institutions	Corporate	Total
2023	£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

Credit risk – Trading activities continued

Cross border exposure

Cross border exposures comprise both banking and trading activities, including reverse repurchase agreements. Exposures comprise loans and advances, including finance leases and instalment credit receivables, and other monetary assets, such as debt securities. The geographical breakdown is based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures include non-local currency claims of overseas offices on local residents but exclude exposures to local residents in local currencies. The table shows cross border exposures greater than 0.5% of NatWest Group's total assets.

2023	Government £m	Banks £m	Other £m	Total £m	Short positions £m	Net of short positions £m
Western Europe	**7,830**	**10,109**	**26,508**	**44,447**	**4,655**	**39,792**
Of which: France	**2,229**	**2,105**	**7,839**	**12,173**	**1,183**	**10,990**
Germany	**1,614**	**4,525**	**1,065**	**7,204**	**1,905**	**5,299**
Luxembourg	**1**	**317**	**7,045**	**7,363**	**-**	**7,363**
Ireland	**29**	**90**	**3,622**	**3,741**	**99**	**3,642**
Jersey	**-**	**-**	**4,394**	**4,394**	**-**	**4,394**
United States	**6,764**	**3,440**	**16,356**	**26,560**	**2,974**	**23,586**
Canada	**1,262**	**2,059**	**1,132**	**4,453**	**17**	**4,436**
2022						
Western Europe	5,608	7,385	19,018	32,011	4,438	27,573
Of which: France	1,875	1,911	3,958	7,744	1,414	6,330
Germany	794	3,717	839	5,350	1,053	4,297
Luxembourg	1	190	5,640	5,831	5	5,826
Ireland	28	70	2,823	2,921	66	2,855
Jersey	-	-	3,019	3,019	-	3,019
United States	8,080	3,852	12,931	24,863	1,429	23,434
Canada	35	1,885	402	2,322	12	2,310

Capital, liquidity and funding risk

NatWest 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 its capital, liquidity and funding risks. The framework ensures the tools and capability are in place to facilitate the management and mitigation of risk ensuring NatWest Group operates within its regulatory requirements and risk appetite.

Definitions (audited)

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

Capital risk is the 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 of risk (audited)

Capital

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

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

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss-absorbing instruments, including senior notes and Tier 2 capital instruments with certain qualifying criteria issued by NatWest Group, may be used to cover certain gone concern capital requirements, which is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that the Bank of England (BoE) deems that NatWest Group has failed or is likely to fail.

Liquidity

NatWest 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 constraints. Following ringfencing legislation, liquidity is no longer considered fungible across NatWest Group. Principal liquidity portfolios are maintained in the UK Domestic Liquidity Sub-Group (UKDoLSub) (primarily in NatWest Bank Plc), NatWest Markets Plc, RBS International Limited, NWM N.V and NatWest Bank Europe GmbH. Some disclosures in this section where relevant are presented, on a consolidated basis, for NatWest Group and the UK DoLSub.

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.

Capital, liquidity and funding risk continued

Funding

NatWest Group maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance taking into account regulatory metrics (Net Stable Funding Ratio). The principal levels at which funding risk is managed are at NatWest Group, NatWest Holdings Group, UK DoLSub, NatWest Markets Plc, RBS International Limited, NWM N.V. and NatWest Bank Europe GmbH. NatWest Group also retains access to central bank funding facilities.

For further details on capital constituents and the regulatory framework covering capital, liquidity and funding requirements, refer to the 2023 NatWest Group Pillar 3 Report.

Capital risk management

Capital management ensures that there is sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining its credit rating and supporting its strategic goals.

Capital management is critical in supporting the businesses and is enacted through an end-to-end framework across businesses and legal entities. Capital is managed within the organisation at the following levels; NatWest Group consolidated, NWH Group sub consolidated, NatWest Markets Plc, NatWest Markets N.V. and RBS International Limited. The banking subsidiaries within NWH Group are governed by the same principles, processes and management as NatWest Group. Note that although the aforementioned entities are regulated in line with Basel III principles, local implementation of the framework differs across geographies.

Capital planning is integrated into NatWest Group's wider annual budgeting process and is assessed and updated at least monthly. Regular returns are submitted to the PRA which include a two-year rolling forecast view. Other elements of capital management, including risk appetite and stress testing, are set out on pages 175 to 177.

Produce capital plans

Capital plans are produced for NatWest Group, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes.

Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.

Assess capital adequacy

Capital plans are developed to maintain capital of sufficient quantity and quality to support NatWest Group's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements.

Capital resources and capital requirements are assessed across a defined planning horizon.

Impact assessment captures input from across NatWest Group including from businesses.

Inform capital actions

Capital planning informs potential capital actions including buy backs, redemptions, dividends and new issuance to external investors or via internal transactions.

Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions.

As part of capital planning, NatWest Group will monitor its portfolio of external capital securities and assess the optimal blend and most cost effective means of financing.

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

Liquidity risk management

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

- NatWest Group
- NatWest Holdings Group
- UK DoLSub
- NatWest Markets Plc
- NatWest Markets Securities Inc.
- RBS International Limited
- NWM N.V.
- NatWest Bank Europe GmbH

The UK DoLSub is PRA regulated and comprises NatWest Group's three licensed deposit-taking UK banks: National Westminster Bank Plc (NWB Plc), The Royal Bank of Scotland plc (RBS plc) and Coutts & Company.

NatWest Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets. The size of the liquidity portfolios are determined by referencing NatWest Group's liquidity risk appetite. NatWest Group retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

RBS International Limited and NWM N.V. hold locally managed portfolios that comply with local regulations that may differ from PRA rules.

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

Capital, liquidity and funding risk continued

Funding risk management

NatWest Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet including quantitative and qualitative analysis of the behavioural aspects of its assets and liabilities as well as the funding concentration.

Prudential regulation changes that may impact capital requirements

NatWest Group faces numerous changes in prudential regulation that may impact the minimum amount of capital it must hold and consequently may increase funding costs and reduce return on equity.

Regulatory changes are actively monitored by NatWest Group, including engagement with industry associations and regulators and participation in quantitative impact studies. Monitoring the changing regulatory landscape forms a fundamental part of capital planning and management of its business. NatWest Group believes that its strategy to focus on simpler, lower risk activities within a more resilient recovery and resolution framework will enable it to manage the impact of these.

UK and EU implementation of Basel framework

The Basel framework is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision (BCBS). The Basel III standards are minimum requirements which apply to internationally active banks, which ensure a global level playing field on financial regulation. Individual jurisdictions must decide how to implement the standards.

From 1 January 2021, NatWest Group has been regulated under the on-shored CRR and associated on-shored binding technical standards which were created by the European Union (Withdrawal) Act 2018 and amending statutory instruments. As the Withdrawal Act applied to the CRR in place as of 31 December 2020, changes to the CRR in the EU are not reflected in the UK CRR unless separately legislated and amended by statutory instruments. Going forward, the Financial Services Bill gives the PRA the power to write prudential rules directly into the PRA rulebook and it will co-ordinate with HM Treasury to implement any required changes to the UK CRR.

On 1 January 2022, PRA implemented changes to the UK CRR to align to the Basel III standards which included the introduction of a new standardised approach for counterparty credit risk (SA-CCR), amendments to the LCR and NSFR rules as well as new regulation applicable to internal ratings (IRB) models. Changes were also introduced to the UK Leverage Ratio framework. Equivalent reforms were implemented in the EU in June 2021, known as CRR2.

On 30 November 2022, the PRA published its consultation paper CP16/22 setting out its proposed rules and expectations with respect to the remaining Basel III standards to be implemented in the UK, also referred to as “Basel 3.1 standards”. This will complete the implementation of post-global financial crisis prudential reforms, which were designed to i) increase the quantity of capital in the system, per unit of risk; ii) increase the quality of capital held by firms; and iii) improve the accuracy of risk-management firms, reducing the variability of risk-weighted assets (RWAs).

The Basel 3.1 changes mainly impact capital requirements for STD and IRB Credit Risk, Market Risk, Credit Valuation Adjustment (CVA), Counterparty Credit Risk (CCR) and Operational Risk. An aggregate “output floor” is also being introduced to ensure that total RWAs for firms using advanced or internally modelled methods and subject to the floor cannot fall below 72.5% of RWAs under the standardised approach. The proposal does not include further changes to the Leverage Ratio, Large Exposures and Liquidity Risk frameworks.

The consultation paper has been followed up with the publication of the PRA’s policy statement PS17/23 Implementation of the Basel 3.1 standards near-final part 1. This contains the near final rules on Market Risk, CVA, CCR and Operational Risk sections, along with some Pillar 2 guidance relating to these topics. Part 2, containing rules on the remaining Basel 3.1 changes, is expected to be published in Q2 2024.

The PRA rules are expected to be implemented from 1 July 2025.

Equivalent changes relating to the Basel 3.1 standards will be implemented in EU by CRR3 and CRD6 for which the European Commission issued a proposal in October 2021, with the near final rules published December 2023. The EU implementation date is expected to be 1 January 2025. Their impact will be limited to NatWest Group’s EU subsidiaries.

Other developments in 2023

On 13 November 2023, the PRA published PS14/13 which formally phased out the CET1 capital deduction for NPEs (Non- Performing Exposures). The requirement was originally introduced in EU CRR and adopted in the UK; however, the PRA considered that it would not be appropriate in a UK context to apply the NPE deduction requirement going forward. Capital disclosures as of 31 December 2023 reflect the benefit because of the reversal of this deduction.

On 20 November 2023, the PRA announced its 2023 list of O-SIIs (Other Systemically Important Institutions) as well as the 2023 O-SII buffers for ring-fenced banks (RFBs). The PRA is required to identify O-SIIs on an annual basis. NatWest Group Plc is part of the PRA’s O-SII list and the O-SII buffer for its ring-fenced sub-group (i.e. NatWest Holdings Group) was kept at 1.5%. The 2023 O-SII rates will apply from 1 January 2025. An O-SII buffer can apply to O-SIIs, or parts of an O-SII that are ring-fenced banks.

NatWest Group, as a third-country group with two or more subsidiary banking institutions in the EU, was approved by the European Central Bank (ECB) to establish a dual IPU (Intermediate Parent Undertaking) structure on behalf of its European subsidiaries. As a result, NatWest Bank Europe GmbH, a wholly owned subsidiary of NatWest Holdings Group, will act as the ring-fenced IPU. RBS Holdings N.V., a wholly owned subsidiary of NatWest Markets Plc, will act as the non-ring fenced IPU. Both IPUs became subject to ECB supervision from 1 January 2024.

Capital, liquidity and funding risk continued

Summary of future changes to prudential regulation in UK that may impact NatWest Group

The table below covers expected future changes to prudential regulation in the UK which may impact NatWest Group at a consolidated level. Certain entities within the group will be exposed to changes in prudential regulation from other legislative bodies and/or local supervisory authorities where NatWest Group's entities are authorised (e.g. EU and Jersey) on a solo basis and these changes may be different in substance, scope and timing than those highlighted below.

Area of development	Key changes	Source of changes/implementation date
IFRS 9 transitional relief In respect to ECL provisions	– IFRS 9 CET1 add-back phased out in period to 31 December 2024 – The transitional factor will reduce further from 50% to 25% from January 2024	– Implementation: 1 January 2024
Capital – Output floor	– Level of application: Applies at highest level of application: Consolidated level for UK Groups; sub-consolidated level for Ring Fenced sub-groups. – Capital stack: Applies to full capital stack including capital buffers. – Transitional period for the application; starting with 50% at 1 July 2025 through to 72.5% at 1 January 2030.	– PRA Basel 3.1 CP16/22 – Implementation: 1 July 2025
Credit risk (STD, IRB, FIRB)	– Significant revisions to standardised credit risk, including to unrated corporates, SMEs, specialised lending, mortgages & equity exposures. – Changes to IRB; restrictions on IRB modelling (switch to standardised on central governments and equities, switch to FIRB on financial institutions and large corporates), inclusion of input floors and other modelling changes. – Removal of SME & Infrastructure supporting factors (IRB & standardised). – Amendments to credit risk mitigation, including the withdrawal of some internal modelling approaches, the removal of double default and a new risk weight substitution approach on some exposures.	– PRA Basel 3.1 CP16/22 – Implementation: 1 July 2025
Market risk	– Implementation of FRTB - new standardised & modelled approaches (Expected Shortfall replaces VaR), revised banking/trading book boundary. – Model approval applications are required to be provided during 2024 for standardised MR & CVA.	– PRA Basel 3.1 CP16/22 – Near final rules published in PRA PS17/23 – Implementation: 1 July 2025
CVA & counterparty credit risk	– Removal of modelled approach. – New standardised approach, aligned to Basel framework, including the removal of CVA exemptions on sovereigns, non-financial counterparties and pension funds. – Reduced SA-CCR alpha factor from 1.4 to 1 for non-financial counterparties and pension funds.	– PRA Basel 3.1 CP16/22 – Near final rules published in PRA PS17/23 – Implementation: 1 July 2025
Operational risk	– New standardised approach – Internal loss multiplier (ILM) set to 1. – Changes to the income requirements in scope of the business indicator.	– PRA Basel 3.1 CP16/22 – Near final rules published in PRA PS17/23 – Implementation: 1 July 2025
Pillar 2	– PRA commitment to review Pillar 2A methodologies in 2024, to adjust requirements ahead of implementation of the Pillar 1	– PRA Basel 3.1 CP16/22 – Implementation: 1 July 2025
Capitalisation of foreign exchange positions for market risk	– PRA proposal to clarify that items held at historical foreign exchange rates, which only re-value in certain circumstances, are not included in Pillar 1 foreign exchange risk requirements as their sensitivity to foreign exchange rates is generally zero.	– PRA consultation under CP17/23 closes on 31 January 2023 – Implementation: 1 July 2025
Identification and management of step-in risk, shadow banking entities and groups of connected clients	– PRA proposal to implement Basel guidelines for step-in risk in the PRA Rulebook. – PRA proposal to adopt EBA guidelines for limits on exposures to shadow banking entities and connected clients in the Large Exposures (CRR) part of the PRA Rulebook.	– PRA consultation under CP23/23 closes on 5 March 2024 – Implementation: 1 January 2026

Capital, liquidity and funding risk continued

Key points

CET1 ratio

13.4%

(2022 – 14.2%)

The CET1 ratio decreased 80 basis points due to a £6.9 billion increase in RWAs and a £0.6 billion decrease in CET1. The CET1 capital decrease was mainly driven by

- distributions to shareholders of £3.6 billion (210 basis points); consisting of directed buyback of £1.3 billion; an ordinary interim dividend of £0.5 billion; a foreseeable final ordinary dividend of £1.0 billion; and a £0.8 billion decrease for the on-market ordinary share buyback programme, of which £0.5 billion is reported as a foreseeable charge;
- a £0.2 billion decrease in the IFRS 9 transitional adjustment, primarily due to the annual update in the dynamic stage transition percentage and the end of transition on the static and historic stages;
- an increase in the intangible assets deduction of £0.5 billion;
- and other movements on reserves and regulatory adjustments of £0.7 billion.

These reductions were partially offset by the £4.4 billion attributable profit in the period.

MREL

£55.8bn

(2022 - £55.5bn)

Minimum Requirements of own Funds and eligible Liabilities increased by £0.3 billion to £55.8 billion primarily due to a £0.6 billion decrease in CET1, a £0.1 billion decrease in MREL eligible Tier 2 capital and a £1.0 billion increase in senior unsecured debt. The £0.1 billion decrease in eligible Tier 2 capital is driven by redemptions and foreign exchange movements offset by the issuance of €0.7 billion subordinated debt in the period and other regulatory adjustments. The £1.0 billion increase in senior unsecured debt is driven by new issuances offset by redemptions and foreign exchange movements.

RWAs

£183.0bn

(2022 - £176.1bn)

Total RWAs increased by £6.9 billion to £183.0 billion mainly reflecting:

- an increase in credit risk RWAs of £5.6 billion, driven by an increase in IRB Temporary Model Adjustment related to mortgages within Retail Banking as well as increased exposures within Commercial & Institutional and Retail Banking. This was partially offset by reduced exposures within Ulster Bank RoI as a result of the phased withdrawal from the Republic of Ireland.
- an increase in counterparty credit risk RWAs of £1.1 billion, primarily due to the call of a credit default swap trade in Q2 2023 and the subsequent removal of credit risk mitigation.
- an increase in operational risk RWAs of £1.1 billion following the annual recalculation.
- a reduction in market risk RWAs of £0.9 billion, driven by reduced market volatility in H1 and hedging activity as part of ongoing risk management in Q4 2023.

UK leverage ratio

5.0%

(2022 – 5.4%)

The leverage ratio decreased by 40 basis points to 5.0%. The decrease was due to a £0.6 billion reduction in Tier 1 capital and a £28.2 billion increase in leverage exposure. The key driver in the leverage exposure was an increase in other financial assets partially offset by a reduction in held for sale assets.

Liquidity portfolio

£222.8bn

(2022 - £232.6bn)

The portfolio decreased by £9.8 billion to £222.8 billion, with primary liquidity decreasing by £20.6 billion to £148.1 billion. The decrease in primary liquidity is driven by increased lending and reduced deposits, offset by UBIDAC asset sale and increased certificates of deposit and commercial paper issuance. The growth in secondary liquidity is due to an increase in the pre-positioned collateral at the Bank of England.

LCR

144%

(2022 – 145%)

The Liquidity Coverage Ratio (LCR) decreased to 144% during the year driven by growth in customer lending and reduced customer deposits offset by an increase in wholesale funding and UBIDAC asset sale.

NSFR

133%

(2022 – 145%)

The net stable funding ratio (NSFR) decreased 12% during the year to 133% driven by reduced customer deposits and increased lending.

Capital, liquidity and funding risk continued

Minimum requirements

Maximum Distributable Amount (MDA) and Minimum Capital Requirements

NatWest Group is subject to minimum capital requirements relative to RWAs. The table below summarises the minimum capital requirements (the sum of Pillar 1 and Pillar 2A), and the additional capital buffers which are held in excess of the regulatory minimum requirements and are usable in stress.

Where the CET1 ratio falls below the sum of the minimum capital and the combined buffer requirement, there is a subsequent automatic restriction on the amount available to service discretionary payments (including AT1 coupons), known as the MDA. Note that different capital requirements apply to individual legal entities or sub-groups and the table shown does not reflect any incremental PRA buffer requirements, which are not disclosable.

The current capital position provides significant headroom above both our minimum requirements and our MDA threshold requirements.

Type	CET1	Total Tier 1	Total capital
Pillar 1 requirements	4.5%	6.0%	8.0%
Pillar 2A requirements	1.8%	2.4%	3.2%
Minimum Capital Requirements	6.3%	8.4%	11.2%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	1.7%	1.7%	1.7%
MDA threshold (2)	10.5%	n/a	n/a
Overall capital requirement	10.5%	12.6%	15.4%
Capital ratios at 31 December 2023	13.4%	15.5%	18.4%
Headroom (3) (4)	2.9%	2.9%	3.0%

(1) 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.
(2) Pillar 2A requirements for NatWest Group are set as a variable amount with the exception of some fixed add-ons.
(3) The headroom does not reflect excess distributable capital and may vary over time.
(4) Headroom as at 31 December 2022 was CET1 4.7%, Total Tier 1 4.8% and Total Capital 5.0%.

Leverage ratios

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

Type	CET1	Total Tier 1
Minimum ratio	2.44%	3.25%
Countercyclical leverage ratio buffer (1)	0.6%	0.6%
Total	3.04%	3.85%

(1) The countercyclical leverage ratio buffer is set at 35% of NatWest Group'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 and funding ratios

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

Type	
Liquidity Coverage Ratio (LCR)	100%
Net Stable Funding Ratio (NSFR)	100%

Capital, liquidity and funding risk continued

Measurement

Capital, risk-weighted assets and leverage: Key metrics

The table below sets out the key capital and leverage ratios. NatWest Group is subject to the requirements set out in the PRA Rulebook. The capital and leverage ratios are therefore being presented under these frameworks on a transitional basis.

	2023	2022
Capital adequacy ratios (1)	**%**	%
CET1	**13.4**	14.2
Tier 1	**15.5**	16.4
Total	**18.4**	19.3
RWAs	**£m**	£m
Credit risk	**147,598**	141,963
Counterparty credit risk	**7,830**	6,723
Market risk	**7,363**	8,300
Operational risk	**20,198**	19,115
Total RWAs	**182,989**	176,101
Capital	**£m**	£m
CET1	**24,440**	24,992
Tier1	**28,315**	28,867
Total	**33,632**	33,920
Leverage ratios	**£m**	£m
Tier 1 capital	**28,315**	28,867
UK leverage exposure	**562,843**	534,613
UK leverage ratio (%) (2)	**5.0%**	5.4%
UK average Tier 1 capital (3)	**28,323**	29,564
UK average leverage exposure (3)	**571,225**	531,429
UK average leverage ratio (%) (3)	**5.0%**	5.6%

(1) 31 December 2023 includes the transitional arrangements for the capital impact of IFRS 9 expected credit loss (ECL) accounting and prior periods also include the transitional relief on grandfathered capital instruments. The impact of the IFRS 9 transitional adjustments at 31 December 2023 was £0.2 billion for CET1 capital, £54 million for total capital and £17 million RWAs (31 December 2022 - £0.4 billion CET1 capital, £36 million total capital and £71 million RWAs). Excluding these adjustments, the CET1 ratio would be 13.2% (31 December 2022 - 14.0%). The transitional relief on grandfathered instruments at 31 December 2023 was nil (31 December 2022 - £0.1 billion). Excluding both the transitional relief on grandfathered capital instruments and the transitional arrangements for the capital impact of IFRS 9 expected credit loss (ECL) accounting, the end-point Tier 1 capital ratio would be 15.4% (31 December 2022 – 16.2%) and the end-point Total capital ratio would be 18.4% (31 December 2022 – 19.3%).

(2) The UK leverage exposure and transitional Tier 1 capital are calculated in accordance with current PRA rules. Excluding the IFRS 9 transitional adjustment, the UK leverage ratio would be 5.0% (31 December 2022 – 5.3%).

(3) Based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items and Tier 1 capital.

Capital flow statement

The table below analyses the movement in CET1, AT1 and Tier 2 capital for the year ended 31 December 2023. It is being presented on a transitional basis based on current PRA rules.

	CET1 £m	AT1 £m	Tier 2 £m	Total £m
At 31 December 2022	**24,992**	**3,875**	**5,053**	**33,920**
Attributable profit for the period	**4,394**			**4,394**
Ordinary interim dividend paid	**(491)**			**(491)**
Directed buyback	**(1,259)**			**(1,259)**
Foreseeable ordinary dividends	**(1,013)**			**(1,013)**
Foreseeable charges	**(870)**			**(870)**
Foreign exchange reserve	**(637)**			**(637)**
FVOCI reserve	**53**			**53**
Own credit	**48**			**48**
Share capital and reserve movements in respect of employee share schemes	**93**			**93**
Goodwill and intangibles deduction	**(498)**			**(498)**
Deferred tax assets	**(67)**			**(67)**
Prudential valuation adjustments	**(4)**			**(4)**
Net dated subordinated debt instruments			**269**	**269**
Foreign exchange movements			**(115)**	**(115)**
Adjustment under IFRS 9 transitional arrangements	**(159)**			**(159)**
Other movements	**(142)**		**110**	**(32)**
At 31 December 2023	**24,440**	**3,875**	**5,317**	**33,632**

- For CET1 movements refer to the key points on page 247.
- Tier 2 movements of £0.2 billion include an increase of £0.6 billion for a €0.7 billion 5.763% Fixed to Fixed Reset Tier 2 Notes 2034 issued in February 2023, partially offset by the £0.1 billion redemption of the UBIDAC subordinated notes, £0.1 billion partial redemption of 5.125% Subordinated Tier 2 Notes 2024, £0.1 billion redemption of 6.000% Subordinated Tier 2 Notes 2023, amortisation, foreign exchange movements £0.1 billion and maturities with minimum regulatory value.
- Within Tier 2, there was also a £0.1 billion increase in the Tier 2 surplus provisions.

Capital, liquidity and funding risk continued

Risk-weighted assets

The table below analyses the movement in RWAs during the year, by key drivers.

	Credit risk £bn	Counterparty credit risk £bn	Market risk £bn	Operational risk £bn	Total £bn
At 31 December 2022	142.0	6.7	8.3	19.1	176.1
Foreign exchange movement	(0.9)	-	-	-	(0.9)
Business movement	8.4	0.2	(0.9)	1.1	8.8
Risk parameter changes	(1.9)	-	-	-	(1.9)
Model updates	3.0	-	-	-	3.0
Other movement	-	0.9	-	-	0.9
Acquisitions and disposals	(3.0)	-	-	-	(3.0)
At 31 December 2023	147.6	7.8	7.4	20.2	183.0

The table below analyses the movement in RWAs by segment during the year.

Total RWAs	Retail Banking £bn	Private Banking £bn	Commercial & Institutional £bn	Central items & other (1) £bn	Total NatWest Group £bn
At 31 December 2022	54.7	11.2	103.2	7.0	176.1
Foreign exchange movement	-	-	(0.8)	(0.1)	(0.9)
Business movement	3.6	-	6.3	(1.1)	8.8
Risk parameter changes	-	-	(1.9)	-	(1.9)
Model updates	3.3	-	(0.3)	-	3.0
Other movement	-	-	0.9	-	0.9
Acquisitions and disposals	-	-	-	(3.0)	(3.0)
At 31 December 2023	61.6	11.2	107.4	2.8	183.0
Credit risk	53.9	9.8	81.9	2.0	147.6
Counterparty credit risk	0.3	-	7.5	-	7.8
Market risk	0.2	-	7.2	-	7.4
Operational risk	7.2	1.4	10.8	0.8	20.2
Total RWAs	61.6	11.2	107.4	2.8	183.0

(1) £1.4 billion of Central items & other relates to Ulster RoI.

Total RWAs increased by £6.9 billion during the period mainly reflecting:

- Business movements totalling £8.8 billion, primarily driven by increased credit risk exposures within Commercial & Institutional and Retail Banking. There is an additional increase following the annual recalculation of operational risk RWAs. This was partially offset by a reduction in market risk RWAs reflecting reduced market volatility and tighter risk management in Q4 2023.
- Model updates totalling £3.0 billion, driven by IRB Temporary Model Adjustment related to mortgages within Retail Banking with a partial offset within Commercial & Institutional.
- Other changes of £0.9 billion, driven by the termination of portfolio credit default swap resulting in removal of the CRM benefit.
- Disposals relating to the phased withdrawal from the Republic of Ireland, reducing RWAs by £3.0 billion.
- Risk parameters reflecting changes in regulatory treatment for certain structured transactions, reducing RWAs by £1.9 billion.

Capital, liquidity and funding risk continued

Leverage exposure

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

	31 December 2023 £m	31 December 2022 £m
Cash and balances at central banks	**104,262**	144,832
Trading assets	**45,551**	45,577
Derivatives	**78,904**	99,545
Financial assets	**439,449**	404,374
Other assets	**23,605**	18,864
Assets of disposal groups	**902**	6,861
Total assets	**692,673**	720,053
Derivatives		
- netting and variation margin	**(79,299)**	(100,356)
- potential future exposures	**17,212**	18,327
Securities financing transactions gross up	**1,868**	4,147
Other off balance sheet items	**50,961**	46,144
Regulatory deductions and other adjustments	**(16,043)**	(7,114)
Claims on central banks	**(100,735)**	(141,144)
Exclusion of bounce back loans	**(3,794)**	(5,444)
UK leverage exposure	**562,843**	534,613
UK leverage ratio (%)	**5.0**	5.4

Liquidity key metrics

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

	2023		2022	
	NatWest Group	**UK DoLSub**	NatWest Group	UK DoLSub
Liquidity Coverage Ratio	**144%**	**138%**	145%	131%
Stressed Outflow Coverage (1)	**153%**	**143%**	150%	131%
Net Stable Funding Ratio	**133%**	**126%**	145%	137%

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

Capital, liquidity and funding risk continued

Minimum requirements of own funds and eligible liabilities (MREL)

The following table illustrates the components of estimated Minimum requirements of own funds and eligible liabilities (MREL) in NatWest Group and operating subsidiaries and includes external issuances only. The roll-off profile relating to senior debt and subordinated debt instruments is set out on page 254.

	2023				2022			
	Par value (1)	**Balance sheet value**	**Regulatory value**	**MREL value (3)**	Par value	Balance sheet value	Regulatory value (2)	MREL value
	£bn	**£bn**	**£bn**	**£bn**	£bn	£bn	£bn	£bn
CET1 capital (4)	**24.4**	**24.4**	**24.4**	**24.4**	25.0	25.0	25.0	25.0
Tier 1 capital: end-point CRR compliant AT1								
of which: NatWest Group plc (holdco)	**3.9**	**3.9**	**3.9**	**3.9**	3.9	3.9	3.9	3.9
of which: NatWest Group plc operating subsidiaries (opcos)	**-**	**-**	**-**	**-**	-	-	-	-
	3.9	**3.9**	**3.9**	**3.9**	3.9	3.9	3.9	3.9
Tier 1 capital: end-point CRR non-compliant (5)								
of which: holdco	**-**	**-**	**-**	**-**	-	-	-	-
of which: opcos	**0.1**	**0.1**	**-**	**-**	0.1	0.1	-	-
	0.1	**0.1**	**-**	**-**	0.1	0.1	-	-
Tier 2 capital: end-point CRR compliant								
of which: holdco	**5.6**	**5.3**	**5.2**	**5.2**	6.0	5.5	4.9	5.4
of which: opcos	**-**	**-**	**-**	**-**	0.1	0.1	-	-
	5.6	**5.3**	**5.2**	**5.2**	6.1	5.6	4.9	5.4
Tier 2 capital: end-point CRR non compliant (5)								
of which: holdco	**-**	**-**	**-**	**-**	-	-	-	-
of which: opcos	**0.2**	**0.3**	**-**	**-**	0.3	0.5	0.1	-
	0.2	**0.3**	**-**	**-**	0.3	0.5	0.1	-
Senior unsecured debt securities								
of which: holdco	**22.2**	**21.7**	**-**	**22.2**	23.4	22.3	-	21.2
of which: opcos	**33.4**	**29.9**	**-**	**-**	26.1	22.9	-	—
	55.6	**51.6**	**-**	**22.2**	49.5	45.2	-	21.2
Tier 2 capital								
Other regulatory adjustments	**-**	**-**	**0.1**	**0.1**	-	-	-	-
Total	**89.8**	**85.6**	**33.6**	**55.8**	84.9	80.3	33.9	55.5
RWAs				**183.0**				176.1
UK leverage exposure				**562.9**				534.6
MREL as a ratio of RWAs				**30.5%**				31.5%
MREL as a ratio of UK leverage exposure				**9.9%**				10.4%

(1) Par value reflects the nominal value of securities issued.
(2) Regulatory amounts as at December 2022 reported for AT1, Tier 1, and Tier 2 instruments from operating companies incudes grandfathered instrument as per the transitional provisions allowed under CRR2 (until 28 June 2025). 3 Tier 2 instruments from UBIDAC were classified as grandfathered which were redeemed in November 2023.
(3) MREL value reflects NatWest Group's interpretation of the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), published in December 2021 (Updating June 2018). Liabilities excluded from MREL include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the MREL criteria. The MREL calculation includes Tier 1 and Tier 2 securities before the application of any regulatory caps or adjustments.
(4) Shareholders' equity was £37.2 billion (2022 - £36.5 billion).
(5) CRR2 non-compliant instruments- as at Dec 2022, all Tier 1 and Tier 2 instruments were grandfathered under CRR2 compliance (until 28 June 2025) were reported under Tier 1 capital: end-point CRR non-compliant and Tier 2 capital: end-point CRR non-compliant category. As at December 2023, we have no grandfathered instrument outstanding.

Capital, liquidity and funding risk continued

Minimum requirements of own funds and eligible liabilities (MREL) continued

The following table illustrates the components of the stock of outstanding issuance in NatWest Group and its operating subsidiaries including external and internal issuances.

		NatWest Group plc £bn	NatWest Holdings Limited £bn	NWB Plc £bn	RBS plc £bn	UBIDAC £bn	NWM Plc £bn	NatWest Markets N.V. £bn	NWM Securities Inc.(6) £bn	RBS International Limited (7) £bn
Additional Tier 1	Externally issued	3.9	-	0.1	-	-	-	-	-	-
Additional Tier 1	Internally issued	-	3.7	2.5	0.5	-	0.9	0.2	-	0.3
		3.9	3.7	2.6	0.5	-	0.9	0.2	-	0.3
Tier 2	Externally issued	5.3	-	-	-	-	-	0.3	-	-
Tier 2	Internally issued	-	4.7	3.6	0.4	-	1.0	0.1	0.3	-
		5.3	4.7	3.6	0.4	-	1.0	0.4	0.3	-
Senior unsecured	Externally issued	21.7	-	-	-	-	-	-	-	-
Senior unsecured	Internally issued	-	11.4	6.5	1.4	0.5	3.1	-	-	0.3
		21.7	11.4	6.5	1.4	0.5	3.1	-	-	0.3
Total outstanding issuance		30.9	19.8	12.7	2.3	0.5	5.0	0.6	0.3	0.6

(1) For AT1 & Tier 2, the balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity.
(2) Balance sheet amounts reported for AT1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.
(3) Internal issuance for NWB Plc, RBS plc and UBIDAC represents AT1, Tier 2 or Senior unsecured issuance to NatWest Holdings Limited and for NWM N.V. and NWM SI to NWM Plc.
(4) The balances are the IFRS balance sheet carrying amounts for Senior unsecured debt category and it does not include CP, CD and short term/medium notes issued from NatWest Group operating subsidiaries
(5) The above table does not include CET1 numbers.
(6) NWM Securities Inc - regulated under US broker dealer rules.
(7) RBS International limited - MREL resolution rules under consultation in Jersey.

Capital, liquidity and funding risk continued

Roll-off profile

The following table illustrates the roll-off profile and weighted average spreads of NatWest Group's major wholesale funding programmes.

	As at and for year	Roll-off profile					
Senior debt roll-off profile (1)	ended 31 December 2023	H1 2024	H2 2024	2025	2026	2027 & 2028	2029 & later
NatWest Group plc							
- amount (£m)	21,660	-	-	2,865	4,385	5,727	8,683
- weighted average rate spread (bps)	182	-	-	176	221	167	173
NWM Plc							
- amount (£m)	20,338	4,014	2,362	5,611	3,785	3,841	725
- weighted average rate spread (bps)	42	69	31	49	41	(7)	122
NatWest Bank Plc							
- amount (£m)	6,008	5,042	966	-	-	-	-
- weighted average rate spread (bps)	36	34	46	-	-	-	-
NWM N.V.							
- amount (£m)	2,193	948	959	65	77	-	144
- weighted average rate spread (bps)	(69)	(115)	(62)	(49)	106	-	94
Covered bonds							
- amount (£m)	2,122	2,122	-	-	-	-	-
- weighted average rate spread (bps)	158	158	-	-	-	-	-
Total notes issued - amount (£m)	52,321	12,126	4,287	8,541	8,247	9,568	9,552
Weighted average rate spread (bps)	99	55	14	91	137	99	168
Subordinated debt instruments roll-off profile (2)							
NatWest Group plc (£m)	5,318	417	574	957	919	1,909	542
NWM Plc (£m)	20	-	-	-	18	-	2
NWM N.V. (£m)	255	-	-	-	-	-	255
Total (£m)	5,593	417	574	957	937	1,909	799

(1) Based on final contractual instrument maturity.
(2) Based on first call date of instrument, however this does not indicate NatWest Group's strategy on capital and funding management. The table above does not include debt accounted Tier 1 instruments although those instruments form part of the total subordinated debt balance.
(3) The weighted average spread reflects the average net funding cost to NatWest Group and is calculated on an indicative basis and are quoted over term SONIA at the time of issuance.
(4) The roll-off table is based on sterling-equivalent balance sheet values.

Capital, liquidity and funding risk continued

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 (7)		
	NatWest Group (1) £m	NWH Group (2) £m	UK DoL Sub £m	NatWest Group £m	NWH Group £m	UK DoL Sub £m
Cash and balances at central banks	99,855	68,495	67,954	142,011	108,047	104,606
High quality government/MDB/PSE and GSE bonds (4)	36,250	26,510	26,510	22,141	11,921	11,714
Extremely high quality covered bonds	4,164	4,164	4,164	2,093	2,092	1,812
LCR level 1 Eligible Assets	140,269	99,169	98,628	166,245	122,060	118,132
LCR level 2 Eligible Assets (5)	7,796	7,320	7,320	2,401	2,072	2,032
Primary liquidity (HQLA) (6)	148,065	106,489	105,948	168,646	124,132	120,164
Secondary liquidity	74,722	74,683	74,683	63,917	63,849	63,849
Total liquidity value	222,787	181,172	180,631	232,563	187,981	184,013

(1) NatWest Group includes the UK Domestic Liquidity Sub-Group (NWB Plc, RBS plc and Coutts & Co) NatWest Markets Plc and other significant operating subsidiaries that hold liquidity portfolios. These include The Royal Bank of Scotland International Limited and NWM N.V. who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(2) NWH Group comprises UK DoLSub and NatWest Bank Europe GmbH who hold managed portfolios that comply with local regulations that may differ from PRA rules.
(3) NatWest Markets Plc liquidity portfolio is reported in the NatWest Markets Plc Annual Report and Accounts.
(4) Multilateral development bank abbreviated to MDB, public sector entities abbreviated to PSE and government sponsored entities abbreviated to GSE.
(5) Includes Level 2A and Level 2B.
(6) High-quality liquid assets abbreviated to HQLA.
(7) Comparative periods have been re-presented on an LCR basis in line with the Liquidity portfolio definition as of 31 December 2023

Capital, liquidity and funding risk continued

Funding sources (audited)

The table below shows the carrying values of the principal funding sources based on contractual maturity. Balance sheet captions include balances held at all classifications under IFRS 9.

	2023			2022		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Bank Deposits						
Repos	3,118	-	3,118	1,446	-	1,446
Other bank deposits (1)	5,836	13,236	19,072	6,353	12,642	18,995
	8,954	13,236	22,190	7,799	12,642	20,441
Customer Deposits						
Repos	10,844	-	10,844	9,575	254	9,829
Non-bank financial institutions	46,875	13	46,888	50,226	9	50,235
Personal	216,456	6,436	222,892	224,706	1,209	225,915
Corporate	150,718	35	150,753	164,314	25	164,339
	424,893	6,484	431,377	448,821	1,497	450,318
Trading liabilities (2)						
Repos (3)	26,634	268	26,902	23,740	-	23,740
Derivatives collateral	15,075	-	15,075	17,680	-	17,680
Other bank and customer deposits	768	382	1,150	413	654	1,067
Debt securities in issue - Medium term notes	418	288	706	54	743	797
	42,895	938	43,833	41,887	1,397	43,284
Other financial liabilities						
Customer deposits	194	1,086	1,280	253	797	1,050
Debt securities in issue:						
Commercial paper and certificates of deposit	11,116	205	11,321	5,587	85	5,672
Medium term notes	6,878	32,625	39,503	6,934	31,750	38,684
Covered bonds	2,122	-	2,122	804	2,038	2,842
Securitisation	-	863	863	-	859	859
	20,310	34,779	55,089	13,578	35,529	49,107
Subordinated liabilities	1,047	4,667	5,714	974	5,286	6,260
Total funding	498,099	60,104	558,203	513,059	56,351	569,410
Of which: available in resolution (4)	-	-	*26,561*	-	-	*24,899*

(1) Includes £12.0 billion (2022 – £12.0 billion) relating to Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises participation.
(2) Excludes short positions of £9.8 billion (2022 – £9.5 billion).
(3) Comprises central & other bank repos of £4.0 billion (2022 – £1.6 billion), other financial institution repos of £20.4 billion (2022 – £19.4 billion) and other corporate repos of £2.5 billion (2022 – £2.7 billion).
(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 by the Bank of England in December 2021 (updating June 2018). The balance consists of £21.7 billion (2022 – £20.0 billion) under debt securities in issue (senior MREL) and £4.9 billion (2022 – £4.9 billion) under subordinated liabilities.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										
2023	Less than 1 months £m	1-3 months £m	3-6 months £m	6 months-1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Cash and balances at central banks	104,262	-	-	-	104,262	-	-	-	104,262	-	104,262
Trading assets	-	-	-	-	-	-	-	-	-	45,551	45,551
Derivatives	(1)	(4)	(5)	(4)	(14)	42	84	1	113	78,791	78,904
Settlement balances	7,231	-	-	-	7,231	-	-	-	7,231	-	7,231
Loans to banks - amortised cost	5,120	90	1,429	11	6,650	14	250	-	6,914	-	6,914
Loans to customers - amortised cost (1)	34,507	20,130	13,602	23,299	91,538	60,679	43,477	189,266	384,960	-	384,960
Personal	4,643	2,337	3,201	6,133	16,314	23,138	21,203	162,890	223,545	-	223,545
Corporate	19,226	4,551	4,569	7,787	36,133	28,661	20,020	24,679	109,493	-	109,493
Non-bank financial institutions	10,638	13,242	5,832	9,379	39,091	8,880	2,254	1,697	51,922	-	51,922
Other financial assets	2,278	1,835	2,669	2,920	9,702	10,929	10,815	18,948	50,394	708	51,102
Total financial assets	153,397	22,051	17,695	26,226	219,369	71,664	54,626	208,215	553,874	125,050	678,924
2022											
Total financial assets	187,577	18,259	16,461	25,223	247,520	68,679	50,450	187,808	554,457	145,766	700,223

(1) Loans to customers excludes £3.5 billion (2022 - £3.3 billion) of impairment provisions.

Capital, liquidity and funding risk continued

Contractual maturity (audited)

	Banking activities										
2023	Less than 1 months £m	1-3 months £m	3-6 months £m	6 months - 1 year £m	Subtotal £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m	Trading activities £m	Total £m
Bank deposits excluding repos	**4,822**	**217**	**527**	**270**	**5,836**	**5,036**	**8,200**	**-**	**19,072**	**-**	**19,072**
Bank repos	**2,649**	**469**	**-**	**-**	**3,118**	**-**	**-**	**-**	**3,118**	**-**	**3,118**
Customer repos	**8,287**	**32**	**2,029**	**496**	**10,844**	**-**	**-**	**-**	**10,844**	**-**	**10,844**
Customer deposits excluding repos	**364,492**	**20,485**	**13,501**	**15,571**	**414,049**	**6,456**	**9**	**19**	**420,533**	**-**	**420,533**
Personal	**193,523**	**4,574**	**6,163**	**12,196**	**216,456**	**6,433**	**3**	**-**	**222,892**	**-**	**222,892**
Corporate	**129,939**	**11,376**	**6,656**	**2,747**	**150,718**	**13**	**3**	**19**	**150,753**	**-**	**150,753**
Non-bank financial institutions	**41,030**	**4,535**	**682**	**628**	**46,875**	**10**	**3**	**-**	**46,888**	**-**	**46,888**
Settlement balances	**6,645**	**-**	**-**	**-**	**6,645**	**-**	**-**	**-**	**6,645**	**-**	**6,645**
Trading liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53,636**	**53,636**
Derivatives	**14**	**14**	**23**	**63**	**114**	**125**	**20**	**10**	**269**	**72,126**	**72,395**
Other financial liabilities	**2,797**	**5,918**	**6,379**	**5,216**	**20,310**	**17,496**	**12,590**	**4,693**	**55,089**	**-**	**55,089**
CPs and CDs	**1,673**	**3,222**	**3,860**	**2,361**	**11,116**	**205**	**-**	**-**	**11,321**	**-**	**11,321**
Medium term notes	**50**	**2,674**	**1,416**	**2,738**	**6,878**	**16,188**	**11,953**	**4,484**	**39,503**	**-**	**39,503**
Covered bonds	**1,047**	**-**	**1,075**	**-**	**2,122**	**-**	**-**	**-**	**2,122**	**-**	**2,122**
Securitisations	**-**	**-**	**-**	**-**	**-**	**297**	**377**	**189**	**863**	**-**	**863**
Customer deposits DFV	**27**	**22**	**28**	**117**	**194**	**806**	**260**	**20**	**1,280**	**-**	**1,280**
Subordinated liabilities	**-**	**43**	**431**	**573**	**1,047**	**1,877**	**1,874**	**916**	**5,714**	**-**	**5,714**
Notes in circulation	**3,237**	**-**	**-**	**-**	**3,237**	**-**	**-**	**-**	**3,237**	**-**	**3,237**
Lease liabilities	**14**	**17**	**24**	**47**	**102**	**156**	**94**	**318**	**670**	**-**	**670**
Total financial liabilities	**392,957**	**27,195**	**22,914**	**22,236**	**465,302**	**31,146**	**22,787**	**5,956**	**525,191**	**125,762**	**650,953**
2022											
Total financial liabilities	436,251	19,253	12,620	8,483	476,607	26,194	20,782	9,023	532,606	146,723	679,329

Capital, liquidity and funding risk continued

Senior notes and subordinated liabilities - residual maturity profile by instrument type (audited)

The table below shows NatWest Group's debt securities in issue and subordinated liabilities by residual maturity.

	Trading liabilities	Other financial liabilities						
		Debt securities in issue						
	Debt securities in issue MTNs	Commercial paper and CDs	MTNs	Covered bonds	Securitisation	Subordinated liabilities	Total	Total notes in issue
2023	£m	£m	£m	£m	£m	£m	£m	£m
Less than 1 year	**418**	**11,116**	**6,878**	**2,122**	**-**	**1,047**	**21,163**	**21,581**
1-3 years	**48**	**205**	**16,188**	**-**	**297**	**1,877**	**18,567**	**18,615**
3-5 years	**-**	**-**	**11,953**	**-**	**376**	**1,874**	**14,203**	**14,203**
More than 5 years	**240**	**-**	**4,484**	**-**	**190**	**916**	**5,590**	**5,830**
Total	**706**	**11,321**	**39,503**	**2,122**	**863**	**5,714**	**59,523**	**60,229**
2022								
Less than 1 year	54	5,587	6,934	804	-	974	14,299	14,353
1-3 years	475	73	15,161	2,038	296	2,195	19,763	20,238
3-5 years	35	12	9,989	-	375	1,458	11,834	11,869
More than 5 years	233	-	6,600	-	188	1,633	8,421	8,654
Total	797	5,672	38,684	2,842	859	6,260	54,317	55,114

The table below shows the currency breakdown.

	GBP	USD	EUR	Other	Total
2023	£m	£m	£m	£m	£m
Commercial paper and CDs	**4,599**	**3,015**	**3,707**	**-**	**11,321**
MTNs	**4,421**	**17,214**	**15,496**	**3,078**	**40,209**
Covered bonds	**1,047**	**-**	**1,075**	**-**	**2,122**
Securitisation	**863**	**-**	**-**	**-**	**863**
Subordinated liabilities	**2,675**	**1,551**	**1,488**	**-**	**5,714**
Total	**13,605**	**21,780**	**21,766**	**3,078**	**60,229**
2022					
	10,897	22,399	19,050	2,768	55,114

Capital, liquidity and funding risk continued

Funding gap: maturity and segment analysis

The contractual maturity of loans to customers and customer deposits are shown below. The table demonstrates the maturity transformation role being performed by NatWest Group of lending long-term whilst relying largely on short-term funding. This is possible as the behavioural profiles of many customer deposits, which tend to be repayable on demand, show longer maturity and greater stability than their contractual agreements.

NatWest Group forms expectations on customer behaviours through both qualitative and quantitative techniques, incorporating observed customer behaviours over historic time periods, which includes the more recent periods of interest rate change. Customer behaviour assumptions are approved by the Natwest Group Balance Sheet Committee and have been used to prepare the funding gap analysis, which reduces maturity mismatch across the periods shown.

	Contractual maturity												Behavioural maturity			
	Loans to customers (1)				Customer deposits				Net surplus/(gap)				Net surplus/(gap)			
2023	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn	Less than 1 year £bn	1-5 years £bn	Greater than 5 years £bn	Total £bn
Retail Banking	**12**	**41**	**152**	**205**	**182**	**6**	**-**	**188**	**170**	**(35)**	**(152)**	**(17)**	**(5)**	**(6)**	**(6)**	**(17)**
Private Banking	**3**	**6**	**9**	**18**	**38**	**-**	**-**	**38**	**35**	**(6)**	**(9)**	**20**	**16**	**6**	**(2)**	**20**
Commercial & Institutional	**51**	**58**	**28**	**137**	**199**	**1**	**-**	**200**	**148**	**(57)**	**(28)**	**63**	**15**	**50**	**(2)**	**63**
Central items & other	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**2**	**2**	**-**	**-**	**2**	**2**	**-**	**-**	**2**
Total	**66**	**105**	**189**	**360**	**421**	**7**	**-**	**428**	**355**	**(98)**	**(189)**	**68**	**28**	**50**	**(10)**	**68**
2022																
Total	73	103	180	356	450	2	-	452	377	(101)	(180)	96	12	74	10	96

(1) Loans to customers and customer deposits include trading assets and trading liabilities respectively and excludes reverse repos and repos.

- The net customer funding surplus has decreased by £28 billion during 2023 to £68 billion driven by a £24 billion decline in deposits and a £4 billion increase in loans to customers.
- During 2023 there was a change in the customer deposit mix with a shift from instant access and current account to term products, with additional prudence applied to customer account depositor behavioural assumptions.

Encumbrance (audited)

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

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

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

Capital, liquidity and funding risk continued

Balance sheet encumbrance

The table shows the retained encumbered assets of NatWest Group.

	Encumbered as a result of transactions with counterparties other than central banks					Unencumbered assets not pre-positioned with central banks				
2023	**Covered debts £bn**	**SFT, derivatives and other (1,2) £bn**	**Total £bn**	**Pre-positioned & encumbered assets held at central banks £bn**	**Collateral ring-fenced to meet regulatory requirement £bn**	**Readily available £bn**	**Other available (3) £bn**	**Cannot be used (4) £bn**	**Total £bn**	**Total (5) £bn**
Cash and balances at central banks	-	5.1	5.1	-	-	99.2	-	-	99.2	104.3
Trading assets	-	18.9	18.9	-	-	2.5	0.5	23.7	26.7	45.6
Derivatives								78.9	78.9	78.9
Settlement balances								7.2	7.2	7.2
Loans to banks - amortised cost	-	0.1	0.1	-	-	5.3	0.7	0.8	6.8	6.9
Loans to customers - amortised cost (6)	13.4	0.3	13.7	112.0	-	84.9	122.3	48.5	255.7	381.4
Other financial assets (7)	-	15.3	15.3	-	1.9	31.9	0.3	1.7	33.9	51.1
Intangible assets								7.6	7.6	7.6
Other assets	-	-	-	-	-	-	2.5	6.3	8.8	8.8
Assets of disposal groups (8)	-	-	-	-	-	-	-	0.9	0.9	0.9
Total assets	13.4	39.7	53.1	112.0	1.9	223.8	126.3	175.6	525.7	692.7
2022										
Total assets	11.5	33.8	45.3	99.9	1.8	260.1	127.1	185.8	573.0	720.0

(1) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
(2) Derivative cash collateral of £9.9 billion (2022 - £13 billion) has been included in the encumbered assets.
(3) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be pre-positioned with central banks but have not been subject to internal and external documentation review and diligence work.
(4) Cannot be used includes:
  a) Derivatives, reverse repurchase agreements and trading related settlement balances.
  b) Non-financial assets such as intangibles, prepayments and deferred tax.
  c) Loans that are not encumbered and cannot be pre-positioned with central banks on criteria set by the central banks, including those relating to date of origination and level of documentation.
  d) Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral.
(5) In accordance with market practice, NatWest Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.
(6) The pre-positioned and encumbered assets held at central banks of £112.0 billion includes the encumbered residential mortgages of £21.6 billion. £70.9 billion of residential UK mortgages are included in £84.9 billion readily available loans to customers.
(7) Other financial assets under SFT, derivatives and other include £0.5 billion of debt securities under the continuing control of NWB Plc. This follows the agreement between NWB Plc and the Group Pension Fund to establish a bankruptcy remote reservoir trust to hold these assets. Refer to Note 5 for additional information.
(8) The majority of UBIDAC assets are in contracted loan sale agreements as part of its phased withdrawal strategy and are unavailable for any alternative contingent liquidity arrangements. UBIDAC has in place a committed unsecured liquidity line from NatWest Bank to support the withdrawal.

Market risk

NatWest Group is exposed to non-traded market risk through its banking activities and to traded market risk through its trading activities. Non-traded and traded market risk exposures are managed and discussed separately. The non-traded market risk section begins below. The traded market risk section begins on page 269. Pension-related activities also give rise to market risk. Refer to page 274 for more information on risk related to pensions.

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, equity risk and accounting volatility risk. For detailed qualitative and quantitative information on each of these risk types, refer to the separate sub-sections following the VaR table below.

Key developments in 2023

- In the UK, the Bank of England base rate rose from 3.50% at 31 December 2022 to 5.25% at 31 December 2023 as inflation pressures persisted in the short term. However, the five-year sterling overnight index interest rate swap rate rose from 4.10% at 31 December 2022 to a peak of 5.37% in the third quarter of 2023, but fell back to 3.38% at 31 December 2023. The corresponding ten-year rate rose from 3.75% at 31 December 2022 to a peak of 4.68% in the third quarter of 2023, but fell back to 3.29% at 31 December 2023.
- Overall, non-traded market risk VaR increased in 2023, on both an average and period-end basis. This was driven by an increase in credit spread VaR, notably in the second half of the year, reflecting increased holdings of bonds in the liquidity portfolio. Interest rate VaR fell slightly in H2, driven by a reduction in the interest rate-sensitive position, particularly in sterling. By the end of 2023, credit spread risk had replaced interest rate risk as the main driver of non-traded market risk VaR.
- NatWest Group's structural hedge notional reduced to £207 billion at 31 December 2023 from £231 billion at 31 December 2022 mainly as a result of lower current account and instant access savings deposits. This also reflected the impact of changes in the deposit mix, whereby customers have moved balances into fixed-term savings accounts. Higher swap rates were reflected in a higher yield on the structural hedge, which rose from 0.98% in 2022 to 1.47% in 2023.
- The sensitivity of net interest earnings to a 25-basis-point upward shift in the yield curve was a cumulative £760 million over three years at 31 December 2023, compared to £893 million at 31 December 2022. The main contributors to the reduced sensitivity were lower volumes of managed margin deposits and current accounts, which included the migration to fixed-term savings accounts.
- 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. Net investments in foreign operations decreased by £1.8 billion in sterling equivalent terms over the year, mainly reflecting the UBIDAC wind-down. However, after hedging, residual structural foreign currency exposures were broadly stable, decreasing, in sterling equivalent terms, by £0.2 billion.

Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling market risk arising from non-trading activities lies with the relevant business. Oversight is provided by the independent Risk function.

Risk positions are reported regularly to the Executive Risk Committee, the Board Risk Committee, and the Board as well as to the Asset & Liability Management Committee. Non-traded market risk policy sets out the governance and risk management framework.

Risk appetite

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

Its quantitative appetite is expressed in terms of value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivity and stress limits, and earnings-at-risk limits.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that NatWest Group remains within its risk appetite, triggers have been set and are actively managed.

The 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. For further information on risk appetite and risk controls, refer to pages 175 and 176.

Market risk continued

Risk measurement

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

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

NatWest Group's VaR metrics are explained on page 271. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2023				2022			
	Average £m	**Maximum £m**	**Minimum £m**	**Period end £m**	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	**38.0**	**63.2**	**24.6**	**24.6**	30.4	60.7	7.6	37.7
Credit spread	**33.1**	**54.2**	**20.9**	**54.2**	36.3	86.6	19.9	20.3
Structural foreign exchange rate	**11.2**	**13.6**	**8.4**	**12.1**	8.9	11.3	6.1	11.3
Equity	**14.2**	**19.0**	**10.4**	**10.4**	18.1	22.2	13.7	14.7
Pipeline risk (1)	**3.3**	**7.1**	**1.4**	**7.1**	1.5	4.5	0.3	2.4
Diversification (2)	**(34.4)**			**(29.9)**	(36.9)			(34.9)
Total	**65.4**	**83.4**	**52.1**	**78.5**	58.3	91.2	45.5	51.5

(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.
(2) NatWest Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

- Overall, non-traded market risk VaR increased in 2023, on both an average and period-end basis. This was driven by an increase in credit spread VaR, notably in the second half of the year, reflecting increased holdings of bonds in the liquidity portfolio.
- Interest rate VaR fell slightly in H2, driven by a reduction in the interest-rate-sensitive position, particularly in sterling.
- By the end of 2023, credit spread risk had replaced interest rate risk as the main driver of non-traded market risk VaR.

Market risk continued

Interest rate risk

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

NTIRR comprises 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 NatWest Group or its customer can alter the level and timing of their cash flows. Option risk also includes pipeline risk.

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

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates. Structural hedging is explained in greater detail below, followed by information on how NatWest Group measures NTIRR from both an economic value-based and an earnings-based perspective.

Structural hedging

NatWest Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising current accounts and savings, in addition to its equity and reserves. A proportion of these balances are hedged, either by investing directly in longer-term fixed-rate assets (such as fixed-rate mortgages) or by using interest rate swaps, which are generally booked as cash flow hedges of floating-rate assets, in order to provide a consistent and predictable revenue stream.

After hedging the net interest rate exposure externally, NatWest Group allocates income to equity or products in structural hedges by reference to the relevant interest rate swap curve. Over time, this approach has provided a basis for stable income attribution for management purposes to products and interest rate returns. The programme aims to track a time series of medium-term swap rates, but the yield will be affected by changes in product volumes and NatWest Group's equity capital.

The table below shows hedge income, total yield, incremental income and the period-end and average notional balances allocated to equity and products in respect of the structural hedges managed by NatWest Group. Hedge income represents the fixed leg of the hedge, while incremental income represents the difference between hedge income and short-term cash rates. Both years are presented on a revised basis of preparation vs. the 2022 Annual Report and Accounts. UBIDAC is no longer included. In addition, the 'Other' category is no longer used: hedges booked in Coutts & Co. have now been allocated between product hedges and equity hedges, while hedges booked in RBS International have been allocated to product hedges.

	2023					2022				
	Incremental income (1) £m	Hedge income £m	Period end notional £bn	Average notional £bn	Total yield %	Incremental income (1) £m	Hedge income £m	Period end notional £bn	Average notional £bn	Total yield %
Equity	(611)	418	22	22	1.87	63	372	23	22	1.72
Product	(6,321)	2,822	185	199	1.42	(1,074)	1,780	208	197	0.90
Total	(6,932)	3,240	207	221	1.47	(1,011)	2,152	231	219	0.98

(1) Incremental income represents the difference between hedge income and an unhedged return that is based on short-term cash rates. For example, the sterling overnight index average (SONIA) is used to estimate incremental income from sterling structural hedges.

Equity structural hedges refer to income allocated primarily to equity and reserves. At 31 December 2023, the equity structural hedge notional was allocated between NWH Group and NWM Group in a ratio of approximately 78%/22% respectively.

Product structural hedges refer to income allocated to customer products by NWH Group Treasury, mainly current account and savings balances in Commercial & Institutional, Retail Banking and Private Banking.

At 31 December 2023, approximately 94% by notional of total structural hedges were sterling-denominated.

Market risk continued

- The structural hedge period-end notional fell, mainly due to lower volumes of current account and managed rate savings deposits. This also reflected the impact of changes in the deposit mix, whereby customers have moved balances into fixed-term savings accounts.
- The five-year sterling swap rate fell to 3.38% at 31 December 2023 from 4.10% at 31 December 2022. The ten-year sterling swap rate also fell, to 3.29% from 3.75%. The structural hedge yield rose to 1.47% in 2023 from 0.98% in 2022.
- Hedge income rose by £1,088 million to £3,240 million from £2,152 million. Despite the increase in hedge income, incremental income fell. This illustrates the relative stability of hedge income compared to an unhedged portfolio that would earn short-term cash rates. Compared to the 49-basis-point increase in the structural hedge total yield, SONIA increased 176 basis points to 5.19% at 31 December 2023 from 3.43% at 31 December 2022.

The following table presents the incremental income associated with product structural hedges at segment level.

	2023 £m	2022 £m
Retail Banking	**(2,644)**	(463)
Commercial & Institutional	**(3,213)**	(537)
Private Banking & Other	**(464)**	(74)
Total	**(6,321)**	(1,074)

NTIRR can be measured using value-based or earnings-based approaches. Value-based approaches measure the change in value of the balance sheet assets and liabilities including all cash flows. Earnings-based approaches measure the potential impact on the income statement of changes in interest rates over a defined horizon, generally one to three years.

NatWest Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

These two approaches provide complementary views of the impact of interest rate risk on the balance sheet at a point in time. The scenarios employed in the net interest earnings sensitivity approach may incorporate assumptions about how NatWest Group and its customers will respond to a change in the level of interest rates. In contrast, the VaR approach measures the sensitivity of the balance sheet at a point in time. Capturing all cash flows, VaR also highlights the impact of duration and repricing risks beyond the one-to-three-year period shown in earnings sensitivity calculations.

Value-at-risk

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

NatWest Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

The non-traded interest rate risk VaR metrics for NatWest Group's retail and commercial banking activities are included in the banking book VaR table presented earlier in this section. The VaR captures the risk resulting from mismatches in the repricing dates of assets and liabilities.

It also includes any mismatch between the maturity profile of external hedges and NatWest Group's target maturity profile for the hedge.

Sensitivity of net interest earnings

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

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings based on the 31 December 2023 balance sheet, which is assumed to remain constant. An earnings projection is derived from the market-implied curve, which is then subject to interest rate shocks. The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

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

Market risk continued

Three-year 25-basis-point sensitivity table

The table below shows the sensitivity of net interest earnings – for both structural hedges and managed rate accounts – on a one, two and three-year forward-looking basis to an upward or downward interest rate shift of 25 basis points.

In all scenarios, yield curves are assumed to move in parallel. For more information and assumptions relating to this and the following table, refer to the previous page.

	+25 basis points upward shift			-25 basis points downward shift		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
2023	£m	£m	£m	£m	£m	£m
Structural hedges	44	138	227	(44)	(138)	(227)
Managed margin	120	117	114	(125)	(121)	(105)
Total	164	255	341	(169)	(259)	(332)
2022						
Structural hedges	50	158	260	(50)	(158)	(260)
Managed margin	148	141	136	(170)	(140)	(129)
Total	198	299	396	(220)	(298)	(389)

(1) Earnings sensitivity considers only the main drivers, namely structural hedging and margin management.

– The overall reduction in the sensitivity of net interest income earnings in all scenarios mainly reflects lower managed rate deposit and current account volumes. This includes changes in the deposit mix, whereby customers have moved balances into fixed-term savings from managed-rate savings accounts.

One-year 25 and 100-basis-point sensitivity table

The following table presents the one-year sensitivity to upward and downward 25-basis-point and 100-basis-point shifts in the yield curve, analysed by currency.

	2023				2022			
	Shifts in yield curve				Shifts in yield curve			
	+25 basis points	-25 basis points	+100 basis points	-100 basis points	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m	£m	£m		£m
Euro	**7**	**(11)**	**38**	**(45)**	13	(12)	48	(50)
Sterling	**138**	**(139)**	**504**	**(577)**	172	(194)	698	(784)
US dollar	**14**	**(14)**	**54**	**(56)**	10	(11)	42	(53)
Other	**5**	**(5)**	**21**	**(22)**	3	(3)	13	(16)
Total	**164**	**(169)**	**617**	**(700)**	198	(220)	801	(903)

Market risk continued

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

NatWest Group holds most of the bonds in its liquidity portfolio at fair value and the bonds are generally classified as FVOCI for accounting purposes. Valuation changes arising from unexpected movements in market rates are initially recognised in FVOCI reserves.

Interest rate swaps are used to implement the structural hedging programme and also hedging of some personal and commercial lending portfolios, primarily fixed-rate mortgages. Generally, these swaps are booked in cash flow hedge accounting relationships. Changes in the valuation of swaps that are in effective cash flow hedge accounting relationships are recognised in cash flow hedge reserves.

The table below shows the sensitivity of bonds initially classified as FVOCI and swaps subject to cash flow hedge accounting to a parallel shift in all rates. Valuation changes affecting interest rate swaps that hedge bonds in the liquidity portfolio are also included. Where FVOCI bonds and swaps are booked in fair value hedge accounting relationships, the valuation change affecting both instruments would be recognised in the income statement. Cash flow hedges are assumed to be fully effective.

Note that the effectiveness of cash flow and fair value hedge relationships is monitored and regularly tested in accordance with IFRS requirements. Note also that valuation changes affecting the cash flow hedge reserve affect tangible net asset value, but would not be expected to affect CET1 capital.

	2023				2022			
	+25 basis points	-25 basis points	+100 basis points	-100 basis points	+25 basis points	-25 basis points	+100 basis points	-100 basis points
	£m	£m	£m	£m	£m	£m	£m	£m
FVOCI reserves	(1)	1	(10)	(1)	(3)	2	(13)	5
Cash flow hedge reserves	(251)	254	(981)	1,041	(278)	281	(1,097)	1,138
Total	(252)	255	(991)	1,040	(281)	283	(1,110)	1,143

– The sensitivity of FVOCI and cash flow hedge reserves was broadly stable in 2023 compared to 2022. The movement in cash flow hedge reserves in 2023 is shown in the statement of changes in equity on page 301.

Credit spread risk

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

NatWest Group's bond portfolios primarily comprise high-quality securities maintained as a liquidity buffer to ensure it can continue to meet its obligations in the event that access to wholesale funding markets is restricted. Additionally, other high-quality bond portfolios are held for collateral purposes and to support payment systems.

Credit spread risk is monitored daily through sensitivities and VaR measures (refer to the non-traded market risk VaR table earlier in this section). Exposures and limit utilisations are reported to senior management on a regular basis. 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 three 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.
– Forecast earnings or costs in foreign currencies – NatWest Group assesses its potential exposure to forecast foreign currency income and expenses. NatWest Group hedges forward some forecast expenses.

The most material non-traded open currency positions are the structural foreign exchange exposures arising from investments in foreign subsidiaries and branches. These exposures are assessed and managed to predefined risk appetite levels under delegated authority agreed by the CFO with support from the Asset & Liability Management Committee. NatWest Group seeks to limit the potential volatility impact on its CET1 ratio from exchange rate movements by deliberately maintaining a structural open currency position. Gains or losses arising from the retranslation of net investments in overseas operations are recognised in other comprehensive income and reduce the sensitivity of capital ratios to foreign exchange rate movements primarily arising from the retranslation of non-sterling denominated RWAs. Sensitivity is minimised where, for a given currency, the ratio of the structural open position to RWAs equals the CET1 ratio.

The sensitivity of this ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. Foreign exchange exposures arising from customer transactions are hedged by businesses on a regular basis in line with NatWest Group policy.

Market risk continued

Foreign exchange risk

The table below shows structural foreign currency exposures.

2023	Net investments in foreign operations £m	Net investment hedges £m	Structural foreign currency exposures pre-economic hedges £m	Economic hedges (1) £m	Residual structural foreign currency exposures £m
US dollar	**1,185**	**(228)**	**957**	**(957)**	**-**
Euro	**4,475**	**(2,585)**	**1,890**	**-**	**1,890**
Other non-sterling	**963**	**(429)**	**534**	**-**	**534**
Total	**6,623**	**(3,242)**	**3,381**	**(957)**	**2,424**
2022					
US dollar	1,278	(303)	975	(975)	-
Euro	6,189	(4,164)	2,025	-	2,025
Other non-sterling	996	(431)	565	-	565
Total	8,463	(4,898)	3,565	(975)	2,590

(1) Economic hedges of US dollar net investments in foreign operations represent US dollar AT1 equity securities that do not qualify as net investment hedges for accounting purposes. They provide an offset to structural foreign exchange exposures to the extent that there are net assets in overseas operations available, but they are accounted for at historical cost under IFRS until redemption.

- The reduction in both net investments in foreign operations and net investment hedges mainly reflected the wind-down of UBIDAC.
- Changes in foreign currency exchange rates affect equity in proportion to structural foreign currency exposure pre economic hedges. 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.

Equity risk (audited)

Non-traded equity risk is the potential variation in income and reserves arising from changes in equity valuations. Equity positions are carried on the balance sheet at fair value based on market prices where available. Equity positions may take the form of shares that are publicly listed on a recognised exchange, such as NatWest Group's investment in Permanent TSB, privately owned investments such as the investment in Vodeno and shareholdings in industry participations including SWIFT. Further disclosure of NatWest Group's investments in equity shareholdings, fair value gains and losses and valuation techniques may be found in the notes to the consolidated financial statements.

Investments, acquisitions or disposals of a strategic nature are referred to the Acquisitions & Disposals Committee. Once approved by the CFO with support from the Acquisitions & Disposals Committee for execution, such transactions are referred for approval to the Board, the Executive Committee, the Chief Executive, the Chief Financial Officer or as otherwise required. Decisions to acquire or hold equity positions in the non-trading book that are not of a strategic nature are taken by authorised persons with delegated authority.

Non-traded equity value at risk is monitored monthly and capital allocation to the risk is included in NatWest Group's annual Internal Capital Adequacy Assessment Process (ICAAP).

Accounting volatility risk

Accounting volatility risk arises when an exposure is accounted for at amortised cost but economically hedged by a derivative that is accounted for at fair value. Although this is not an economic risk, the difference in accounting between the exposure and the hedge creates volatility in the income statement.

Accounting volatility can be mitigated through hedge accounting. However, residual volatility will remain in cases where accounting rules mean that hedge accounting is not an option, or where there is some hedge ineffectiveness. Accounting volatility risk is reported to the Asset & Liability Management Committee monthly and capitalised as part of the ICAAP.

Market risk continued

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 NatWest 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. NatWest Group undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives.

All material traded market risk resides in NatWest Markets. The key categories are interest rate risk, credit spread risk and foreign currency price risk.

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

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 Israel–Hamas conflict.
- The significant volatility in Gilts, sterling swaps and inflation entered the rolling window for VaR calculation during 2023. However, traded VaR and SVaR remained within appetite and, on an average basis, at similar levels compared to 2022, aided by NatWest 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

NatWest 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 NatWest Group level comprise value-at-risk (VaR), stressed value-at-risk (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 NatWest 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 NatWest 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 Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy. For more detail on risk appetite and risk controls, refer to pages 175 and 176.

Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business, business segment and NatWest 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, business segment and NatWest 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.

Market risk continued

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 the Executive Risk Committee, the Board Risk Committee and the Board.

Measurement

NatWest 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 NatWest 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.

These methods have been designed to capture correlation effects and allow NatWest Group to form an aggregated view of its 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.

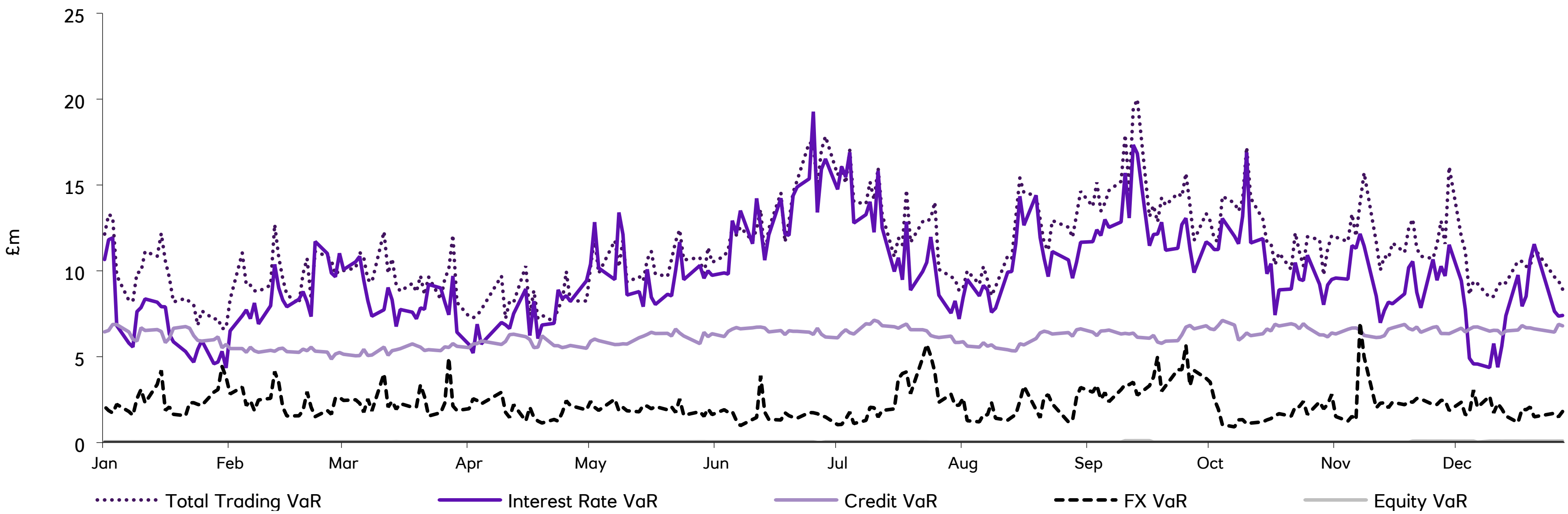
When simulating potential movements in such risk factors, a combination of absolute, relative and rescaled returns is used.

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. Information on internal back-testing is provided in this section. Information on regulatory back-testing appears in the Pillar 3 Report.
- Ongoing model validation: VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- Model Risk Management review: As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management refer to page 281. More information relating to pricing and market risk models is presented in the Pillar 3 Report.

Market risk continued

One-day 99% traded internal VaR



Traded VaR (1-day 99%) (audited)

The table below shows one-day 99% internal VaR for NatWest Group's trading portfolios, split by exposure type.

	2023				2022			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	£m	£m	£m	£m	£m	£m	£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) NatWest 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.

Market risk continued

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, refer to the Pillar 3 Report.

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

	Back-testing exceptions	
	Actual	**Hypo**
Rates	**-**	**-**
Currencies	**-**	**-**
Credit	**1**	**1**
xVA	**-**	**-**

– The back-testing exception was driven by losses in Financials in March 2023 due to increased credit market volatility following the collapse of Silicon Valley Bank.

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%.

The internal traded SVaR model captures all trading book positions.

	2023				2022			
	Average £m	**Maximum £m**	**Minimum £m**	**Period end £m**	Average £m	Maximum £m	Minimum £m	Period end £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 Pillar 3 Report.

Stress testing

For information on stress testing, refer to page 177.

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 Pillar 3 Report.

Market risk continued

Market risk – linkage to balance sheet

The table below analyses NatWest Group's balance sheet by non-trading and trading business.

	2023 Total £bn	2023 Non-trading business (1) £bn	2023 Trading business (2) £bn	2022 Total £bn	2022 Non-trading business (1) £bn	2022 Trading business (2) £bn	Primary market risk factor
Assets							
Cash and balances at central banks	**104.3**	**104.3**	**-**	144.8	144.8	-	Interest rate
Trading assets	**45.6**	**0.8**	**44.8**	45.6	1.2	44.4	
Reverse repos	**23.7**	**-**	**23.7**	21.5	-	21.5	Interest rate
Securities	**12.0**	**-**	**12.0**	9.9	-	9.9	Interest rate, credit spreads, equity
Other	**9.9**	**0.8**	**9.1**	14.2	1.2	13.0	Interest rate
Derivatives	**78.9**	**1.0**	**77.9**	99.5	1.3	98.2	Interest rate, credit spreads, equity
Settlement balances	**7.2**	**0.9**	**6.3**	2.6	0.2	2.4	Settlement
Loans to banks	**6.9**	**6.8**	**0.1**	7.1	7.0	0.1	Interest rate
Loans to customers	**381.4**	**381.4**	**-**	366.3	366.2	0.1	Interest rate
Other financial assets	**51.1**	**51.1**	**-**	30.9	30.9	-	Interest rate, credit spreads, equity
Intangible assets	**7.6**	**7.6**	**-**	7.1	7.1	-	Interest rate, credit spreads, equity
Other assets	**8.8**	**8.8**	**-**	9.3	9.3	-	
Assets of disposal groups	**0.9**	**0.9**	**-**	6.9	6.9	-	
Total assets	**692.7**	**563.6**	**129.1**	720.1	574.9	145.2	
Liabilities							
Bank deposits	**22.2**	**22.2**	**-**	20.4	20.4	-	Interest rate
Customer deposits	**431.4**	**431.4**	**-**	450.3	450.3	-	Interest rate
Settlement balances	**6.6**	**-**	**6.6**	2.0	-	2.0	Settlement
Trading liabilities	**53.6**	**-**	**53.6**	52.8	-	52.8	
Repos	**26.9**	**-**	**26.9**	23.7	-	23.7	Interest rate
Short positions	**9.8**	**-**	**9.8**	9.5	-	9.5	Interest rate, credit spreads
Other	**16.9**	**-**	**16.9**	19.6	-	19.6	Interest rate
Derivatives	**72.4**	**1.2**	**71.2**	94.0	1.5	92.5	Interest rate, credit spreads
Other financial liabilities	**55.1**	**55.0**	**0.1**	49.1	49.0	0.1	Interest rate
Subordinated liabilities	**5.7**	**5.7**	**-**	6.3	6.3	-	Interest rate
Notes in circulation	**3.2**	**3.2**	**-**	3.2	3.2	-	Interest rate
Other liabilities	**5.3**	**5.3**	**-**	5.5	5.5	-	
Total liabilities	**655.5**	**524.0**	**131.5**	683.6	536.2	147.4	

(1) Non-trading businesses are entities that primarily have exposures that are not classified as trading book. For these exposures, with the exception of pension-related activities, the main measurement methods are sensitivity analysis of net interest income, internal non-traded market risk VaR and fair value calculations. For more information refer to the non-traded market risk section.
(2) Trading businesses are entities that primarily have exposures that are classified as trading book under regulatory rules. For these exposures, the main methods used by NatWest Group to measure market risk are detailed in the traded market risk section.
(3) Foreign exchange risk affects all non-sterling denominated exposures on the balance sheet across trading and non-trading businesses, and therefore has not been listed in the above tables.

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

NatWest Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk with £33.6 billion of assets and £26.5 billion of liabilities at 31 December 2023 (2022 – £34.0 billion of assets and £24.7 billion of liabilities). Refer to Note 5 to the consolidated financial statements, for further details on NatWest 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. NatWest Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, NatWest 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 consolidated financial statements include no adjustments for the potential impact of this ruling. Future developments will be kept under review.

Key developments in 2023

- A new contractual agreement was reached with the Trustee of the Main section that assets to the value of the remaining contributions previously due to the Main section in 2023 under the Memorandum of Understanding signed with the Trustee in April 2018, would instead be paid to a Reservoir Trust. During the year, it was agreed with the Trustee to establish a bankruptcy remote Reservoir Trust to hold assets with a value equivalent to £471 million. For further details, refer to Note 5 to the consolidated financial statements.
- During the year, the Trustee of NWM Group's largest scheme, the AA section of the NatWest Group Pension Fund (£551 million of liabilities at 31 December 2023), 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 consolidated financial statements.
- Notwithstanding the above developments, NatWest Group's exposure to pension risk remained generally stable over the year.

Governance

Chaired by the Chief Financial Officer, the Group Asset & Liability Management Committee is a key component of NatWest Group's approach to managing pension risk. It considers the pension impact of the capital plan for NatWest Group and reviews the performance of NatWest Group's material pension funds and other issues material to NatWest Group's pension strategy. It also considers investment strategy proposals from the Trustee of the Main section. The Board reviews and as appropriate approves any material pension strategy proposals. For further information on governance, refer to page 173.

Risk appetite

NatWest Group maintains an independent view of the risk inherent in its pension funds. NatWest 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 Executive Risk Committee and the Board Risk Committee, whilst the 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. NatWest Group also undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

The stress testing framework includes pension risk capital calculations for the purposes of the Internal Capital Adequacy Assessment Process as well as additional stress tests for a number of internal management purposes. The results of the stress tests and their consequential impact on NatWest Group's balance sheet, income statement and capital position are incorporated into the overall NatWest Group stress test results. NatWest Bank Plc (a subsidiary of NatWest Group) is the principal employer of the Main section and could be required to fund any deficit that arises.

Mitigation

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

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy, 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 NatWest 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 NatWest 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 NatWest 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 26 to the consolidated financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 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 NatWest 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 made significant progress on implementation of the Consumer Duty requirements by the first regulatory milestone of 31 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, especially given the ongoing cost-of-living challenges and their impact on customers in vulnerable situations. For example, NatWest was the first high street bank to offer customers additional support through the Mortgage Charter from July 2023. Vulnerable customer outcomes are also an integral part of our enhanced 'Good Customer Outcome' reporting which was introduced through the Consumer Duty programme.
- In line with a plea agreement with the US Department of Justice regarding historical spoofing conduct by former employees, an independent monitor was appointed in 2022. Throughout 2023, the monitor had extensive engagement with our teams through a range of interviews and detailed information requests. The first report issued by the Monitor included 29 recommendations, with 120 days from receipt to implement them. The second review period is scheduled to commence in March 2024, with the work expected to last at least three years.

Governance

NatWest 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 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 and to the Board as applicable.

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 are 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 NatWest Group. Examples of these include those relating to product mis-selling, customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular reporting to NatWest 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 NatWest Group's strategic planning cycle.

Mitigation

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

Financial crime risk

Definition

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

Key developments in 2023

- Significant investment continued to be made to support delivery of the multi-year transformation plan across financial crime risk management.
- Enhancements were made to technology, data quality, and data analytics to improve the effectiveness of systems used to monitor customers and transactions.
- Financial crime roadshows and events were held throughout the year to further embed financial crime risk management culture and behaviours.
- A centralised hub model and One Bank approach to financial crime risk management was embedded, with hub capabilities further deployed across NatWest Group. This has led to better outcomes, including a consistent understanding of controls and oversight across NatWest Group.
- Active participation in public-private partnerships, including the Joint Money Laundering Intelligence Taskforce.

Governance

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

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

Risk appetite

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

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

Mitigation

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

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

Climate risk

Definition

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

Sources of risk

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

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

Key developments in 2023

- NatWest Group continued to enhance its in-house climate risk modelling capabilities, supporting the integration of climate risk within its capital adequacy (ICAAP); impairment (IFRS 9); and risk management processes.
- An end-to-end test of NatWest Group's in-house first-generation corporate transition risk model was completed.
- In parallel with the full roll-out of first-generation qualitative climate risk scorecards for the Commercial & Institutional segment, NatWest Group began development of the second-generation of climate risk scorecards. This involved the expansion of the scorecard methodology to capture quantitative considerations, with initial roll-out scheduled for 2024 on a test-and-learn basis. These scorecards do not drive credit risk decision making as yet.
- NatWest Group improved the oversight of climate-related risk through regular reporting and review of climate risk appetite and associated operational measures, and improved calibration of existing limits to inform monthly risk committee updates.
- An assessment 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.
- Recognising the inextricable link between climate risk and nature degradation, NatWest Group added nature risk to its climate risk considerations within the risk directory and policy, for consideration from 2024.

Governance

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

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

The Climate Change Executive Steering Group is responsible for overseeing the direction of and progress against NatWest Group's climate-related commitments. During 2023, the Executive Steering Group provided oversight of the second iteration of NatWest Group's Climate transition plan, progression in establishing partnerships and opportunities including oversight of progress against the NatWest Group climate and sustainable funding and financing target and ensuring the effective management of climate-related risks. The Executive Steering Group will continue to supervise strategic implementation and delivery, supported by the Climate Centre of Excellence.

Climate risk continued

Risk appetite

NatWest Group's ambition is to be a leading bank in the UK, 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. Throughout 2023, the Board Risk Committee monitored Board approved quantitative climate risk appetite measures in line with the enterprise-wide risk management framework. These measures provided a heightened focus on balance sheet exposure to financed emissions.

These risk appetite measures were further supplemented during 2023 with additional segment-specific risk measures. 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.

Climate risks are identified and reported through continuous risk management and regular reporting to senior risk committees and the Board. Quantitative and qualitative data is reviewed and assessed to measure whether climate risk is within risk appetite.

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.

Mitigation

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

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

- Regulatory stress testing requirements.
- Heightened climate risk sector classifications.
- Sector/sub-sector risk appetite.
- Portfolio management.
- Strategic decision-making, capital adequacy and provisioning.

There are a number of challenges with climate scenario analysis, for example, in relation to the immaturity of modelling techniques and data on climate-related risks, as well as 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, economic systems, policy and wider society. These risks and uncertainties, coupled with significantly long timeframes, make the outputs of climate-related risk modelling with respect to the potential use cases identified inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. NatWest Group continued to develop its specialist climate data capabilities, including bringing in new datasets to increase the granularity for which climate risks are assessed, such as enhanced UK flood risk data and a more comprehensive set of EPC data for residential properties.

NatWest Group continues to participate in a number of industry forums to help shape the financial service industry's response to the challenges posed by climate risk, including scenario analysis. An example is the Climate Financial Risk Forum, established by the PRA and FCA.

NatWest Group also continues to engage actively with academia to ensure best practice and the latest thinking on climate risks is considered within NatWest Group's work. For example, around the appropriate assessment of physical risks, both short and longer term, are a particular focus for 2024.

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 cyberattacks – 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 and 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, 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.

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

To support ongoing oversight of the management of the operational risk profile an Operational Risk Executive Steering Committee is in place. This forum ensures all material operational risks are monitored and managed within appetite. The Board Risk Committee and Board receives regular updates on the outputs of the Operational Risk Executive Steering 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 associated measures for operational risk are approved at least annually by the Board on the 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, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the Group Audit Committee and Board Risk Committee. They are also shared with external auditors.

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

Monitoring and measurement

Operational risk is measured and managed through continuous assessment and regular reporting to NatWest Group's senior risk committees and at Board-level. Risk and control self-assessments are used across business areas and support functions to identify and assess material non-financial risks (including operational risks, conduct risks) and key controls. All risks and controls are mapped to NatWest Group's Risk Directory. Risk assessments are refreshed at least annually and in response to internal and external events 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.

NatWest 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.

Operational risk continued

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

Scenario analysis is used to assess how severe but plausible operational risks will affect NatWest 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

NatWest 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.

NatWest Group operates layered security controls and its network architecture is designed to provide inherent protection against threats. This approach avoids reliance on any one type or method of security control. Minimum security control requirements are set out in Key Risk Policies(1), standards, processes and procedures. Through 2024

NatWest Group will monitor and manage the threat landscape focusing on:
- Attack surface vulnerabilities – such as the rising number of zero-days and code vulnerabilities impacting organisations.
- Initial access brokers and nation states – increasingly sophisticated attacks from ransomware gangs and ongoing challenges following Russia's invasion of Ukraine which has raised international tensions increasing the likelihood of disruptive cyberattacks.
- Developments in innovation and technology, assessing the inherent risk and developing appropriate response to mitigate associated risks, for example large language models, artificial intelligence and cloud adoption.

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

Event and loss data management

The operational risk event and loss data management process ensures NatWest Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of an early event escalation process. NatWest Group has not experienced a cybersecurity 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 cyberattacks, and to comply with statutory or contractual requirements.

(1) Risk policies are in place for each principal risk and define, at a high level, the cascade of qualitative expectations, guidance and standards that stipulate the nature and extent of permissible risk taking. They are consistently applied across NatWest Group and subsidiary legal entities and form part of the qualitative expression of risk appetite for each principal risk.

Percentage and value of events

At 31 December 2023, events aligned to the clients, products and business practices event category accounted for 73% of NatWest Group's operational risk losses (compared to 76% in 2022). The decrease reflects that lower conduct-related provisions were recorded during 2023 compared to prior years.

	Value of events				Volume of events (1)	
	£m		Proportion		Proportion	
	2023	2022	2023	2022	2023	2022
Fraud - External	48	34	18%	16%	89%	85%
Clients, products and business practices	195	166	73%	76%	2%	5%
Execution, delivery and process management	21	17	8%	8%	7%	8%
Employment practices and workplace safety	1	1	-	-	1%	1%
Technology and infrastructure failures	1	1	1%	-	1%	1%
	266	218	100%	100%	100%	100%

(1) The calculation in the table is based on the volume and value of events (the proportion and cost of operational risk events to NatWest Group) where the associated loss is more than or equal to £10,000.

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. NatWest Group defines a model as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into estimates.

Sources of risk

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

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

Key developments in 2023

- Following extensive model remediation work, NatWest Group returned to 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.
- NatWest 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 model risk policy was approved by the 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.

Business and function model management committees are used to escalate model risk matters to senior management where required.

The NatWest Group Model Risk Oversight Committee further enhances model risk governance by providing a platform for executive level discussion on emerging model risks, identification of systemic risks and the evolution of model risk management practices.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NatWest Group is willing to accept in the course of its business activities. The model risk appetite statement and associated measures are approved by the Board on the Board Risk Committee's recommendation at least annually to ensure they remain appropriate and aligned to strategy. Business areas are responsible for monitoring performance against appetite 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 NatWest 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 – 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; NatWest Group's actions materially conflicting with stakeholder expectations; and contagion (when NatWest Group's reputation is damaged by failures in key sectors including NatWest 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 closure 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 NatWest Group. Reputational risk registers are used to manage reputational risks identified within relevant business areas. These are reported to the relevant business executive risk committee.

Material reputational risks to NatWest 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 Executive and Board Risk Committees oversee the identification and reporting of reputational risk via the NatWest Group risk report.

Risk appetite

NatWest Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and associated quantitative measures which are approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

NatWest Group seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in NatWest Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting via reputational risk registers at business or legal entity level. They are escalated, where appropriate, to the relevant business risk committee and where material, to the NatWest Group Reputational Risk Committee.

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

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging threats process (where sufficiently material) as well as through the NatWest Group and business 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. Refer to the Litigation and regulatory matters section of Note 26 to the consolidated financial statements for details of material matters currently affecting NatWest Group.