NatWest Group

RBS Holdings N.V.

2023 Annual Report and Accounts

Financial review

Presentation of information

RBS Holdings N.V. (RBSH N.V.) is a wholly owned subsidiary of NatWest Markets Plc (NWM Plc). 'RBSH N.V. Group' or 'we' refers to RBSH N.V. and its wholly owned subsidiaries NatWest Markets N.V. (NWM N.V.) and RBS International Depository Services S.A. (RBSI DS S.A.). The term 'NatWest Group' refers to NatWest Group plc and its subsidiary and associated undertakings. NatWest Group plc (the ultimate holding company) is registered at 36 St Andrew Square, Edinburgh, Scotland.

RBSH N.V. publishes its financial statements in 'euro', the European single currency. The abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling ('GBP'), respectively, and references to 'pence' where amounts are denominated in pounds sterling. Reference to 'dollars' or '$' are to United States of America (US) dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively. The term 'EEA' refers to European Economic Area.

Description of business

RBSH N.V. is a financial holding company, and its primary subsidiary is NWM N.V. NWM N.V., a licensed bank, operates as an investment banking firm serving corporates and financial institutions in the European Economic Area. NWM N.V. helps corporate and institutional customers manage their financial risks and achieve their short and long-term financial goals while navigating changing markets and regulation. NWM N.V. does this by providing global market access, financing, risk management and trading solutions. NWM N.V. provides access to public and private markets, funding and capital, leveraging market leading structuring and risk distribution capabilities through the following customer-facing businesses: Trading & Customer Sales and Capital Markets. NWM N.V. is committed to acting sustainably and responsibly and actively supports customers in their transition to achieving broader climate, environmental and societal goals, working with issuers and investors to develop holistic sustainability strategies. NWM N.V. is based in Amsterdam with branches authorised in Frankfurt, Milan, Paris and Stockholm. De Nederlandsche Bank (DNB) was the prudential supervisor of RBSH N.V. Group up till 31 December 2023. From 1 January 2024, the European Central Bank (ECB) has assumed supervision over RBSH N.V. Group. The Netherlands Authority for the Financial Markets, Autoriteit Financiële Markten (AFM), is responsible for market conduct supervision.

Intermediate EU parent undertaking

NatWest Group, as a third-country group with two or more subsidiary banking institutions in the European Union (EU), was approved by the ECB to establish a dual Intermediate EU Parent Undertaking (IPU) structure on behalf of its European subsidiaries. As a result, RBSH N.V. will act as the non-ring-fenced IPU. On 1 December 2023, RBSH N.V. acquired RBSI DS S.A. from Royal Bank of Scotland International (Holdings) Limited (RBSIH) following supervisory approval.

Depositary assets

Through its acquisition in the year of RBSI DS S.A., RBSH N.V. Group holds depositary assets in a fiduciary capacity which are not included on its balance sheet. These assets are owned by Alternative Investment Funds (AIFs), which are mainly established and regulated in Luxembourg.

Business developments

- 2023 market conditions have been marked by severe volatility and uncertainty due to persistent inflation, Central Banks monetary tightening, geopolitical concerns, and turmoil in the banking sector. The rapid tightening in financial conditions led to pressure on bank deposits; RBSH N.V. Group managed to raise deposits to a healthy level.
- On 1 July 2023, the Commercial & Institutional franchise celebrated its first year of bringing together Commercial & Institutional business segments officially. Franchise collaboration across C&I and Europe has supported delivery of our growth and customer goals.
- In November 2023, the ECB confirmed that RBSH N.V. and its subsidiaries NWM N.V. and RBSI DS S.A. were classified as a "significant supervised group". As a result, the ECB assumed direct supervision of all three entities on 1 January 2024.

Performance overview

RBSH N.V. Group reported an attributable profit of €108 million for 2023 compared with €53 million in 2022, primarily reflecting an increase in net interest income and a decrease in other operating income in 2023. Tax was a credit of €8 million, compared with a charge of €9 million in 2022. Impairments were nil, compared with a loss of €14 million in 2022.

Income and balance sheet

- Total income was €270 million compared with €237 million in 2022, primarily driven by higher net interest income of €132 million (2022 - €19 million) and other operating income, which was a net expense of €44 million compared with an income of €32 million in 2022.
- Total assets increased to €28.2 billion from €26.4 billion in 2022 and total liabilities increased to €26.2 billion compared with €24.1 billion in 2022. The increase in total assets was primarily driven by increases in cash and balances at central banks, amounts due from holding companies and fellow subsidiaries and other financial assets, partially offset by a decrease in derivative assets. The increase in total liabilities was mainly due to increases in customer deposits and trading liabilities, partially offset by derivative liabilities.

Capital, liquidity and funding

- RBSH N.V. Group RWAs increased to €8.3 billion from €8.1 billion at 31 December 2022, largely driven by an increase in client positions in the trading book and purchases of securities for investment purposes offset by a reduction in committed undrawn facilities.
- RBSH N.V. Group remained well-capitalised, with a RBSH N.V. Group CET1 ratio of 19.2%, above guidance of ~14%.
- The liquidity position also remained strong, with RBSH N.V. Group liquidity portfolio of €6.5 billion and LCR of 144%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.
- Throughout 2023, RBSH N.V. Group ensured a stable funding base through various sources of funding, including the customer deposit book, issuances of commercial paper and capital instruments. During 2023, RBSH N.V. Group did not issue any new senior unsecured debt securities based on its Euro Medium Term Note (‘EMTN’) programme (2022 - €0.7 billion).
- RBSH N.V. Group maintains an active EMTN programme and may need to utilise it to raise funding, based on its current and anticipated business activities. RBSH N.V. Group therefore may be reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers.

Outlook

Medium-term outlook

Metric	Estimate
CET1 ratio	~14%
Leverage ratio	>4%

Performance key metrics and ratios	2023	2022
Liquidity coverage ratio (LCR) (%)	**144**	230
Net stable funding ratio (NSFR) (%)	**133**	193
Liquidity portfolio (€bn)	**6.5**	5.2
Total wholesale funding (€bn)	**7.7**	3.6
Total funding including repo (€bn)	**16.4**	12.0
Common Equity Tier (CET1) ratio (%)	**19.2**	21.0
CRR leverage ratio (%)	**7.0**	9.1
Risk-weighted assets (RWAs) (€bn)	**8.3**	8.1
Total Capital ratio (%)	**24.1**	25.9

Chief Executive's statement

In August 2023, we received the approval from DNB to become a Financial Holding Company. As such, we continued to support our customers with financing, risk solutions and advisory services and operating depositary services for regulated AIFs, as market conditions were marked by volatility and uncertainty.

Delivering on our strategy of sustainable growth

We reported an attributable profit of €108 million for 2023 compared with €53 million in 2022. This primarily reflects an increase in net interest income of €113 million and a decrease in other operating income of €76 million. Next to that tax was a credit of €8 million, compared with a charge of €9 million in 2022. Impairments were nil, compared with a loss of €14 million in 2022.

Total assets increased to €28.2 billion as at 31 December 2023 compared with €26.4 billion as at 31 December 2022.

We continue to be well capitalised. Total equity as at 31 December 2023 was €2 billion, a decrease of €0.3 billion compared with 31 December 2022. At 31 December 2023, our total capital ratio was 24.1% with a CET1 ratio of 19.2% and Tier 1 ratio of 22.2%.

Becoming the non-ring-fenced IPU

NatWest Group, as a third-country group with two or more subsidiary banking institutions in the EU, was approved by the ECB to establish a dual IPU structure on behalf of its European subsidiaries. As a result, RBSH N.V. acts as the non-ring-fenced IPU and is subject to ECB supervision from 1 January 2024. On 1 December 2023, the immediate parent company of RBSI DS S.A. became RBSH N.V. following supervisory approval.

Corporate governance

Ms Anne Snel stepped down as member of the RBSH N.V. Supervisory Board in 2023 at the end of her term. Furthermore, Ms Angelique Slach has stepped down and Ms Marije Elkenbracht will be stepping down as members of the RBSH N.V. Managing Board. A search is underway to identify their permanent successors.

From 1 January 2024, RBSH N.V. and its two subsidiaries - NWM N.V. and RBSI DS S.A. - are supervised by the ECB through a Joint Supervisory Team which includes representatives from the National Competent Authorities. A robust programme of work has supported this significant transition to ensure appropriate systems and processes are in place.

Building an outstanding business in Europe

I'm pleased with how we've sustained strong relationships and supported our customers in the European region in a challenging market while keeping the bank resilient, safe and secure.

Commercial performance of RBSH N.V. Group has been strong throughout the year, especially from our NWM N.V. Capital Markets business focused on Corporates and Financial Institutions.

Maintaining our focus on Climate

We've continued to support our customers' transition to a low carbon economy as well as achieving their climate ambitions.

Through our NWM N.V. subsidiary, we've further formulated our high level aspirational strategic ambition to become one of the forward-thinking banks in Europe whilst recognising that there is still much work to do to integrate climate and environmental matters into our strategy, operations and risk management practices.

Empowering our colleagues

We are committed to upholding a highly engaged workforce where colleagues feel empowered and well-equipped to deliver our growth strategy. We've continued to invest in our teams, supporting them to build skills for now and the future.

Championing Diversity, Equity & Inclusion and providing our people with the best environment to flourish at work remains a key focus.

As I reflect on the year, I'm delighted with the many ways we've contributed to the success of NatWest Group. In 2024, we will remain strongly connected across the region and the segment and continue to deliver fantastic long-term value for our customers in Europe.

Vincent Goedegebuure
Chairman and CEO, RBS Holdings N.V.
7 March 2024

Financial review

Summary consolidated income statement

	2023	2022	Variance	
	€m	€m	€m	
Interest receivable	**453**	81	372	nm
Interest payable	**(321)**	(62)	(259)	nm
Net interest income	**132**	19	113	nm
Fees and commissions receivable	**203**	206	(3)	(1%)
Fees and commissions payable	**(23)**	(20)	(3)	15%
Income from trading activities	**2**	-	2	-
Other operating income	**(44)**	32	(76)	nm
Non-interest income	**138**	218	(80)	(37%)
Total income	**270**	237	33	14%
Staff costs	**(79)**	(75)	(4)	5%
Premises and equipment	**(6)**	(8)	2	(25%)
Other administrative expenses	**(83)**	(76)	(7)	9%
Depreciation and amortisation	**(2)**	(2)	-	-
Operating expenses	**(170)**	(161)	(9)	6%
Profit before impairments	**100**	76	24	32%
Impairment losses	**-**	(14)	14	(100%)
Operating profit before tax	**100**	62	38	61%
Tax credit/(charge)	**8**	(9)	17	(189%)
Profit for the year	**108**	53	55	104%
Attributable to:				
Ordinary shareholders	**84**	38	46	121%
Paid-in equity holders	**24**	15	9	60%
	108	53	55	104%

nm = not meaningful

Operating profit before tax was €100 million compared with €62 million in 2022. This increase was primarily due to higher total income which increased by €33 million to €270 million. Impairments were nil, compared with a loss of €14 million in 2022. This was partially offset by increase in operating expenses to €170 million compared with €161 million in 2022.

Profit for the year was €108 million compared with €53 million in 2022.

Net interest income was €132 million compared with €19 million in 2022, primarily driven by rising interest rates and by changes in the lending portfolio and the funding book in 2023 in comparison with 2022. Interest receivable increased by €372 million to €453 million (2022 - €81 million). Interest payable increased by €259 million to €321 million (2022 - €62 million). The increase in interest receivable is mainly due to higher interest receivable from balances at central banks and loans to banks and from other financial assets. The increase in interest payable is mainly due to higher interest payable to customer deposits, to other financial liabilities and to amounts due to holding companies and fellow subsidiaries.

Non-interest income decreased by €80 million to €138 million compared with €218 million in 2022. Net fees and commissions were an income of €180 million (2022 - €186 million income). The decrease in net fees and commission was mainly due a decrease in transfer pricing income from NWM Plc to €128 million (2022 - €130 million) and a decrease of €4 million in fees from relationship banking. This was partially offset by an increase in syndicate fee income to €56 million (2022 - €55 million). Guarantee fees paid to NWM Plc for risk sharing agreements were €7 million in 2023 and in 2022.

Income from trading activities was €2 million, compared with nil in 2022.

Other operating income was a loss of €44 million, compared with a gain of €32 million in 2022. This was mainly driven by fair value changes of structured deposits due to rising interest rates and by legacy items(1). 2022 included a net gain of €23 million related to a liability management exercise and a €6 million gain on foreign exchange reserve recycling.

Operating expenses increased by €9 million to €170 million compared with €161 million in 2022. This was mainly due to other administrative expenses which were up €7 million to €83 million, mainly driven by an increase in cost recharges from NatWest Group companies of €7 million. Staff costs increased by €4 million to €79 million. Premises and equipment costs decreased by €2 million to €6 million. Depreciation and amortisation were €2 million in 2023 and in 2022.

Impairments were nil considering improved economic outlook, exit of non-core and non-performing assets earlier, compared with a loss of €14 million in 2022, which was driven by credit deterioration and additions to IFRS 9 Stage 1 and Stage 2 exposures.

Tax credit for 2023 was €8 million compared with a tax charge of €9 million in 2022. This was mainly driven by additional recognition of a deferred tax asset in 2023.

(1) Legacy transactions pertain to NWM N.V.'s tail business from the period before the repurposing of its banking license in 2019.

Consolidated balance sheet as at 31 December 2023

	2023	2022	Variance	
	€m	€m	€m	
Assets				
Cash and balances at central banks	5,979	3,961	2,018	51%
Trading assets	4,693	4,440	253	6%
Derivatives	9,890	12,335	(2,445)	(20%)
Settlement balances	565	739	(174)	(24%)
Loans to banks - amortised cost	236	223	13	6%
Loans to customers - amortised cost	951	1,024	(73)	(7%)
Amounts due from holding companies and fellow subsidiaries	3,181	1,951	1,230	63%
Other financial assets	2,605	1,673	932	56%
Other assets	105	90	15	17%
Total assets	28,205	26,436	1,769	7%
Liabilities				
Bank deposits	411	150	261	174%
Customer deposits	4,531	1,046	3,485	nm
Amounts due to holding companies and fellow subsidiaries	3,953	4,359	(406)	(9%)
Settlement balances	679	608	71	12%
Trading liabilities	4,637	3,998	639	16%
Derivatives	8,814	11,114	(2,300)	(21%)
Other financial liabilities	2,805	2,441	364	15%
Subordinated liabilities	293	365	(72)	(20%)
Other liabilities	66	64	2	3%
Total liabilities	26,189	24,145	2,044	8%
Total equity	2,016	2,291	(275)	(12%)
Total liabilities and equity	28,205	26,436	1,769	7%

nm = not meaningful

Total assets were €28,205 million at 31 December 2023, an increase of €1,769 million, or 7%, compared with €26,436 million at 31 December 2022, mainly driven by cash and balances at central banks of €5,979 million (31 December 2022 - €3,961 million), amounts due from holding companies and fellow subsidiaries of €3,181 million (31 December 2022 - €1,951 million) and other financial assets of €2,605 million (31 December 2022 - €1,673 million). This was partially offset by a decrease in derivatives to €9,890 million (31 December 2022 - €12,335 million).

Cash and balances at central banks increased by €2,018 million to €5,979 million at 31 December 2023. The full balance is placed with the Dutch Central Bank, and it is the key component of the RBSH N.V. Group liquid asset buffer. The increase in cash is mainly driven by elevated levels of deposits from customers placed at the central bank.

Trading assets increased by €253 million, or 6%, to €4,693 million. The 2023 balance mainly pertains to loans subject to reverse repurchase agreements amounting to €2,769 million (2022 - €1,849 million) and cash collateral posted to derivative counterparties amounting to €1,900 million (2022 - €2,539 million).

Loans to banks - amortised cost increased by €13 million, or 6%, to €236 million at 31 December 2023.

Loans to customers - amortised cost decreased by €73 million to €951 million. The loan portfolio includes loans to corporates and financial institutions. The majority has a residual maturity of more than twelve months.

Amounts due from holding companies and fellow subsidiaries increased by €1,230 million to €3,181 million, mainly driven by an increase in trading assets of €1,334 million to €2,740 million and an increase in settlement balances of €177 million to €318 million. This was partially offset by a decrease in loans to banks of €284 million to €89 million.

Other financial assets. increased by €932 million to €2,605 million and included debt securities up €1,005 million to €2,603 million, equity shares down €43 million to €2 million, and loans were down €30 million to nil. The increase in debt securities is driven by increased trading positions and the decrease in equity shares relates to the legacy portfolio.

Other assets increased by €15 million, or 17%, to €105 million at 31 December 2023.

Derivative assets and liabilities were €9,890 million (2022 - €12,335 million) and €8,814 million (2022 - €11,114 million) respectively. The movement in mark-to-market largely reflects market volatility across major currencies and interest rates. The derivative balances primarily pertain to exchange rate contracts and interest rate contracts. €3,059 million of the derivative assets and €2,770 million of the derivative liabilities are balances with holding companies and fellow subsidiaries.

Settlement balance assets and liabilities were €565 million (31 December 2022 - €739 million) and €679 million (31 December 2022 - €608 million) respectively, reflecting year end trading volumes.

Bank deposits increased by €261 million to €411 million at 31 December 2023.

Customer deposits increased by €3,485 million, or 333%, to €4,531 million, in line with our strategy to increase customer deposits to match planned banking book asset growth.

Amounts due to holding companies and fellow subsidiaries decreased by €406 million to €3,953 million, mainly driven by a decrease in bank deposits of €185 million to €917 million, a decrease in trading liabilities of €149 million to €2,708 million a decrease in settlement balances of €73 million to €153 million.

Trading liabilities increased by €639 million, or 16%, to €4,637 million. The 2023 balance mainly pertains to cash collateral received from derivative counterparties amounting to €3,000 million (2022 - €3,503 million) and deposits subject to repurchase agreements amounting to €1,617 million (2022 - €425 million).

Other financial liabilities increased by €364 million to €2,805 million, driven by an increase in debt securities in issue to €2,524 million (2022- €2,125 million) and a decrease in evergreen deposits to €281 million (2022 - €316 million).

Subordinated liabilities decreased by €72 million to €293 million mainly due to maturities.

Other liabilities increased by €2 million, or 3%, to €66 million at 31 December 2023.

Total equity decreased by €275 million, or 12%, to €2,016 million, mainly driven by ordinary dividends paid of €360 million, paid-in equity dividends of €24 million and a reduction in own credit adjustments of €25 million. This was partially offset by the profit for the period of €108 million, cash flow hedging movements of €38 million, a transfer on the purchase of RBSI DS S.A. of €17 million and fair value through other comprehensive income movements of €5 million.

Risk and capital management

Presentation of information

RBS Holdings N.V. (RBSH N.V.) is a wholly owned subsidiary of NatWest Markets Plc (NWM Plc). RBSH N.V. Group refers to RBSH N.V. and its wholly owned subsidiaries NatWest Markets N.V. (NWM N.V.) and RBS International Depository Services S.A. (RBSI DS S.A.). NWM N.V. Group refers to NWM N.V. and its subsidiary and associated undertakings. The term NatWest Group refers to NatWest Group plc and its subsidiary and associated undertakings.

NatWest Group, as a third-country group with two or more subsidiary banking institutions in the EU, was approved by the ECB to establish a dual Intermediate EU Parent Undertaking (IPU) structure on behalf of its European subsidiaries. As a result, RBSH N.V. will act as the non-ring-fenced IPU. On 1 December 2023, RBSH N.V. acquired RBSI DS S.A. from Royal Bank of Scotland International (Holdings) Limited (RBSIH) following supervisory approval.

RBSH N.V. is a financial holding company, and its primary subsidiary is NWM N.V. NWM N.V., a licensed bank, operates as an investment banking firm serving corporates and financial institutions in the European Economic Area. RBSH N.V itself does not have any customers or employees and solely acts as a financial holding company. RBSH N.V. and NWM N.V. have a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board. The day-to-day management of the companies is vested with the Managing Board, supervised by the Supervisory Board. The members of the Managing Board and Supervisory Board of RBSH N.V. and NWM N.V. are the same. The NWM N.V. and RBSH N.V. board meetings are held jointly, except in special circumstances. RBSI DS S.A. is incorporated under Luxembourg law with a Board consisting of Non-Executive Directors and Authorised Managers. RBSH N.V. Group CFO is the RBSH N.V. representative on the RBSI DS S.A. Board

In November 2023, the ECB confirmed that RBSH N.V. and its subsidiaries NWM N.V. and RBSI DS S.A. were classified as a “significant supervised group”.

From 1 January 2024, RBSH N.V. and its two subsidiaries - NWM N.V. and RBSI DS S.A. - are supervised by the ECB through a Joint Supervisory Team which includes representatives from the National Competent Authorities.

Risk and capital management is generally conducted on an overall basis within NatWest Group such that common policies, procedures, frameworks and models apply across NatWest Group. Therefore, for the most part, discussion on these qualitative aspects reflects those in NatWest Group as relevant for the businesses and operations in RBSH N.V. including NWM N.V. Group and RBSI DS S.A.

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 6 to 38) is within the scope of the Independent auditor’s report.

Risk management framework

Introduction

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

The framework ensures that RBSH N.V. 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 RBSH N.V. Group. It aligns risk management with RBSH N.V. Group's overall strategic objectives.

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

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

While all RBSH N.V. 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 RBSH N.V. Group's Chief Risk Officer plays an integral role in providing the Board with advice on RBSH N.V. 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 centralised process in NatWest Group to identify and manage top and emerging threats, which are those that could have a significant negative impact on its ability to meet its strategic objectives. Both top and emerging threats may incorporate aspects of – or correlate to – a number of principal risks.

Culture

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

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

The target intelligent risk-taking behaviours are embedded in NatWest Group's Critical People Capabilities and are clearly aligned to the core values of inclusive, curious, robust, sustainable and ambitious. These aim to act as an effective basis for a strong risk culture because the Critical People Capabilities form the basis of all recruitment and selection processes.

Training

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

Our Code

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

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

Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA, the FCA, the DNB, the ECB and the Commission de Surveillance du Secteur Financier (CSSF). 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

Three lines of defence

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

First line of defence

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

The first line of defence is empowered to take risks within the constraints of the risk management framework, policies, risk appetite statements set by NatWest Group and measures set by RBSH N.V. Group legal entity boards.

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 monitoring activities to confirm that RBSH N.V. Group engages in permissible and sustainable risk-taking activities.

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

Third line of defence

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

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

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

Risk appetite

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

For certain principal risks, risk capacity defines the maximum level of risk RBSH N.V. Group's subsidiary legal entities 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 RBSH N.V. Group's subsidiary legal entities 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.

RBSH N.V. Group's subsidiary legal entity boards review and approve the risk appetite framework.

Establishing risk appetite

In line with the risk appetite framework, risk appetite is maintained across RBSH N.V. Groups subsidiary legal entities 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.

RBSH N.V. Group's subsidiary legal entities operates within risk appetite set at NatWest Group level unless specific entity level considerations need to prevail, for example, specific capital structure considerations.

In addition to operating within NatWest Group risk appetite, RBSH N.V. Group legal entity boards set additional risk appetite limits for its own strategic and most material risks where necessary. RBSH N.V. Group's subsidiary legal entities risk profile is continually monitored and frequently reviewed and management focus is concentrated on all strategic risks, material risks and emerging threats. Risk profile relative to risk appetite is reported regularly to RBSH N.V. Group legal entity boards.

The risk appetite statements and associated measures are approved at least annually to ensure they remain appropriate and aligned to strategy.

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

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

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process across RBSH N.V. Group 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 RBSH N.V. Group faces are detailed in the NatWest Group Risk Directory. This provides a common risk language to ensure consistent terminology is used across RBSH N.V. Group. The NatWest Group Risk Directory is subject to annual review to ensure it continues to fully reflect the risks that RBSH N.V. 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 RBSH N.V. Group legal entity boards.

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

Targeted risk processes and controls are subject to independent testing and monitoring across RBSH N.V. Group legal entity boards.

This activity is carried out to confirm to both internal and external stakeholders – including the Board, senior management, Internal Audit and RBSH N.V. Group's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively.

Testing and monitoring activity focuses on processes and controls relating to credit risk, market risk, financial crime risk, operational resilience, and compliance and conduct risk. However, a range of controls and processes relating to other risk types is also subject to testing and monitoring activity as deemed appropriate within the context of a robust control environment.

Regulatory oversight

De Nederlandsche Bank (DNB) was the prudential supervisor of RBSH N.V. Group up till 31 December 2023. From 1 January 2024, the European Central Bank (ECB) has assumed supervision over RBSH N.V. Group. The Netherlands Authority for the Financial Markets, Autoriteit Financiële Markten (AFM), is responsible for market conduct supervision of RBSH N.V. Group, through its primary subsidiary NWM N.V.

Capital, liquidity and funding risk

Definition

Regulatory capital consists of reserves and instruments issued that are available to RBSH N.V. Group that 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 to count as capital.

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

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

Funding consists of on-balance sheet liabilities that are used to finance assets. Funding risk is the risk of not maintaining a diversified, stable and cost-effective funding base.

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

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

For a description of sources of capital, liquidity and funding as utilised by NatWest Group, refer to the NatWest Group plc Annual Report and Accounts 2023 on page 244.

Regulatory framework

Capital requirements regulation and directive

The European Union (EU) has implemented the Basel III framework through the CRR and the Capital Requirements Directive (CRD). The initial package, known as CRD IV, was implemented on 1 January 2014 on a phased basis with full implementation completed on 1 January 2019.On 7 June 2019, amendments to the CRR and CRD (known as CRR2 and CRD5 respectively) were published in the Official Journal of the European Union. The majority of these changes were implemented in June 2021.

Further changes relating to the Basel 3.1 standard will be implemented in EU by CRR3 and CRD6 for which the European Commission issued a proposal in October 2021. The implementation of these changes is not expected until January 2025.

Key elements of the CRR:

Higher and better capital requirements. Banks and financial holding companies must have a total amount of capital that corresponds to at least 8% of their assets, measured according to their risks.

- Pillar 1 requirement of: CET1 of 4.5% of RWAs; Tier 1 of 6.0%; and total capital of 8.0%.
- Capital buffers: ‘capital conservation buffer’ of 2.5% of RWAs; ‘countercyclical capital buffer’ of up to 2.5%; an ‘other systemically important institutions buffer’ for domestically or EU important institutions and, if required by a member state, an additional ‘systemic risk buffer’.

Liquidity and funding measures. To ensure banks and financial holding companies have sufficient liquidity, the regulation introduces two liquidity requirements:

- the liquidity coverage ratio 100% which aims to ensure that banks have enough liquid assets (e.g. cash or other assets that can be quickly converted into cash with little or no loss of value) in the short term.
- the net stable funding requirement of 100% which aims to ensure that banks do not rely too much on short-term funding to fund their medium- and long-term assets.

Limiting leverage. The regulation sets out a binding leverage ratio, which aims to limit banks from financing too large a portion of their activities with debt.

- Minimum Tier 1 leverage ratio of 3.0%.

RBSH N.V. Group manages changes to capital requirements from new regulation (including model changes) and the resulting impact on the Common Equity Tier 1 ratio alongside its strategy of risk reduction and de-leveraging. For further information refer to Capital management on the following page.

Capital, liquidity and funding risk continued

Banking Union: Single Supervisory Mechanism

On 15 October 2013, the EU Council formally adopted the Regulation on the Single Supervisory Mechanism (SSM) which became operational on 4 November 2014. The SSM is a new framework for banking supervision in Europe with the aims of ensuring the safety and soundness of the European banking system and increasing financial integration and stability in Europe.

The ECB must ensure that credit institutions not only meet the minimum prudential capital requirements set by the CRD IV but also have an additional buffer reflecting risks or elements of risks not covered by the minimum requirements in CRD IV. This is organised through the framework of the SSM.

The SSM must ensure that credit institutions have sufficient capital to cover unexpected losses or survive severe stressed economic and market conditions. The capital joint decision is the key outcome of the Supervisory Review and Evaluation Process. In this process, the supervisor reviews the governance and internal control arrangements used by each individual bank to manage its risks (i.e., the Internal Capital Adequacy Assessment Process (ICAAP)).

Overall, this framework governs relations between the ECB, national supervisors and banks, and is an important step towards banking union in the EU.

Capital management

RBSH N.V. Group aims to maintain an appropriate level of capital to meet its business needs (which include requirements of its ultimate parent company, NatWest Group plc) and regulatory requirements, whilst operating within an agreed risk appetite. Capital monitoring, planning and forecasts, and ICAAP are prepared in order to determine appropriate capital levels. Capital plans are subjected to internal governance reviews, legal entity board oversight and approval, as well as review of the appropriate supervisory authority.

A rigorous capital planning process is followed, aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital. In the event that the projected position deteriorates below acceptable levels, the business plans would be revised accordingly.

Consideration is given to changes to capital requirements from new regulation as well as model changes and the resulting impact on the Common Equity Tier 1 ratio, focusing on risk reduction and de-leveraging.

Through the ICAAP, the desired capital levels are determined based on three complementary perspectives: the normative baseline, normative adverse and economic internal perspective. The normative baseline perspective ensures capital is managed to comply with current and known future changes in regulatory capital requirements. In the normative adverse perspective, capital levels are evaluated through the application of internally defined stress tests that quantify changes in capital ratios under a range of scenarios. In the economic internal perspective, the required capital from an economic point of view.

Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital. Liquidity and funding risk tolerance forms part of the risk appetite statement, which is reviewed and approved by legal entity boards.

The risk appetite statement defines key metrics, risk trigger levels and capacity for liquidity and funding management. Legal entity boards also set the appetite for funding risk to ensure that stable sources of funding are used to fund core assets. RBSH N.V. Group monitors its liquidity position against this risk tolerance on a daily basis. In setting risk limits, legal entity boards consider the nature of RBSH N.V. Group's activities, overall risk appetite, market best practice and regulatory compliance.

In implementing the liquidity risk management framework, a suite of tools is used to monitor, limit and stress test the risks within the balance sheet. Limits are established to manage the level of liquidity risk, and these include thresholds for the amount and composition of funding sources, asset and liability mismatches, and funding concentrations.

Liquidity portfolio management

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

Within the liquidity portfolio, RBSH N.V. Group holds cash at central banks of €6.0 billion (2022 – €4.0 billion) and government and other high-quality securities of €0.7 billion (2022 – €1.2 billion).

Funding risk management

Funding is raised through deposits from the money market, through the issuance of commercial paper and capital instruments. During 2023, the RBSH N.V. Group did not issue any new senior unsecured debt securities based on the NatWest Markets N.V. Euro Medium Term Note (EMTN) programme (2022 – €0.7 billion)

Capital, liquidity and funding risk continued

Capital ratios and risk-weighted assets

RBSH N.V. Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. RBSH N.V. Group's capital ratios and RWAs on an end-point basis are set out below. Refer to Note 21 to the consolidated financial statements for a more detailed breakdown of regulatory capital.

	2023	2022
Capital ratios	%	%
Common Equity Tier 1 (CET1)	**19.2**	21.0
Tier 1	**22.2**	24.0
Total	**24.1**	25.9
Risk-weighted assets	€m	€m
Credit risk	**6,818**	6,596
Market risk	**1,103**	1,116
Operational risk	**332**	354
Settlement risk	**-**	-
	8,253	8,066

- The CET1 ratio decreased from 21% to 19.2% driven by a decrease in CET1 capital and an increase in RWAs.
- CET1 capital decreased by €108 million as a result of the excess of dividends paid over the release of the deduction for significant investments.
- RWAs increased from €8.1 billion to €8.3 billion reflecting higher credit risk. The increase of €0.2 billion in credit risk was largely driven by an increase in client positions in the trading book and purchases of securities for investment purposes offset by a reduction in committed undrawn facilities.

Funding sources (audited)

The table below shows RBSH N.V. Group's primary funding sources.

	2023		2022	
	€m	%	€m	%
Bank deposits	**411**	**2.5**	150	1.2
Customer deposits	**4,531**	**27.5**	1,046	8.7
Trading liabilities (1)	**4,619**	**28.1**	3,930	32.7
Other financial liabilities	**2,805**	**17.1**	2,441	20.3
Subordinated liabilities	**293**	**1.8**	365	3.0
Amounts due to holding companies and fellow subsidiaries (2)	**3,775**	**23.0**	4,109	34.1
Total funding	**16,434**	**100**	12,041	100

(1) Trading liabilities excludes short positions of €18 million (2022 – €68 million).
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €25 million (2022 – €24 million) and settlement balances of €153 million (2022 - €226 million) have been excluded from the table.

Market risk

RBSH N.V. Group, through its primary subsidiary NWM N.V., is exposed to traded market risk through its trading activities and to non-traded market risk through its banking activities. Traded and non-traded market risk exposures are managed and discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 15.

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)

From a market risk perspective, activities are focused on rates, currencies and traded credit.

RBSH N.V. Group, through its primary subsidiary NWM N.V., undertakes transactions in financial instruments including debt securities, as well as securities financing and derivatives. The key categories of traded market risk are interest rate risk, credit spread risk and foreign currency price risk.

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

Governance

Market risk policy statements set out the governance and risk management framework. The Market Risk function independently identifies, measures, monitors, controls 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

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 comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

In addition, for each trading business, sub-business or desk, a dealing authority is defined. Dealing authorities 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 VaR, SVaR, exposure size measured via risk sensitivities, currency and tenor.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded.

To ensure approved limits are not breached, 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.

For further information on risk appetite, refer to page 8.

Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and legal entity-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 and signed off daily by the Market Risk function. A daily report summarising the position of exposures against limits at desk, business and legal entity levels is provided to the trading desks.

Limit reporting is supplemented with regulatory capital and stress testing information as well as ad hoc reporting.

A risk review of trading businesses is undertaken weekly with senior risk and front office staff. This includes a review of profit and loss drivers, notable position concentrations and other positions of concern.

Business profit and loss performance is monitored automatically through loss triggers which, if breached, require a remedial action plan to be agreed between the Market Risk function and the business. The loss triggers are set using both a fall-from-peak approach and an absolute loss level.

Traded market risk continued

Measurement

A comprehensive set of methodologies and techniques is used to measure traded market risk. These chiefly comprise VaR and SVaR. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR.

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.

For internal risk management purposes, VaR assumes a time horizon of one trading day and a confidence level of 99%.

Internal VaR model is based on a historical simulation, utilising market data from the previous 500 days on an equally weighted basis.

The model also captures the potential impact of interest rate risk, credit spread risk and foreign currency price risk.

The performance and adequacy of the VaR model are tested on a regular basis through the following processes:

– Back-testing – Internal and regulatory back-testing is conducted on a daily basis. VaR model back-testing counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.
– 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 37.

One–day 99% traded internal VaR

The table below analyses the internal VaR for trading portfolios segregated by type of market risk exposure.

	2023				2022			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	€m	€m	€m	€m	€m	€m	€m	€m
Interest rate	**0.8**	**2.3**	**0.2**	**0.6**	0.4	1.7	0.2	0.8
Credit spread	**0.4**	**0.5**	**0.3**	**0.4**	0.8	1.4	0.4	0.4
Currency	**0.2**	**1.0**	**-**	**0.1**	0.2	0.6	-	(0.5)
Diversification (1)	**(0.4)**			**(0.3)**	(0.5)			(0.3)
Total	**1.0**	**2.3**	**-**	**0.8**	0.9	2.0	0.4	0.4

(1) RBSH N.V. Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, industry counterparties, currencies and regions. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.

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.

The internal traded SVaR model captures all trading book positions.

The following table shows 10-day 99% internal SVaR for the trading portfolios.

	2023				2022			
	Average	Maximum	Minimum	Period end	Average	Maximum	Minimum	Period end
	€m	€m	€m	€m	€m	€m	€m	€m
Total internal traded SVaR	**5.6**	**17.2**	**2.8**	**4.5**	7.3	13.6	4.7	7.5

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 for RBSH N.V. Group, through its primary subsidiary NWM N.V., are interest rate risk, foreign exchange risk and credit spread risk.

Interest rate risk

Non-traded interest rate risk in RBSH N.V. Group, through its primary subsidiary NWM N.V., mainly arises from gap risk and basis risk. These sensitivities can give rise to volatility in net interest income as interest rates vary.

Foreign exchange risk

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

- **Structural foreign exchange risk** – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from the euro.
- **Non-trading book foreign exchange risk** – arises from customer transactions and profits and losses that are in a currency other than the functional currency.

Credit spread risk

Non-traded credit spread risk in RBSH N.V. Group arises from the bond portfolio maintained as a liquidity buffer in Treasury.

Governance (audited)

Responsibility for identifying, measuring, monitoring and controlling the market risk arising from non-trading activities lies with the Market Risk function.

Policy statements set out the governance and risk management framework for non-traded market risk.

Risk appetite

Qualitative appetite is set out in the non-traded market risk appetite statement.

Its quantitative appetite is expressed in terms of exposure limits. Limits comprise a VaR measure supplemented with SVaR, sensitivities, earnings-at-risk and economic-value-of-equity. Other limits monitored at executive governance level notably include a stress limit based on the foreign exchange sensitivity of the CET1 ratio.

To ensure limits are not breached triggers have been set such that if exposures exceed a specified level, action plans are developed by the business, the Non-Traded Market Risk function and Finance for implementation.

The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded.

Monitoring and measurement

Non-traded market risk positions are reported to legal entity boards.

Interest rate risk

Interest rate sensitivity in banking book portfolios within defined risk limits are monitored by legal entity senior management. Interest rate swaps are used to hedge some exposures externally.

Key measures used to evaluate non-traded interest rate risk (NTIRR) are subject to approval. Limits on NTIRR are set according to the Non-Trading Interest Rate and Foreign Currency Risk Policy Statement and are subject to legal entity board approval.

VaR metrics are based on interest rate repricing gap reports as at the reporting date.

Non-traded market risk continued

One–day 99% banking book VaR

One-day banking book VaR at a 99% confidence level for RBSH N.V. Group was as follows:

	Average €m	Maximum €m	Minimum €m	Period end €m
2023	**0.6**	**1.6**	**0.2**	**0.5**
2022	0.7	1.0	0.4	0.9

Foreign exchange risk

The only material non-traded open currency positions are the structural foreign exchange exposures arising from investments in foreign subsidiaries, branches and associates and their related currency funding. These exposures are assessed and managed by NatWest Markets N.V. Treasury to predefined risk appetite levels approved by NWM N.V. Group's Asset & Liability Management Committee.

The table below sets out the structural foreign currency exposures:

2023	Net investments in foreign operations €m	Structural foreign currency exposures €m
US dollar	**8**	**8**
Other non-euro	**(4)**	**(4)**
	4	**4**
2022		
US dollar	8	8
Other non-euro	6	6
	14	14

- Overall, the foreign exchange position decreased year on year, mostly driven by a decrease in the sterling FX position, which was hedged.
- The pre-tax sensitivity of the foreign exchange reserves to changes in exchange rates is proportional to the nominal exposure. At 31 December 2023, a 1% strengthening in all foreign currencies against the euro would result in a €0.04 million increase in foreign exchange reserves before tax, while a 1% weakening in all foreign currencies against the euro would result in a €0.04 million reduction.

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)

RBSH N.V. Group, through its primary subsidiary NWM N.V., is exposed to credit risk through lending, derivatives and off-balance sheet products such as trade finance and guarantees. RBSH N.V. Group, through its primary subsidiary NWM N.V., is also exposed to credit risk as a result of debt securities held for liquidity management purposes.

Governance

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 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 and it is being managed adequately and effectively.
- Assessing the adequacy of expected credit loss (ECL) provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through provisions and model committees.
- Development and approval of credit grading models.
- Providing regular reporting on credit risk to legal entity senior management.

Senior management ensures that all material credit risks are identified, assessed, monitored, controlled and managed effectively. It receives input from various committees for the overall credit risk profile and sector/product/asset class concentrations.

Risk appetite

Credit risk appetite is approved by NWM N.V. senior management and is set and monitored through a risk appetite framework.

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

Risk appetite statements and associated measures are reviewed at least annually to ensure they remain appropriate and aligned to strategy.

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

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

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

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

Counterparty credit risk is mitigated through collateralisation and netting agreements, which allow amounts to be netted against amounts the counterparty owes.

Mitigation

Mitigation techniques, as set out in the appropriate credit risk toolkits and transactional acceptance standards, are used in the management of credit portfolios. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties.

Credit risk continued

Assessment and monitoring

Customers, including corporates, banks and other financial institutions are managed on an individual basis. Customers are aggregated as a single risk when sufficiently interconnected to the extent that a failure of one could lead to the failure of another.

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

Credit is only granted to customers following joint approval by an approver from the business and the credit risk function. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Authorities framework policy.

The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

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

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

Problem debt management

Early problem identification

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

The aligned Risk of Credit Loss and Viability framework

The Risk of Credit Loss framework is used where the credit profile of a customer has deteriorated materially since origination. Experienced credit risk officers apply expert judgement to classify cases into categories that reflect progressively deteriorating credit risk. There are two classifications in the framework that apply to non-defaulted customers – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. The framework also applies to those customers that have met default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Customers classified in the Heightened Monitoring category are those who are still performing but have certain characteristics – such as trading issues, covenant breaches, material PD downgrades and past due facilities – that may affect the ability to meet repayment obligations. Heightened Monitoring customers require pre-emptive actions to return or maintain their facilities within risk appetite prior to maturity.

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

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

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team in NatWest Bank Plc as a service to RBSH N.V. Group, through its primary subsidiary NWM N.V.. The team protects capital by working with corporate and commercial customers to support their turnaround and recovery strategies and enable them to return to mainstream banking.

Forbearance (audited)

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties. The aim of forbearance is to support and restore the customer to financial health while minimising risk. The type of forbearance offered is tailored to the customer's individual circumstances and may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Credit risk continued

Provisioning for forbearance

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision increase is required. Loans granted forbearance are individually credit assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment.

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

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

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

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs (audited)

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

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.

Refer to Accounting policy 3.3 for further details.

IFRS 9 ECL model design principles (audited)

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

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

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

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

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

PD estimates

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

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.

Credit risk continued

EAD estimates

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

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

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to RBSH N.V. 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 RBSH N.V. 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.

There was €3 million of ECL post model adjustments in the year (2022 – nil).

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). A framework is in place to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied align to credit risk management practices, where appropriate.

The framework comprises the following elements:

- **IFRS 9 lifetime PD assessment (the primary driver)** – on modelled portfolios the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred, the residual lifetime PD at balance sheet date (which PD is established at date of initial recognition is compared to the current PD. If the current lifetime PD exceeds the residual origination PD by more than a threshold amount deterioration is assumed to have occurred and the exposure transferred into Stage 2 for a lifetime loss assessment. In broad terms, a doubling of PD would indicate a SICR. However, the PD uplift must be at least 0.1%
- **Qualitative high-risk backstops** – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support and exposures managed within the Risk of Credit Loss framework.

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

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

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

Asset lifetimes (audited)

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

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

Economic loss drivers (audited)

Introduction

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

The key economic variables in RBSH N.V. Group include national gross domestic product (GDP), unemployment rate and the central bank 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. 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 these scenarios are set out in table below. The compound annual growth rate (CAGR) for GDP as well as the five-year average for unemployment and the European Central Bank main refinancing rate.

Main macroeconomic variables	2023					2022				
	Upside	Base case	Downside	Extreme downside	Weighted average	Upside	Base case	Downside	Extreme downside	Weighted average
Five-year summary	%	%	%	%	%	%	%	%	%	%
GDP - CAGR	2.2	1.2	0.9	(0.5)	1.1	2.4	1.7	0.8	-	1.4
Unemployment - average	5.7	6.7	7.0	10.1	7.0	6.8	7.0	8.1	9.9	7.7
European Central Bank - main refinancing rate - average	2.8	2.9	4.6	2.4	3.2	2.7	2.9	1.3	3.7	2.6
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.

Probability weightings of scenarios

RBSH N.V. 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 GDP paths for RBSH N.V. 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, RBSH N.V. 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 (audited)

Annual figures

Eurozone GDP - annual growth	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
2024	**4.1**	**0.7**	**(0.8)**	**(3.2)**	**0.6**
2025	**3.1**	**1.7**	**1.3**	**(1.9)**	**1.4**
2026	**2.1**	**1.6**	**1.9**	**1.1**	**1.7**
2027	**1.4**	**1.5**	**1.4**	**1.0**	**1.4**
2028	**1.2**	**1.5**	**1.3**	**1.0**	**1.3**

Eurozone - unemployment rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**6.5**	**6.5**	**6.5**	**6.5**	**6.5**
2024	**6.2**	**6.7**	**7.1**	**9.4**	**7.0**
2025	**5.4**	**6.8**	**7.2**	**12.3**	**7.3**
2026	**5.3**	**6.7**	**7.0**	**11.8**	**7.2**
2027	**5.4**	**6.7**	**6.8**	**10.7**	**7.0**
2028	**5.3**	**6.6**	**6.6**	**9.5**	**6.7**

European Central Bank - main refinancing rate - annual average	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**
2024	**3.6**	**3.7**	**4.9**	**3.2**	**3.8**
2025	**2.2**	**2.4**	**4.9**	**1.6**	**2.7**
2026	**2.2**	**2.3**	**4.8**	**1.5**	**2.6**
2027	**2.3**	**2.4**	**4.8**	**1.8**	**2.8**
2028	**2.3**	**2.5**	**4.8**	**2.3**	**2.9**

Worst points

	31 December 2023				31 December 2022			
Eurozone	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	**(1.0)**	**Q3 2024**	**(5.6)**	**Q4 2024**	(3.5)	Q4 2023	(4.3)	Q4 2023
Unemployment rate - peak	**7.3**	**Q3 2024**	**12.4**	**Q3 2025**	9.0	Q3 2024	11.9	Q4 2024

(1) For the unemployment rate, the figures show the peak levels. For GDP, the figures show falls relative to the starting period. The calculations are performed over five years, with a starting point of Q3 2023 for 31 December 2023 scenarios.

Use of the scenarios in lending

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

Economic uncertainty (audited)

The high inflation environment alongside high interest rates are presenting significant headwinds for some businesses and consumers. These are a result of various factors and in many cases are compounding and look set to remain a feature of the economic environment into 2024. RBSH N.V. Group has considered where these are most likely to affect the customer base, with the cost of borrowing during 2023 for both businesses and consumers presenting an additional affordability challenge.

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

Model and monitoring enhancements

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation, particularly in times of economic volatility and uncertainty.

This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate.

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated. In the simulations, RBSH N.V. 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. 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.

RBSH N.V. 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.

2023	Actual	Base scenario	Moderate upside scenario	Moderate downside scenario	Extreme downside scenario
Stage 1 modelled loans (€m)	1,143	1,145	1,146	1,143	1,016
Stage 1 modelled ECL (€m)	8	6	6	8	14
Stage 1 coverage	0.70%	0.52%	0.52%	0.70%	1.38%
Stage 2 modelled loans (€m)	142	140	139	142	269
Stage 2 modelled ECL (€m)	2	2	1	2	7
Stage 2 coverage	1.41%	1.43%	0.72%	1.41%	2.60%
Stage 1 and Stage 2 modelled loans (€m)	1,285	1,285	1,285	1,285	1,285
Stage 1 and Stage 2 modelled ECL (€m)	10	8	7	10	21
Stage 1 and Stage 2 coverage	0.78%	0.62%	0.54%	0.78%	1.63%
Variance to actual total Stage 1 and Stage 2 ECL		(2)	(3)	-	11
Reconciliation to Stage 1 and Stage 2 Flow Exposure (€m)					
Modelled loans	1,285	1,285	1,285	1,285	1,285
Non-modelled loans	-	-	-	-	-
Other asset classes	12,589	12,589	12,589	12,589	12,589

(1) Variations in future undrawn exposure values across the scenarios are modelled, however the exposure position reported is that used to calculate modelled ECL as at 31 December 2023 and therefore does not include variation in future undrawn exposure values.
(2) Reflects ECL for all modelled exposure in scope for IFRS 9. The analysis excludes non-modelled portfolios and exposures relating to bonds and cash.
(3) All simulations are run on a stand-alone basis and are independent of each other, with the potential ECL impact reflecting the simulated impact as at 31 December 2022. The simulations change the composition of Stage 1 and Stage 2 exposure, but total exposure is unchanged under each scenario as the loan population is static.
(4) Refer to the Economic loss drivers section for details of economic scenarios.

Measurement uncertainty and ECL adequacy (audited)

- A net improvement in the economic scenarios since 2022 resulted in a reduction in modelled ECL.
- Given that continued uncertainty remained due to high inflation, high interest rates during 2023 and supply chain disruption, RBSH N.V. 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 RBSH N.V. Group operates.

Credit risk – Banking activities

Introduction

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

Refer to accounting policies note 3.3 and 12 to the consolidated financial statements for policies and critical judgements relating to impairment loss determination.

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

Refer to Note 7 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	10.4			7.6		
In scope of IFRS 9 ECL framework	9.8			6.8		
% in scope	95			89		
Loans to customers - in scope - amortised cost	1.0	-	1.0	1.0	-	1.0
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	0.2	-	0.2	0.2	-	0.2
Total loans - in scope	1.2	-	1.2	1.2	-	1.2
Stage 1	1.1	-	1.1	0.9	-	0.9
Stage 2	0.1	-	0.1	0.3	-	0.3
Stage 3	-	-	-	-	-	-
Other financial assets - in scope - amortised cost	8.2	-	8.2	4.4	-	4.4
Other financial assets - in scope - FVOCI	0.4	-	0.4	1.2	-	1.2
Total other financial assets - in scope	8.6	-	8.6	5.6	-	5.6
Stage 1	8.6	-	8.6	5.6	-	5.6
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Out of scope of IFRS 9 ECL framework	0.6	na	0.6	0.8	na	0.8
Loans to customers - out of scope - amortised cost	-	na	-	-	na	-
Loans to banks - out of scope - amortised cost	-	na	-	-	na	-
Other financial assets - out of scope - amortised cost	0.6	na	0.6	0.8	na	0.8
Other financial assets - out of scope - FVOCI	-	na	-	-	na	-

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 €573 million (2022 – €800 million). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of €1 million (2022 – €45 million) as not within the IFRS 9 ECL framework by definition.

In scope assets also include €357 million (2022 – €393 million) of inter-group assets not shown in the table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 22 to the consolidated financial statements, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €7,532 million (2022 – €8,383 million), comprised Stage 1 €7,491 million (2022 – €7,994 million); Stage 2 €41 million (2022 – €389 million); and Stage 3 nil (2022 – nil). The total ECL in the remainder of the credit risk section of €41 million included ECL for both on and off-balance sheet exposures.

Credit risk – Banking activities continued

Portfolio summary (audited)

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

	2023 €m	2022 €m
Loans - amortised cost and FVOCI		
Stage 1	**1,052**	944
Stage 2	**141**	303
Stage 3	**-**	-
Inter-group (1)	**110**	393
Total	**1,303**	1,640
ECL provisions		
Stage 1	**7**	6
Stage 2	**2**	5
Stage 3	**-**	-
Total	**9**	11
ECL provisions coverage (2)		
Stage 1 (%)	**0.67**	0.64
Stage 2 (%)	**1.42**	1.65
Stage 3 (%)	**-**	-
Total	**0.75**	0.88
Other financial assets - gross exposure	**8,583**	5,564
Other financial assets - ECL provisions	**3**	1
Impairment losses		
ECL charge - third party (3)	**-**	14
Amounts written-off	**1**	48

(1) The RBSH N.V. Group's intercompany assets were classified in Stage 1. The ECL for these loans was nil (2022 – €0.1 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.
(3) Includes €1.8 million (2022 – €0.4 million) related to other financial assets and nil (2022 – €0.2 million release) relating to contingent liabilities.
(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 25 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €6.0 billion (2022 – €4.0 billion) and debt securities of €2.6 billion (2022 – €1.6 billion).
(5) RBSH N.V. Group held collateral against third party loans in Stage 3 of nil (2022 - nil) and against Stage 1 and Stage 2 third party loans of €287 million (2022 - €185 million). Inter-group loans were uncollateralised.

- Although the portfolio continued to grow, ECL provisions slightly decreased as a result of improved macroeconomic scenarios.
- The credit portfolio remained of high quality with zero Stage 3 assets.

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 by sector, asset quality and geographical region based on the country of operation of the customer. The tables below show only third-party exposures and related ECL provisions, charges, and write-offs.

2023	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	29	567	597	-	1,193
- Netherlands	11	54	101	-	166
- Other Europe	15	384	360	-	759
- RoW	3	129	136	-	268
Loans by asset quality (1)	29	567	597	-	1,193
- AQ1	-	-	50	-	50
- AQ2	5	12	124	-	141
- AQ3	-	10	38	-	48
- AQ4	20	239	344	-	603
- AQ5	-	53	-	-	53
- AQ6	-	96	39	-	135
- AQ7	4	132	2	-	138
- AQ8	-	2	-	-	2
- AQ9	-	23	-	-	23
- AQ10	-	-	-	-	-
Loans by stage	29	567	597	-	1,193
- Stage 1	23	435	594	-	1,052
- Stage 2	6	132	3	-	141
- Stage 3	-	-	-	-	-
Weighted average life - ECL measurement (years) (3)	3	4	1	-	3
Weighted average 12 months PDs (3)					
- IFRS 9 (%)	0.85	2.08	0.21	-	1.11
- Basel (%)	0.59	2.03	0.18	-	1.06
ECL provisions by geography	-	6	3	-	9
- The Netherlands	-	1	-	-	1
- Other Europe	-	4	3	-	7
- RoW	-	1	-	-	1
ECL provisions by stage	-	6	3	-	9
- Stage 1	-	4	3	-	7
- Stage 2	-	2	-	-	2
- Stage 3	-	-	-	-	-
ECL provisions coverage (%)	-	1.06	0.50	-	0.75
- Stage 1 (%)	-	0.92	0.51	-	0.67
- Stage 2 (%)	-	1.52	-	-	1.42
- Stage 3 (%)	-	-	-	-	-
ECL (release)/charge - third party	(1)	-	1	-	-
Amounts written-off	-	1	-	-	1
Other financial assets by asset quality (1)	1	57	2,095	6,430	8,583
- AQ1-AQ4	1	57	2,044	6,430	8,583
- AQ5-AQ8	-	-	51	-	51
Off-balance sheet	183	6,010	1,339	-	7,532
- Loan commitments	183	6,010	812	-	7,005
- Financial guarantees	-	-	527	-	527
Off-balance sheet by asset quality (1)	183	6,010	1,339	-	7,532
- AQ1-AQ4	183	5,716	1,312	-	7,211
- AQ5-AQ8	-	294	27	-	321
- AQ10	-	-	-	-	-

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2022 (2)	Property €m	Corporate €m	FI €m	Sovereign €m	Total €m
Loans by geography	126	580	541	-	1,247
- Netherlands	*5*	*38*	*72*	-	*115*
- Other Europe	*119*	*462*	*374*	-	*955*
- RoW	*2*	*80*	*95*	-	*177*
Loans by asset quality (1)	126	580	541	-	1,247
- AQ1	-	-	*141*	-	*141*
- AQ2	-	-		-	-
- AQ3	*4*	*19*	*49*	-	*72*
- AQ4	*118*	*251*	*317*	-	*686*
- AQ5		*50*	*24*	-	*74*
- AQ6	*2*	*98*	*3*	-	*103*
- AQ7	*2*	*146*	*7*	-	*155*
- AQ8	-	*16*	-	-	*16*
- AQ9	-	-	-	-	-
- AQ10	-	-	-	-	-
Loans by stage	126	580	541	-	1,247
- Stage 1	*12*	*397*	*535*	-	*944*
- Stage 2	*114*	*183*	*6*	-	*303*
- Stage 3	-	-	-	-	-
Weighted average life (3) - ECL measurement (years)	3	3	4	-	3
Weighted average 12 months PDs (3)				-	
- IFRS 9 (%)	*0.76*	*2.48*	*0.27*	-	*1.38*
- Basel (%)	*0.19*	*1.52*	*0.20*	-	*0.81*
ECL provisions by geography	1	9	1	-	11
- The Netherlands	-	-		-	-
- Other Europe	*1*	*4*	*1*	-	*6*
- RoW	-	*5*	-	-	*5*
ECL provisions by stage	1	9	1	-	11
- Stage 1	-	*5*	*1*	-	*6*
- Stage 2	*1*	*4*	-	-	*5*
- Stage 3	-	-	-	-	-
ECL provisions coverage (%)	0.79	1.55	0.18	-	0.88
- Stage 1 (%)	-	*1.26*	*0.19*	-	*0.64*
- Stage 2 (%)	*0.88*	*2.19*	-	-	*1.65*
- Stage 3 (%)	-	-	-	-	-
ECL (release)/charge - Third party	1	13	-	-	14
Amounts written-off	-	48	-		48
Other financial assets by asset quality (1)	-	115	462	4,987	5,564
- AQ1-AQ4	-	*99*	*376*	*4,987*	*5,462*
- AQ5-AQ8	-	*16*	*86*	-	*102*
Off-balance sheet	188	6,751	1,444	-	8,383
- Loan commitments	*188*	*6,751*	*936*	-	*7,875*
- Financial guarantees	-	-	*508*	-	*508*
Off-balance sheet by asset quality (1)	188	6,751	1,444	-	8,383
- AQ1-AQ4	*188*	*6,420*	*1,390*	-	*7,998*
- AQ5-AQ8	-	*331*	*54*	-	*385*
- AQ10	-	-	-	-	-

(1) AQ bandings are based on Basel PDs and mapping is as follows:

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

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

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

- The credit portfolio remained focused on a couple of key economies in the eurozone and strategic sectors.
- Over 70% of the portfolio was investment grade credit and of high quality.
- There were no new Stage 3 assets and total balance remained at nil.
- Any single name concentration was mitigated through the use of funded guarantees as credit risk mitigation.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows ECL by stage, for selected sectors of the Wholesale portfolio.

	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
Wholesale	1,052	141	-	1,193	7,005	527	7	2	-	9
Property	23	6	-	29	183	-	-	-	-	-
Financial institutions (1)	594	3	-	597	812	527	3	-	-	3
Corporate	435	132	-	567	6,010	-	4	2	-	6
Of which:										
Agriculture	1	-	-	1	-	-	-	-	-	-
Airlines and aerospace	3	-	-	3	35	-	-	-	-	-
Automotive	2	-	-	2	635	-	-	-	-	-
Building materials	5	-	-	5	196	-	-	-	-	-
Chemicals	13	-	-	13	77	-	-	-	-	-
Industrials	34	65	-	99	271	-	-	1	-	1
Land transport & logistics	58	5	-	63	358	-	-	-	-	-
Leisure	3	-	-	3	-	-	-	-	-	-
Mining & metals	-	-	-	-	-	-	-	-	-	-
Oil and gas	3	-	-	3	3	-	-	-	-	-
Power utilities	130	-	-	130	3,028	-	-	-	-	-
Retail	14	2	-	16	450	-	-	-	-	-
Shipping	2	-	-	2	-	-	-	-	-	-
Water & waste	4	16	-	20	38	-	-	-	-	-
Total	1,052	141	-	1,193	7,005	527	7	2	-	9
2022										
Wholesale	944	303	-	1,247	7,875	508	6	5	-	11
Property	13	113	-	126	188	-	-	1	-	1
Financial institutions (1)	535	6	-	541	936	508	1	-	-	1
Other wholesale	396	184	-	580	6,751	-	5	4	-	9
Of which:										
Agriculture	-	2	-	2	-	-	-	-	-	-
Airlines and aerospace	-	1	-	1	183	-	-	-	-	-
Automotive	2	-	-	2	644	-	-	-	-	-
Building materials	2	2	-	4	20	-	-	-	-	-
Chemicals	15	-	-	15	72	-	-	-	-	-
Industrials	38	63	-	101	289	-	1	-	-	1
Land transport & logistics	20	59	-	79	353	-	-	1	-	1
Leisure	1	-	-	1	-	-	-	-	-	-
Mining & metals	-	-	-	-	-	-	-	-	-	-
Oil and gas	4	-	-	4	545	-	-	-	-	-
Power utilities	108	-	-	108	2,897	-	1	-	-	1
Retail	-	-	-	-	486	-	-	-	-	-
Shipping	2	-	-	2	-	-	-	-	-	-
Water & waste	4	-	-	4	286	-	-	-	-	-
Total	944	303	-	1,247	7,875	508	6	5	-	11

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

Forbearance

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

2023	Property €m	Other €m	Total €m
Forbearance (flow)	-	-	-
Forbearance (stock)	-	-	-
Heightened Monitoring and Risk of Credit Loss	-	4	4
2022			
Forbearance (flow)	-	-	-
Forbearance (stock)	-	-	-
Heightened Monitoring and Risk of Credit Loss	-	5	5

Flow statement (audited)

The flow statement that follows shows the main ECL and related income statement movements. It also shows the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact as they relate to balances at central banks. 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.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
RBSH N.V. Group	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2023	7,179	6	303	5	-	-	7,482	11
Currency translation and other adjustments	83	-	2	1	-	-	85	1
Intragroup transfers	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(81)	(1)	81	1	-	-	-	-
Transfers from Stage 2 to Stage 1	214	5	(214)	(5)	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net re-measurement of ECL on stage transfer	-	(2)	-	1	-	-	-	(1)
Changes in risk parameters	-	-	-	-	-	-	-	-
Other changes in net exposure	6,336	-	(28)	-	-	-	6,308	-
Other P&L only items	-	-	-	(1)	-	-	-	(1)
Income statement releases	-	(2)	-	-	-	-	-	(2)
Amounts written-off	-	-	(1)	(1)	-	-	(1)	(1)
At 31 December 2023	13,731	8	143	2	-	-	13,874	10
Net carrying amount	13,723	-	141	-	-	-	13,864	-
At 1 January 2022	6,937	-	46	1	39	39	7,022	40
2022 movements	242	6	257	4	(39)	(39)	460	(29)
At 31 December 2022	7,179	6	303	5	-	-	7,482	11
Net carrying amount	7,173	-	298	-	-	-	7,471	-

Stage 2 decomposition by a significant increase in credit risk trigger

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

	Property		Corporate		FI		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2023	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale								
Currently >30 DPD	-	-	23	-	-	-	23	-
Currently <=30 DPD	6	-	109	2	3	-	118	2
- PD deterioration	*6*	*-*	*87*	*-*	*3*	*-*	*96*	*-*
- Other driver (adverse credit, forbearance etc)	*-*	*-*	*22*	*2*	*-*	*-*	*22*	*2*
Total Stage 2	6	-	132	2	3	-	141	2

	Property		Corporate		FI		Total	
	Loans	ECL	Loans	ECL	Loans	ECL	Loans	ECL
2022	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale								
Currently >30 DPD	-	-	10	-	-	-	10	-
Currently up-to-date	114	1	173	4	6	-	293	5
- PD deterioration	*114*	*1*	*165*	*2*	*6*	*-*	*285*	*3*
- Other driver (adverse credit, forbearance etc)	*-*	*-*	*8*	*2*	*-*	*-*	*8*	*2*
Total Stage 2	114	1	183	4	6	-	303	5

- Stage 2 assets reduced considerably as a result of the improved outlook and assigned weights to positive macroeconomic scenarios under IFRS 9.

Credit risk – Trading activities

This section details the credit risk profile of RBSH N.V. Group's trading activities.

Derivatives (audited)

The table below shows third party derivatives by type of contract. The master netting agreements and collateral shown do not result in a net presentation on the balance sheet under IFRS.

	2023							2022		
	Notional									
	GBP	USD	EUR	Other	Total	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€bn	€bn	€bn	€bn	€m	€m	€bn	€m	€m
Gross exposure						7,533	6,746		8,993	8,135
IFRS offset						(702)	(702)		(798)	(798)
Carrying value	35	69	833	35	972	6,831	6,044	2,119	8,195	7,337
Of which:										
Interest rate (1)	20	8	771	3	802	4,370	3,151	1,966	5,272	3,940
Exchange rate	15	61	61	32	169	2,460	2,886	152	2,922	3,394
Credit	-	-	1	-	1	1	7	1	1	3
Carrying value					972	6,831	6,044	2,119	8,195	7,337
Counterparty mark-to-market netting						(3,098)	(3,098)		(3,752)	(3,752)
Cash collateral						(2,855)	(1,685)		(3,279)	(2,348)
Securities collateral						(455)	(601)		(646)	(423)
Net exposure						423	660		518	814
Banks (2)						19	29		66	13
Other financial institutions (3)						139	242		166	357
Corporate (4)						262	359		273	432
Government (5)						3	30		13	12
Net exposure						423	660		518	814
UK						7	-		-	1
Europe						376	660		462	813
US						33	-		50	-
RoW						7	-		6	-
Net exposure						423	660		518	814
Asset quality of uncollateralised derivative assets										
AQ1-AQ4						358			468	
AQ5-AQ10						65			50	
Net exposure						423			518	

(1) The notional amount of interest rate derivatives includes €684 billion (2022 – €1,865 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with which RBSH N.V. 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 RBSH N.V. Group's external rating.
(4) Mainly large corporates with whom RBSH N.V. 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.

Compliance and conduct risk

Definition

Compliance risk is the risk that RBSH N.V. 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 RBSH N.V. 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 RBSH N.V. Group's subsidiaries 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 insider information.

Governance

Subsidiary legal entities within the RBSH N.V Group follow the appropriate NatWest Group defined standards of compliance and conduct and ensure adherence to those standards. To support ongoing oversight of the management of the compliance and conduct risk profile there are a number of committees in place. These include a NatWest Group Consumer Duty Executive Steering Group and conflicts of interest fora across both the first and second line of defence. Relevant compliance and conduct matters that have an impact on RBSH N.V. Group are escalated to and addressed by senior management at the subsidiary legal entity level.

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Risk appetite

The Risk appetite statement and associated measures for compliance and conduct risks are approved at least annually on the subsidiary legal entity board'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 suite of risk policies, risk standards and regulatory compliance operational policies addressing compliance and conduct risks set appropriate standards across RBSH N.V. 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. 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. Across RBSH N.V. Group, 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 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, complaints management, mapping of priority regulatory requirements and independent monitoring activity. Internal policies help support a strong customer focus across RBSH N.V. Group.

Financial crime risk

Definition

Financial crime risk is the risk that 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 RBSH N.V. Group's customers, employees or third parties undertake or facilitate financial crime, or if RBSH N.V. 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.

Governance

Material financial crime risks and issues are managed at the subsidiary legal entity level within RBSH N.V. Group in line with the NWG framework, policies and procedures..

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. RBSH N.V. Group's subsidiary legal entities systems and controls must be comprehensive and proportionate to the nature, scale and complexity of its businesses. RBSH N.V. 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 relevant legal entity senior management. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within risk appetite.

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise within NatWest Group is available to detect and disrupt threats to RBSH N.V. 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. RBSH N.V. Group could be exposed to physical risks directly by the effects on its premises 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. RBSH N.V. 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 RBSH N.V. Group's competitiveness, profitability, reputational damage and liability risk.

Governance

RBSH N.V. Group, through its primary subsidiary NWM N.V., is responsible for monitoring and overseeing climate-related risk within the overall business strategy and risk appetite.

Risk appetite

NatWest Group's climate ambition is to be a leading bank in the UK, helping 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 across NatWest Group – including within RBSH N.V. Group – during 2023 to mature NatWest Group's climate-related risk capabilities in accordance with the risk management framework. In December 2022, the NatWest Group Board approved the adoption of enhanced climate risk appetite measures into the enterprise-wide risk management framework, which are designed to provide a heightened focus on balance sheet exposure to financed emissions. Risk appetite statements and associated measures are reviewed at least annually to ensure they remain appropriate and aligned to strategy.

Monitoring and measurement

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

Scenario analysis allows the testing of 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.

Operational risk

Definition

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

Sources of risk

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

Governance

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

Aligned to this, a strong operational risk management function is vital to support RBSH N.V. 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, a NatWest Group Executive Steering Committee is in place. This forum ensures all material operational risks are monitored and managed within appetite, across RBSH N.V. Group's subsidiary legal entities.

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. Operational risk appetite quantitative and qualitative statements encompass the full range of operational risks faced by RBSH N.V. Group's legal entities, businesses and functions.

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. 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 supporting risk management frameworks.

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

Risk and control self-assessments are used across all business areas and support functions to identify and assess material operational risks, conduct risks and key controls. All risks and controls are mapped to NatWest Group's Risk Directory. Risk assessments are refreshed at least annually 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 identified risks.

RBSH N.V. Group uses the basic indicator approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line. As part of the wider Internal Capital Adequacy Assessment Process an operational risk economic capital model is used to assess Pillar 2A, which is a risk-sensitive add-on to Pillar 1. The model uses historical loss data (internal and external) and forward-looking scenario analysis to provide a risk-sensitive view of RBSH N.V. Group's Pillar 2A capital requirement.

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

The operational risk event and loss data management process ensures all legal entities capture and record operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of an early event escalation process.

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

RBSH N.V. Group's subsidiary legal entities sets out their appetite in respect of resilience through the Business Resilience, IT Resilience and Incident Management policy standards and associated controls. These policy standards have now been replaced by a single Operational Resilience Risk Standard, which details the current control requirements. These control requirements support compliance with regulatory policy and support the ongoing provision of the services to our customers during business as usual and at the time of a disruptive event.

Model risk

Definition

Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions. A model is defined as a quantitative method, system, or approach that applies statistical, economic, financial, accounting, mathematical or data science theories, techniques and assumptions to process input data into estimates.

Sources of risk

RBSH N.V. Group, through its primary subsidiary NWM N.V., uses a variety of models in the course of its business activities. Examples include the use of model outputs to support measuring and assessing risk exposures (including credit and market risk), valuation of positions, calculating regulatory capital and liquidity requirements and automation of operational processes. The models used for stress-testing purposes also play a key role in ensuring RBSH N.V. Group holds sufficient capital, even in stressed market scenarios.

Governance

A governance framework is in place in NatWest Group in which RBSH N.V. Group, through its primary subsidiary NWM N.V., participates, to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – Model risk owners and Model risk validation leads. Model risk owners are responsible for model approval and ongoing performance monitoring. Model risk 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.

RBSH N.V. Group does not own models, therefore the most relevant role is Model User Representative as it ensures the participation in the model life cycle. RBSH N.V. Group, through its primary subsidiary NWM N.V., has an assigned Model User Representative role for each used model.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that RBSH N.V. Group, through its primary subsidiary NWM N.V., is willing to accept in the course of its business activities. Model performance is monitored against appetite on a model level by model owners in the first line of defence. Risk appetite, defined at an aggregate level, is monitored by senior management.

The Model Risk appetite statement and associated measures are approved at least annually to ensure they remain appropriate and aligned to strategy.

Monitoring and measurement

The level of risk relating to an individual model is assessed through a model risk rating that is based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed.

Policies, tool kits and model standards related to the development, validation, approval, implementation and use and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model. Validation of material models is conducted by an independent risk function comprised of skilled, well-informed subject matter experts. This is completed for new models or 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.

Ongoing performance monitoring is conducted by model owners and overseen by 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

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

Reputational risk

Definition

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

Sources of risk

The three primary drivers of reputational risk are: failure in internal risk management systems, RBSH N.V. Group processes or culture; RBSH N.V. Groups actions materially conflicting with stakeholder expectations; and contagion (when RBSH N.V. Group reputation is damaged by failures in the wider financial sector).

Governance

Senior management at the l subsidiary legal entity level within RBSH N.V. Group review matters which may give rise to reputational risk for RBSH N.V. Group. These arise from any aspect of RBSH N.V. Group's business, whether from a transaction, a product, a customer or any other activity or source.

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 relevant legal entity board to ensure they remain appropriate and aligned to strategy.

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

Monitoring and measurement

Senior management at subsidiary legal entity level within the RBSH N.V Group monitor any relevant internal and external factors.

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

Mitigation

Standards of conduct are in place across RBSH N.V. 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.

Corporate Governance

Introduction

In order to achieve high standards of corporate governance, RBSH N.V. Group organises its business in a way that promotes first-class stewardship by the Managing Board and effective supervision by the Supervisory Board. Integrity, transparency and accountability are key elements of RBSH N.V. Group's corporate governance, and they are embedded in its business as a whole. These key elements ensure that the controls and oversight necessary for effective risk management, compliance with regulations, and accurate and complete disclosure of information to the market are effective.

RBSH N.V. is a wholly owned subsidiary of NWM Plc. RBSH N.V. Group refers to RBSH N.V. and its wholly owned subsidiaries NWM N.V. and RBSI DS S.A. The term 'NWM N.V. Group' comprises NWM N.V. and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

RBSH N.V. is an authorised financial holding company and both NWM N.V. and RBSI DS S.A. are licenced credit institutions. All three entities are supervised by the ECB.

Corporate governance in the Netherlands

Code Banken

The Code Banken requires banks in the Netherlands to either comply with the rules and principles as set out in the Code Banken or explain any deviation from it. The Code Banken is applicable to NWM N.V. as it has a banking licence issued under the Dutch Financial Supervision Act.

NWM N.V. Group operates in line with the requirements under the Code Banken. A further explanation on compliance with the updated Code Banken is provided in the annual report of NWM N.V. as published on the 16 February 2024. While not applicable, where relevant RBSH N.V. also considered these Banking code requirements.

European Banking Authority (EBA) guidelines on internal governance

The EBA has issued guidelines relating to internal governance arrangements of credit institutions. These take into account weaknesses identified in the financial crisis and build upon the Committee of European Banking Supervisors (CEBS) Guidelines. The EBA guidelines are implemented by the local competent authorities, which is the Dutch Central Bank. NWM N.V. Group adheres to these guidelines. The updated guidelines have come into effect on 31 December 2022 and updates are being implemented in the Corporate Governance Framework of the RBSH N.V. Group. These requirements are also applicable in view of the RBSH N.V. Group being supervised by the ECB from 1 January 2024.

Approval of Annual Report

The Managing Board approved the Annual Report at its meeting on 7 March 2024. The Supervisory Board approved the Annual Report also on the 7 March 2024, and has proposed to its Shareholder that it adopts the 2023 financial statements, as included in this Annual Report, and discharge the Managing Board and Supervisory Board in respect of their management and supervision respectively.

Boards

RBSH N.V. and NWM N.V. are limited liability companies ('naamloze vennootschap') incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board. The day-to-day management of the companies is vested with the Managing Board, supervised by the Supervisory Board. The members of the Managing Board and Supervisory Board of RBSH N.V. and NWM N.V. are the same. The NWM N.V. and RBSH N.V. board meetings are held jointly, except in special circumstances. RBSI DS S.A. is incorporated under Luxembourg law with a Board consisting of Non-Executive Directors and Authorised Managers. Mr Cornelis Visscher is the RBSH N.V. representative on the RBSI DS S.A. Board.

Changes during 2023 and 2024

Ms Anne Snel stepped down as member of the RBSH N.V. Supervisory Board on 25 March 2023 at the end of her term. Furthermore, Ms Angelique Slach has stepped down on 11 October 2023 as member of the RBSH N.V. Managing Board, and Ms Marije Elkenbracht will be stepping down as member of the RBSH N.V. Managing Board. A search is underway to identify their successors.

The report of the Supervisory Board

This report provides an overview of the tasks and the activities of the Supervisory Board during 2023.

The tasks of the Supervisory Board

The main task of the Supervisory Board is to supervise the Managing Board, as well as the general affairs of RBSH N.V. Group and its associated enterprises. It assists and advises the Managing Board and supervises the corporate governance structure of the whole of RBSH N.V. Group.

In performing their duties, the members of the Supervisory Board are guided by the interests of RBSH N.V., and the businesses connected to it, considering the relevant interests of RBSH N.V. Group's stakeholders. Certain powers are vested in the Supervisory Board, including the approval of certain resolutions of the Managing Board.

Members of the Supervisory Board

The Supervisory Board is an independent corporate body. Members of the Supervisory Board are appointed by the General Meeting of Shareholders. For each vacant seat the Supervisory Board nominates one or more candidates based on the criteria included in the membership profile which set out the expectations of a member.

The Chairman and Vice-Chairman of the Supervisory Board are appointed by the Supervisory Board from among its members.

The Supervisory Board confirms that its current composition has the necessary experience, expertise and independence to execute their duties. They have also sufficient accounting and financial management expertise to understand RBSH N.V. Group’s business, financial statements and risk profile.

All appointments were made in accordance with the Supervisory Board profile resulting in the current composition of the Supervisory Board.

Supervisory Board members are appointed for a term of four years and may be re-appointed after the end of their term, with a maximum term of 12 years from the date of their first appointment.

Newly appointed Supervisory Board members undertake an induction programme which is tailor-made and adjusted to the specific needs of each new Supervisory Board member.

In case of a material (potential) conflict of interest between a member of the Supervisory Board and RBSH N.V., the Chairman of the Supervisory Board shall be notified. If the Chairman of the Supervisory Board has a material (potential) conflict of interest, the Vice-Chairman is notified. The respective Supervisory Board member will not take part in the resolution and decision-making process by the Supervisory Board where a conflict of interest exists. During 2023, no conflicts of interest have arisen.

Details of the remuneration of the Supervisory Board can be found in Note 26 to the consolidated financial statements.

As a result of the transition to ECB supervision 1 January 2024, specific Remuneration and Nomination Committees will be set-up by the RBSH N.V. Supervisory Board overseeing the whole of RBSH N.V. Group.

Composition of the Supervisory Board

The members of the Supervisory Board as at 7 March 2024 are as follows:

		Date of first appointment	Date for re-election
Robert Begbie (Chairman)	(62, British, male)	1 April 2020	1 April 2024
Maarten Klessens (Vice-Chairman)	(65, Dutch, male)	2 September 2015	30 August 2025
Annelies van der Pauw	(63, Dutch, female)	3 March 2019	3 March 2027

Robert Begbie

Chairman of the Supervisory Board

Mr Begbie was appointed CEO, Commercial & Institutional Non Ring-Fenced Bank and, on an interim basis, CEO, Commercial & Institutional Ring-Fenced Bank in August 2023. This is in addition to his role as CEO, NatWest Markets. The Commercial & Institutional franchise supports customers ranging from entrepreneurs and start-ups through to multi-nationals and financial institutions. Mr Begbie was appointed as the Chairman of the RBSH N.V. Supervisory Board on 1 April 2020.

Mr Begbie has been with NatWest Group for 40 years and has extensive experience in treasury and capital markets. During his career, he has built successful capital markets businesses across fixed income, derivatives, asset management and cash markets and led teams in the UK, Europe, Asia and the US.

After spending 20 years in our Markets business, Mr Begbie joined NatWest Group Treasury in 2009 where he was instrumental in transforming the NatWest Group balance sheet. In 2017 Mr Begbie was appointed as NatWest Group Treasurer with responsibilities for all aspects of Treasury and the management of the bank's balance sheet.

He holds an MBA from CASS Business School and is a former president of The Chartered Institute of Bankers in Scotland (London Branch).

Maarten Klessens

Vice-Chair of the Supervisory Board

Mr Klessens was appointed as an independent member of the Supervisory Board on 2 September 2015 and re-appointed on 30 August 2019.

In 2016 he joined the Supervisory Board of Bank of Africa Holding S.A. and in 2017 he joined the Supervisory Board of DHB Bank N.V. in the Netherlands. He was senior advisor Benelux for StormHarbour Securities LLP, London in 2014 and 2015. From 2011 he was acting head of Global Country Risk for NatWest Group and was responsible for country appetite setting and exposure management, with special attention for the financial stress in the Eurozone periphery.

Mr Klessens started his career with ABN AMRO in 1986, in structured aircraft finance. In 1997 he was appointed Corporate Executive Vice President for ABN AMRO and had subsequent responsibilities in wholesale product teams, client management and Group Risk. For 12 years he was a voting member of ABN AMRO's Group Risk Committee. Mr Klessens holds a postgraduate in Financial Economics of Tilburg University and a Master's in Business Economics of Erasmus University Rotterdam and has had executive training at IMD, INSEAD and University of Michigan.

Annelies van der Pauw

Ms Van der Pauw was appointed as an independent member of the Supervisory Board on 3 March 2019.

Ms Van der Pauw was a partner of the international law firm Allen & Overy LLP (A&O) until 2020 and has chaired the Amsterdam corporate practice group of A&O since 2006. In her practice, Ms Van der Pauw focused on mergers and acquisitions and corporate governance issues. Ms Van der Pauw also has extensive equity capital markets experience. In addition to a strong understanding of the legal environment in the Netherlands, Ms Van der Pauw was also the co-chair of the A&O global corporate responsibility programme for many years and a member of the board of the global A&O Foundation. Ms Van der Pauw has been with A&O and its predecessors since 1987. Presently Ms Van der Pauw continues to hold various non-executive board memberships in the private and public sector.

The report of the Managing Board

This report provides an overview of the tasks and the activities of the Managing Board during 2023

The appointment process for members of the Managing Board

The members of the Managing Board of RBSH N.V. are responsible for the general affairs of RBSH N.V. and its subsidiaries. The members are appointed by the General Meeting of Shareholders.

The Supervisory Board of RBSH N.V. nominates one or more candidates for each vacant seat in the Managing Board. If the Supervisory Board nominates two or more candidates for a vacant seat in the Managing Board, the nomination list is binding. The members of the Managing Board are accountable both collectively and individually for all decisions taken by the Managing Board.

The Chairman of the Managing Board leads the members of the Managing Board in its overall management of RBSH N.V. The Chairman of the Managing Board is the main point of liaison with the Supervisory Board.

Composition of the Managing Board

The members of the Managing Board as at 7 March 2024 are as follows:

		Date of first appointment	Date for re-election
Vincent Goedegebuure (Chair)	(50, Dutch, male)	9 May 2022	9 May 2026
Cornelis Visscher	(58, Dutch, male)	18 July 2013	18 July 2025
Marije Elkenbracht	(55, Dutch, female)	15 February 2019	15 February 2027

Vincent Goedegebuure

Chief Executive Officer and Chairman of the Managing Board

Mr Goedegebuure is an experienced senior executive with over 20 years' experience in senior roles in the finance sector who took up his present role in May 2022. In prior roles, he has led international business units and leadership teams across the EU, Americas and Asia-Pacific.

Immediately prior to this role, Mr Goedegebuure was Global Head of Client Coverage for ABN AMRO's Corporate & Institutional Banking business with responsibility for leading a team of bankers and functional teams across multiple geographies. He holds a Master's degree in Economics from the University of Groningen and a Master's degree in Business Administration from IESE Business School.

Cornelis Visscher

Chief Financial Officer

Mr Visscher graduated from the Vrije Universiteit in Amsterdam with a degree in Business Economics, specialised in Financial Accounting and Management Accounting. He started his career at ABN AMRO in 1988, where, after several functions in Divisional and Group Finance, he ultimately became the head of the Group Consolidation Department. Following the acquisition of ABN AMRO by NatWest Group and Consortium members, Mr Visscher joined NatWest Group.

As of 2013 Mr Visscher is the Chief Financial Officer for RBSH N.V. Group and a member of the RBSH N.V. Managing Board. From September 2021 until May 2022, he took on the role and accountabilities of interim Chief Executive Officer and Chairman of the RBSH N.V. Managing Board. He was also a member of NatWest Markets Executive Committee.

Marije Elkenbracht

Chief Risk Officer

Ms Elkenbracht brings 26 years of experience in various risk and strategy roles in ABN AMRO and NIBC. Before joining RBSH N.V. Group in 2019, Ms Elkenbracht was Managing Director Risk Modelling at ABN AMRO and a member of the Supervisory Board of the ABN AMRO Mortgage group. Prior to these roles, she held the position of Managing Director Market, ALM and Treasury Risk also at ABN AMRO. Ms Elkenbracht holds a Master's degree and a PhD in Mathematics from the University of Leiden.

Code of conduct

NatWest Group's Code of Conduct (Our Code) informs everyone what to expect of each other, what to do when unsure of a decision, and where to go for advice when needed. It is available at www.natwestgroup.com/who-we-are/about-natwest-group/our-values.html, or upon request by contacting the Company Secretariat at the telephone number listed on page 99

In the normal course of business of RBSH N.V. Group, situations may arise which lead to a potential or actual conflict of interest collectively referred to as 'Conflicts of Interest'. Conflicts of Interest can arise where decisions or actions are unduly influenced by business or personal motivations which have the potential to damage customer interests, the Group's interests, or those of another NatWest franchise and/or legal entity.

The RBSH N.V. Group Directors are under a legal duty to avoid conflicts of interest, a duty which they owe separately to each company they are a director of. The legal duty on Directors also requires them to avoid any conflict of interest between their duties to NatWest Group and their external interests, such as any directorships they hold with outside companies. To discharge their duties effectively, the corporate governance team supports Directors in identifying and recording conflicts of interest and ensuring that they are managed in accordance with the relevant rules and regulations.

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association of RBSH N.V. Group may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board.

Meetings of shareholders and convocation

The General Meetings of Shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). The Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General Meetings of Shareholders shall be held as frequently as deemed necessary by the Shareholder, the Managing Board or the Supervisory Board and when required by law or by the Articles of Association.

General Meetings of Shareholders shall be convened by the Shareholder, the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices. Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Employees

Our colleagues

As at 31 December 2023, the RBSH N.V. Group employed approximately 280 people within continuing operations. Details of related costs are included in Note 3 to the consolidated financial statements. RBSH N.V itself does not have any employees and solely acts as a financial holding company.

Employee consultation

NatWest Group recognises employee representatives such as employee bodies and work councils in several businesses and countries, for example the Netherlands, and management regularly discuss developments and updates on the progress of its strategic plans with the European Employee Council (EEC). NatWest Group has ongoing engagement and discussion with those bodies given the scale of change taking place across NatWest Group.

Inclusion

NatWest Group's inclusion guidelines apply to all NWM N.V. Group colleagues globally and cover being LGBT Innovative, Gender Balanced, Disability Smart, Ethnically Diverse, all leading to an Inclusive Culture. Detailed information can be found on pages 38 to 39 of the 2023 NatWest Group Annual Report and Accounts and on the Sustainable Banking pages at natwestgroup.com. Diversity targets are in the process of being defined for RBSH N.V.

Financial statements

Consolidated income statement

For the year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest receivable		**453**	81
Interest payable		**(321)**	(62)
Net interest income	1	**132**	19
Fees and commissions receivable		**203**	206
Fees and commissions payable		**(23)**	(20)
Income from trading activities		**2**	-
Other operating income		**(44)**	32
Non-interest income	2	**138**	218
Total income		**270**	237
Staff costs		**(79)**	(75)
Premises and equipment		**(6)**	(8)
Other administrative expenses		**(83)**	(76)
Depreciation and amortisation		**(2)**	(2)
Operating expenses	3	**(170)**	(161)
Profit before impairments		**100**	76
Impairment losses	12	**-**	(14)
Operating profit before tax		**100**	62
Tax credit/(charge)	6	**8**	(9)
Profit for the year		**108**	53
Attributable to:			
Ordinary shareholders		**84**	38
Paid-in equity holders		**24**	15
		108	53

The appropriation of net profits pursuant to articles 37.2 and 37.3 of the Articles of Association includes the release from reserves of all profits/(losses) attributable to controlling interests.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	2023 €m	2022 €m
Profit for the year	**108**	53
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	**-**	1
Changes in fair value of credit in financial liabilities designated at FVTPL	**(25)**	37
FVOCI financial assets	**(1)**	(6)
	(26)	32
Items that do qualify for reclassification		
FVOCI financial assets	**6**	(9)
Cash flow hedges (1)	**38**	(10)
Currency translation	**-**	(7)
	44	(26)
Other comprehensive income after tax	**18**	6
Total comprehensive income for the year	**126**	59
Attributable to:		
Ordinary shareholders	**102**	44
Paid-in equity	**24**	15
	126	59

(1) Refer to footnotes 3 and 4 of the Consolidated statement of changes in equity.

The accompanying notes on pages 53 to 86, the accounting policies on pages 48 to 52 and the audited sections of the Financial review and Risk and capital management on pages 6 to 39 form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2023

	Note	2023 €m	2022 €m
Assets			
Cash and balances at central banks	7	**5,979**	3,961
Trading assets	10	**4,693**	4,440
Derivatives	11	**9,890**	12,335
Settlement balances		**565**	739
Loans to banks - amortised cost	7	**236**	223
Loans to customers - amortised cost	7	**951**	1,024
Amounts due from holding companies and fellow subsidiaries	7	**3,181**	1,951
Other financial assets	14	**2,605**	1,673
Other assets	15	**105**	90
Total assets		**28,205**	26,436
Liabilities			
Bank deposits	7	**411**	150
Customer deposits	7	**4,531**	1,046
Amounts due to holding companies and fellow subsidiaries	7	**3,953**	4,359
Settlement balances		**679**	608
Trading liabilities	10	**4,637**	3,998
Derivatives	11	**8,814**	11,114
Other financial liabilities	15	**2,805**	2,441
Subordinated liabilities	16	**293**	365
Other liabilities	17	**66**	64
Total liabilities		**26,189**	24,145
Total equity		**2,016**	2,291
Total liabilities and equity		**28,205**	26,436

The accompanying notes on pages 53 to 86, the accounting policies on pages 48 to 52 and the audited sections of the Financial review and Risk and capital management on pages 6 to 39 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2023

	2023 €m	2022 €m
Share capital and share premium - at 1 January (1)	**1,700**	1,700
Capital restructuring (2)	**(150)**	-
At 31 December	**1,550**	1,700
Paid-in-equity - at 1 January and 31 December	**250**	250
FVOCI reserve - at 1 January	**(11)**	4
Unrealised gains/(losses)	**4**	(20)
Realised losses	**4**	5
At 31 December	**(3)**	(11)
Cash flow hedging reserve - at 1 January	**(10)**	-
Amount recognised in equity (3)	**31**	(19)
Amount transferred from equity to earnings (4)	**7**	9
At 31 December	**28**	(10)
Foreign exchange reserve - at 1 January	**6**	13
Recycled to profit or loss on disposal of business	**-**	(7)
At 31 December	**6**	6
Retained earnings - at 1 January	**356**	280
Profit attributable to ordinary shareholders and other equity owners	**108**	53
Paid-in equity dividends paid	**(24)**	(15)
Ordinary dividends paid	**(360)**	-
Capital restructuring (2)	**150**	-
Realised losses in period on FVOCI equity shares		
- gross	**(3)**	-
Remeasurement of the retirement benefit schemes	**-**	1
Changes in fair value of credit in financial liabilities designated at FVTPL	**(25)**	37
Transfer on purchase of subsidiary (5)	**(17)**	-
At 31 December	**185**	356
Total equity at 31 December	**2,016**	2,291
Attributable to:		
Ordinary shareholders	**1,766**	2,041
Paid-in equity holders	**250**	250
	2,016	2,291

(1) Includes ordinary share capital of €50,001 (2022 - €50,001). Refer to Note 18 for further details.
(2) On 31 March 2023, after obtaining regulatory permission, NWM N.V. executed a share capital restructuring, converting €150 million of share premium to retained earnings.
(3) The change in cash flow hedging reserves is driven by realised accrued interest transferred into the income statement and a decrease in swap rates compared to previous periods where they rose. The portfolio of hedging instruments is predominantly receive fixed swaps.
(4) As referred to in Note 11, the amount transferred from equity to the income statement is recorded within net interest income in balances at central banks. Refer to Note 1.
(5) On 1 December 2023, RBSH N.V. acquired RBSI DS S.A. from RBSIH. Refer to Note 27 for further details. The difference between the consideration paid and the assets and liabilities recognised at inherited values, is recognised in retained earnings.

The accompanying notes on pages 53 to 86, the accounting policies on pages 48 to 52 and the audited sections of the Financial review and Risk and capital management on pages 6 to 39 form an integral part of these financial statements.

Consolidated cash flow statement

	Note	2023 €m	2022 €m
Cash flows from operating activities			
Operating profit before tax		**100**	62
Adjustments for:			
Non-cash and other items	23	**(46)**	9
Changes in operating assets and liabilities	23	**6,449**	106
Income taxes paid		**(4)**	(4)
Net cash flows from operating activities (1)		**6,499**	173
Cash flows from investing activities			
Sale and maturity of other financial assets		**1,894**	1,128
Purchase of other financial assets		**(2,853)**	(1,751)
Income received on other financial assets		**83**	6
Fair value given for businesses acquired		**(32)**	-
Purchase of property and equipment		**-**	(2)
Net cash flows from investing activities		**(908)**	(619)
Cash flow from financing activities			
Redemption of subordinated liabilities		**(92)**	(240)
Interest paid on subordinated liabilities		**(12)**	(21)
Dividends paid		**(384)**	(15)
Net cash flows from financing activities	24	**(488)**	(276)
Effects of exchange rate changes on cash and cash equivalents		**(4)**	11
Net increase/(decrease) in cash and cash equivalents		**5,099**	(711)
Cash and cash equivalents at 1 January		**6,518**	7,229
Cash and cash equivalents at 31 December	25	**11,617**	6,518

(1) Includes interest received of €406 million (2022 - €85 million) and interest paid of €269 million (2022 - €51 million).

The accompanying notes on pages 53 to 86, the accounting policies on pages 48 to 52 and the audited sections of the Financial review and Risk and capital management on pages 6 to 39 form an integral part of these financial statements.

Accounting policies

1. Corporate information

RBSH N.V is a public limited liability company, incorporated under Dutch law on 30 May 1990 and registered at Claude Debussylaan 94, 1082 MD Amsterdam, the Netherlands.

RBSH N.V., is a wholly owned subsidiary of NWM Plc, and NWM Plc is owned by NatWest Group plc. NatWest Group plc is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. NatWest Group plc is our ultimate parent company.

Our consolidated financial statements are included in the consolidated financial statements of NatWest Group plc. Our consolidated financial statements incorporate financial information of RBSH N.V. and the entities it controls. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights. The consolidated financial statements are prepared under consistent accounting policies.

Our consolidated financial statements were signed and authorised for issue by the Managing Board on 7 March 2024 and by the Supervisory Board on 7 March 2024. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for an amendment of the financial statements.

2. Basis of preparation

The Managing Board, having made such enquiries as they considered appropriate, including: a review of our activities, forecasts, projections and other relevant evidence regarding the continuing availability of sufficient resources from NatWest Group have prepared the financial statements on a going concern basis based on the directors' assessment that we will continue in operational existence for a period of twelve months from the date the financial statements are approved. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are presented in the functional currency, Euro.

The critical and material accounting policies and related judgements are set out below.

The financial statements are presented on a historical cost basis except for certain financial instruments which are stated at fair value.

The effect of the amendments to IFRS effective from 1 January 2023 on our financial statements was immaterial.

The consolidated accounts incorporate the financial statements of NWM N.V. and RBSI Depository Services S.A. Control is assessed by reference to our ability to enforce our will on the other entity, typically through voting rights.

On the acquisition of a business from a NatWest Group company, the assets, liabilities and IFRS reserves, such as cash flow hedging reserves are recognised at their inherited values taken from the consolidated accounts of the NatWest Group entity and include the accounting history since initial recognition. The acquirer recognises, in related earnings, any difference between the consideration paid and the net items recognised at inherited values.

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

In 2021, the OECD published the Global Anti-Base Erosion Model Rules (Pillar 2). These rules will impose a top-up tax on the profits of subsidiaries that are taxed at an effective tax rate of less than 15 per cent. In the absence of an enacted Qualifying Domestic Minimum Top Up Tax ("QDMTT"), any top-up tax arising will be borne by NatWest Group plc, in the United Kingdom.

RBSH N.V. Group has applied the exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the RBSH N.V. Group has not recognised or disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

How Climate risk affects our accounting judgements and estimates

Business planning

Key financial estimates are based on management's latest five-year revenue and cost forecasts. The outputs from this forecast affect forward-looking accounting estimates. Measurement of deferred tax and expected credit losses are highly sensitive to reasonably possible changes in those anticipated conditions. In 2023, our scenario planning was enhanced by the further integration of NatWest Group's climate transition plan, including the assessment of climate-related risks and opportunities. There remains considerable uncertainty regarding a policy response of the Dutch government and the EU, including the effect of wider geo-political uncertainty on governmental ambitions regarding climate transition and the effect of decarbonisation on wider economic growth, technology development and customer behaviours.

Information used in other accounting estimates

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

- The classification of financial instruments linked to climate, or other sustainability indicators: consideration is given to whether the effect of climate related terms prevent the instrument cashflows being solely payments of principal and interest.
- The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.
- We are monitoring the effect of the physical and transition consequences of climate change on our experience of loan loss. Our assessment of sector specific risks, and whether additional adjustments are required, include expectations of the ability of those sectors to meet their financing needs in the market. Changes in credit stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.

Accounting policies

3. Critical accounting policies

The judgements and assumptions involved in our accounting policies that are considered by the Board to be the most important to the portrayal of our financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by us would affect our reported results. Management's consideration of uncertainty is outlined in the relevant sections of this document, including the ECL estimate in the Risk and capital management section.

Information used for significant estimate

Policy	Judgement	Estimate	Further information
Deferred tax	Determination of whether sufficient sustainable taxable profits will be generated in future years to recover the deferred tax asset.	Our estimates are based on the five-year revenue and cost forecasts (which include inherent uncertainties).	Note 6
Fair value – financial instruments	Classification of a fair value instrument as level 3, where the valuation is driven by unobservable inputs.	Estimation of the fair value, where it is reasonably possible to have alternative assumptions in determining the FV.	Note 8
Loan impairment provisions	Definition of default against which to apply PD, LGD and EAD models. Selection of multiple economic scenarios. Criteria for a significant increase in credit risk. Identification of risks not captured by the models.	ECL estimates contain a number of measurement uncertainties (such as the weighting of multiple economic scenarios) and disclosures include sensitivities to show impact on other reasonably possible scenarios.	Note 12

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

3. Critical accounting policies continued

3.1. Deferred tax

Deferred tax is the estimated tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and the carrying amount for tax purposes in the future. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax asset recoverability is based on the level of supporting offsetable deferred tax liabilities we have and of our future taxable profits. These future taxable profits are based on our five-year revenue and cost forecasts. The five-year forecast takes account of management's current expectations on competitiveness and profitability.

3.2. Fair value – financial instruments

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

We manage some portfolios of financial assets and financial liabilities based on our net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs (refer to 'Valuation Adjustments').

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

The use of market indicators as inputs to fair value is assumed to include current information and knowledge regarding the effect of climate risk.

3.3. Loan impairment provisions: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of financial assets measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment (other than those classified as held for trading) is assessed for impairment. Any change in impairment is reported in the income statement.

Loss allowances are forward-looking, based on 12-month ECL where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows.

Following a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

The measurement of expected credit loss considers the ability of borrowers to make payments as they fall due. Future cashflows are discounted, so long dated cashflows are less likely to affect current expectations on credit loss. Our assessment of sector specific risks, and whether additional adjustments are required, include expectations of the ability of those sectors to meet their financing needs in the market. Changes in credit risk appetite and how we manage credit positions that stem from climate considerations, such as oil and gas, will directly affect our positions.

Judgement is exercised as follows:

- **Models** – in certain low default portfolios, Basel parameter estimates are also applied for IFRS 9.
- **Non-modelled portfolios** – use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmark PDs, EADs and LGDs are reviewed annually for appropriateness. The ECL calculation is based on expected future cash flows, which is typically applied at a portfolio level.
- **Multiple economic scenarios (MES)** – the central, or base, scenario is most critical to the ECL calculation, independent of the method used to generate a range of alternative outcomes and their probabilities.
- **Significant increase in credit risk** - IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.

On restructuring where a financial asset is not derecognised, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where our acquired interest is in equity shares relevant polices for control, associates and joint ventures apply.

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

Business loans are generally written off within five years.

4. Material accounting policies

4.1. Revenue recognition

Interest receivable and payable are recognised in the income statement using the effective interest rate method for: all financial instruments measured at amortised cost; debt instruments measured as fair value through other comprehensive income; and the effective part of any related accounting hedging instruments.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in income from trading activities or other operating income as relevant.

4. Material accounting policies continued

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

4.2. Staff costs

Employee costs, such as salaries, paid absences, and other benefits are recognised over the period in which the employees provide the related services to us. Employees may receive variable compensation in cash, in deferred cash or debt instruments of NWM Group or in ordinary shares of NatWest Group plc subject to deferral, clawback and forfeiture criteria. We operate a number of share-based compensation schemes under which we grant awards of NatWest Group plc shares and share options to our employees. Such awards are subject to vesting conditions.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

4.3. Foreign currencies

Foreign exchange differences arising on the settlement of foreign currency transactions and from the translation of monetary assets and liabilities are reported in income from trading activities except for differences arising on cash flow hedges.

Non-monetary items denominated in foreign currencies that are stated at fair value are translated into the functional currency at the foreign exchange rates ruling at the dates the values are determined. Translation differences are recognised in the income statement except for differences arising on non-monetary financial assets classified as fair value through other comprehensive income.

Income and expenses of foreign subsidiaries and branches are translated into euro at average exchange rates unless these do not approximate the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation of a foreign operation are recognised in other comprehensive income. The amount accumulated in equity is reclassified from equity to the income statement on disposal of a foreign operation.

4.4. Provisions

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

Provision is made for restructuring costs, including the costs of redundancy, when we have a constructive obligation. An obligation exists when we have a detailed formal plan for the restructuring and have raised a valid expectation in those affected.

We recognise any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting our contractual obligations that exceed the expected economic benefits. When we intend to vacate a leasehold property or right of use asset, the asset would be tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs.

4.5. Tax

Tax encompassing current tax and deferred tax is recognised in the income statement except when taxable items are recognised in other comprehensive income or equity. Tax consequences arising from servicing financial instruments classified as equity are recognised in the income statement.

Accounting for taxes is judgemental and carries a degree of uncertainty because tax law is subject to interpretation, which might be questioned by the relevant tax authority. We recognise the most likely current and deferred tax liability or asset, assessed for uncertainty using consistent judgements and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

4.6. Financial instruments

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

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

- amortised cost measured at cost using the effective interest rate method, less any impairment allowance;
- fair value through other comprehensive income (FVOCI) measured at fair value, using the effective interest rate method and changes in fair value through other comprehensive income;
- mandatory fair value through profit or loss (MFVTPL) measured at fair value and changes in fair value reported in the income statement; or
- designated at fair value through profit or loss (DFV) measured at fair value and changes in fair value reported in the income statement.

Classification by business model reflects how we manage our financial assets to generate cash flows. A business model assessment helps to ascertain the measurement approach depending on whether cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives for the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio. When a significant change to our business is communicated to external parties, we reassess our business model for managing those financial assets. We reclassify financial assets if we have a significant change to the business model. A reclassification is applied prospectively from the reclassification date.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and discounts or penalties to interest rates that are part of meeting environmental, social and governance targets as well as other contingent and leverage features, non-recourse arrangements and features that could modify the timing and/or amount of the contractual cash flows that might reset the effective rate of interest; are considered in determining whether cash flows are solely payments of principal and interest.

Certain financial assets may be designated at fair value through profit or loss (DFV) upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch.

Equity shares are measured at fair value through profit or loss unless specifically elected as at fair value through other comprehensive income (FVOCI).

4. Material accounting policies continued

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

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

Financial liabilities are classified into one of following measurement categories:

- **amortised cost** measured at cost using the effective interest rate method;
- **held for trading** measured at fair value and changes in fair value reported in income statement; or
- **designated at fair value through profit or loss** measured at fair value and changes in fair value reported in the income statement except changes in fair value attributable to the credit risk component recognised in other comprehensive income when no accounting mismatch occurs.

4.7. Financial guarantee contracts

Under a financial guarantee contract, we, in return for a fee, undertake to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee not designated as fair value through profit or loss is recognised as a liability; initially at fair value and subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with our ECL accounting policy. Amortisation is calculated to recognise fees receivable in the income statement over the period of the guarantee. A separate asset is recognised in respect of fees receivable for provision of the financial guarantee.

4.8. Netting

Financial assets and financial liabilities are offset, and the net amount presented on the balance sheet when, and only when, we currently have a legally enforceable right to set off the recognised amounts and we intend either to settle on a net basis or to realise the asset and settle the liability simultaneously. We are party to a number of arrangements, including master netting agreements, that give us the right to offset financial assets and financial liabilities, but where we do not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented separately on the balance sheet.

4.9. Capital instruments

We classify a financial instrument that we issue as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms and as equity if we evidence a residual interest in our assets after the deduction of liabilities. Incremental costs and related tax that are directly attributable to an equity transaction are deducted from equity.

4.10. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value. We use derivatives as part of our trading activities, or to manage our own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions. Not all derivatives used to manage risk are in hedge accounting relationships (an IFRS method to reduce accounting mismatch from changes in the fair value of derivatives reported in the income statement).

Gains and losses arising from changes in the fair value of derivatives that are not in hedge relationships are recognised in Income from trading activities unless those derivatives are managed together with financial instruments designated at fair value; these gains and losses are included in Other operating income.

Hedge accounting

Hedge accounting relationships are designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and Measurement. The documentation identifies the hedged item, the hedging instrument and details of the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. When designating a hedging relationship, we consider: the economic relationship between the hedged item (including the risk being hedged) and the hedging instrument; the nature of the risk; the risk management objective and strategy for undertaking the hedge; and the appropriateness of the method that will be used to assess hedge effectiveness.

Designated hedging relationships must be expected to be highly effective both on a prospective and retrospective basis. This is assessed using regression techniques which model the degree of offsetting between the changes in fair value or cash flows attributable to the hedged risk and the changes in fair value of the designated hedging derivatives. Ineffectiveness is measured based on actual levels of offsetting and recognised in the income statement.

Cash flow hedge

The effective portion of the designated hedge relationship is recognised in other comprehensive income and the ineffective portion in the income statement. When the hedged item (forecasted cash flows) results in the recognition of a financial asset or financial liability, the cumulative gain or loss is reclassified from equity to the income statement in the same periods in which the hedged forecasted cash flows affect the income statement.

Discontinuation of hedge accounting

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting i.e., the hedge is not highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the documented risk management strategy; the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked.

For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

5. Future accounting developments

International Financial Reporting Standards

Effective 1 January 2024

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Effective 1 January 2025

- Lack of Exchangeability (Amendments to IAS 21)

We are assessing the effect of adopting these amendments on our financial statements but do not expect the effect to be material.

Notes to the consolidated financial statements

1 Net interest income

	2023 €m	2022 €m
Balances at central banks and loans to banks	**299**	27
Loans and advances to customers	**63**	30
Amounts due from holding companies and fellow subsidiaries	**8**	11
Other financial assets	**83**	13
Interest receivable	**453**	81
Balances with banks	**4**	10
Customer deposits	**175**	7
Amounts due to holding companies and fellow subsidiaries	**61**	17
Subordinated liabilities	**5**	15
Other financial liabilities	**76**	13
Interest payable	**321**	62
Net interest income	**132**	19

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

For accounting policy information refer to Accounting policy 4.1.

2 Non-interest income

	2023 €m	2022 €m
Fees and commissions receivable		
- Lending and financing	**20**	21
- Underwriting fees	**55**	51
- Other (1)	**128**	134
Total	**203**	206
Fees and commissions payable	**(23)**	(20)
Net fees and commissions	**180**	186
Interest rate	**2**	-
Income from trading activities	**2**	-
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (2)	**(41)**	9
Loss on redemption of subordinated liabilities (3)	**-**	(82)
Gain on redemption of subordinated debt asset (3)	**-**	105
Loss on sale of securities	**(1)**	(5)
Other income (4)	**(2)**	5
Other operating income	**(44)**	32
Non-interest income	**138**	218

(1) Net fees and commissions includes transfer pricing income from NWM Plc (in the UK) of €128 million (2022 – €130 million), refer to Note 27 for further details.
(2) Including related derivatives. 2023 was mainly driven by fair value changes of structured deposits due to rising interest rates.
(3) Liability management exercise in 2022 resulted in a net gain of €23 million.
(4) Other income includes €6 million gain on foreign exchange reserve recycling in 2022.

For accounting policy information refer to Accounting policies 4.1 and 4.3.

3 Operating expenses

	2023 €m	2022 €m
Staff costs	**77**	74
Temporary and contract costs	**2**	1
Premises and equipment	**6**	8
Other administrative expenses (1,2)	**85**	78
Operating expenses	**170**	161

(1) Other administrative expenses include €49 million of cost recharges from NatWest Group companies (2022 – €43 million).
(2) Includes depreciation and amortisation.

For accounting policy information refer to Accounting policy 4.2.

There were 300 people employed (rounded to the nearest hundred) at 31 December 2023 (2022 – 200). The average number of persons employed during the year was 200 (2022 - 200).

There were 120 people employed in the Netherlands at 31 December 2023 (2022 – 113).

4 Segmental analysis

RBSH N.V. Group is managed as a single reportable segment.

Geographical segments

The geographical analyses in the tables below have been compiled on the basis of location of office where the transactions are recorded.

2023	Netherlands €m	RoW €m	Total €m
Interest receivable	**452**	**1**	**453**
Interest payable	**(321)**	**-**	**(321)**
Net fees and commissions	**109**	**71**	**180**
Income from trading activities (dealing profits)	**(3)**	**5**	**2**
Other operating income	**(42)**	**(2)**	**(44)**
Total income	**195**	**75**	**270**
Operating profit before tax	**97**	**3**	**100**
Total assets	**27,857**	**348**	**28,205**
Total liabilities	**25,998**	**191**	**26,189**
Contingent liabilities and commitments	**7,525**	**-**	**7,525**
2022			
Interest receivable	81	-	81
Interest payable	(62)	-	(62)
Net fees and commissions	111	75	186
Income from trading activities (dealing profits)	-	-	-
Other operating income	37	(5)	32
Total income	167	70	237
Operating profit before tax	61	1	62
Total assets	25,786	650	26,436
Total liabilities	23,911	234	24,145
Contingent liabilities and commitments	8,409	-	8,409

5 Auditor's remuneration

Amounts payable to RBSH N.V. Group's auditors for statutory audit and audit related services are set out below.

	2023 €m	2022 €m
Fees for the audit of RBSH N.V. Group annual accounts	**1.6**	1.3
Audit related services (1)	**1.0**	1.0
Total audit and audit related services	**2.6**	2.3

The total fees of Ernst & Young Accountants LLP in the Netherlands, charged to RBSH N.V. and its consolidated group entities amounted to €1.2 million (2022 - €0.9 million). There were no non-audit related services rendered to RBSH N.V. Group.

6 Tax

	2023 €m	2022 €m
Current tax		
Charge for the year	**(3)**	(3)
Under provision in respect of prior periods	**(1)**	(3)
	(4)	(6)
Deferred tax		
Charge for the year	**(6)**	(3)
Other provision in respect of prior periods (1)	**18**	-
Tax credit/(charge) for the year	**8**	(9)

The actual tax charge differs from the expected tax charge computed by applying the statutory tax rate of the Netherlands of 25.8% as follows:

	2023 €m	2022 €m
Expected tax charge	**(26)**	(16)
Non-taxable items (including recycling of foreign exchange reserve)	**2**	-
Foreign profits taxed at other rates	**(1)**	(1)
Tax on paid-in equity dividends	**6**	4
Losses brought forward and utilised	**10**	7
Increase in the carrying value of deferred tax assets in respect of tax losses and tax credits	**17**	-
Adjustments in respect of prior years (1)	**-**	(3)
Actual tax credit/(charge)	**8**	(9)

(1) Prior period tax adjustments include tax provision movements, adjustments to reflect submitted tax computations in the Netherlands and overseas, recovery of previously written-off current tax assets and changes in the valuation of deferred tax assets previously recognised.

For accounting policy information refer to Accounting policies 3.1 and 4.5.

	2023 €m	2022 €m
Deferred tax asset	**(63)**	(52)
Deferred tax liability	**2**	3
Net deferred tax asset	**(61)**	(49)

	Tax losses carried forward €m	Other €m	Total €m
At 1 January 2022	(57)	5	(52)
Charge/(Credit) to income statement	5	(2)	3
At 1 January 2023	**(52)**	**3**	**(49)**
Charge to income statement	**(11)**	**(1)**	**(12)**
At 31 December 2023	**(63)**	**2**	**(61)**

Deferred tax assets in respect of unused tax losses and tax credits are recognised if the losses and tax credits can be used to offset probable future taxable profits after taking into account the expected reversal of other temporary differences. Recognised deferred tax assets in respect of tax losses and tax credits are analysed further below.

Critical accounting policy: Deferred tax

The deferred tax assets of €63 million as at 31 December 2023 (2022 - €52 million) comprises tax losses which arose in the Netherlands, and Dutch tax credits. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

Judgement – RBSH N.V. Group has considered the carrying value of deferred tax assets and concluded that, based on management's estimates, sufficient taxable profits will be generated in future years to recover the carrying value of the recognised deferred tax assets.

Estimate - The existence of unused tax losses is usually strong evidence that future taxable profit may not be available. However, the unused tax losses and tax credits of RBSH N.V. Group do result from identifiable causes which are unlikely to recur. Pursuant to the new business model, from March 2019 onwards, NWM N.V. is subject to transfer pricing arrangements with its parent entity, NWM Plc. RBSH N.V. Group's Dutch fiscal unit has reported profits in the period after the repurposing of NWM N.V.'s banking license in 2019. In addition, NatWest Group strategic review of NWM Group has been largely completed, which has removed material uncertainties around the future business of NWM N.V.

6 Tax continued

As a result, RBSH N.V. Group considers it to be probable, based on NWM N.V's 5 year budget forecast, that future taxable profit will be available against which the tax losses and tax credits can be partially utilised. The carrying amount of the deferred tax assets is sensitive to certain significant assumptions made in management's assessment. Significant assumptions relate to:

- The five year forecast period;
- The future macro-economic environment of NWM N.V.;
- Transfer pricing model parameters;
- The impact of strategic decisions made since 2019;
- Decisions to be made within the strategy of NWM N.V.;
- Dutch tax law.

RBSH N.V. Group's evaluation of alternative assumptions revealed that the recognition of the deferred tax asset is highly sensitive to the significant assumptions used in the assessment and therefore subject to high estimation uncertainty. Due to the uncertainty associated with the underlying forecast of probable taxable income, the final outcome of the utilisation of the deferred tax asset may vary significantly. This can lead to material increase or decrease of the deferred tax assets depending on the result of the strategic decisions made since 2019 and to be made in future periods.

Dutch tax law – As from 2022, tax losses can be carried forward indefinitely pursuant to Dutch tax law. However, the utilisation of losses in a year is limited. The taxable profit up to €1 million can be fully offset against prior year tax losses, the taxable profit in excess thereof can only be reduced by tax losses up to 50 percent. There is no change in Dutch tax law on the utilisation of available tax credits for which taxable profit can still be fully offset against available tax credits.

The corporate income tax rate is 25.8% in 2023 (2022 - 25.8%). On 19 December 2023 the government of the Netherlands enacted the Pillar 2 income taxes legislation effective from 31 December 2023. No material impact is expected for the jurisdictions where RBSH N.V. Group is located.

Tax losses – RBSH N.V. Group's tax losses arose principally as a result of running down its legacy business between 2013 and 2017.

Tax credits – RBSH N.V. Group's Dutch tax credits relate to foreign profits. In taxable years before 2012, Dutch resident corporate taxpayers were fully liable to Dutch corporate income tax on their worldwide income, including any income derived from a foreign permanent establishment. Double taxation was avoided by way of a tax reduction for income attributable to the foreign permanent establishment. Foreign profits which could not be exempted because no attributable Dutch corporate income tax was due against which the foreign profit could be offset, were carried forward to be used in a later year. As from 2012, income (gains and losses) arising from a foreign permanent establishment are in principle exempt from the Dutch corporate income tax base (object exemption). Pre-2012 carried forward foreign profits can still be used for the elimination of double taxation in 2012 and subsequent years.

Deferred tax assets – A deferred tax asset of €63 million (2022 - €52 million) has been recognised in respect of tax losses and tax credits to be carried forward of €244 million (2022 - €202 million).

Unrecognised deferred tax – Deferred tax assets of €766 million (2022 - €794 million) have not been recognised in respect of tax losses and unused tax credits of €2,967 million (2022 - €3,076 million). The tax losses and the tax credits have no expiry date.

7 Financial instruments - classification

Judgement: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgement in respect of business models and contractual cashflows.

- The business model criteria is assessed at a portfolio level to determine whether assets are classified as held to collect or held to collect and sell. Information that is considered in determining the applicable business model includes: the portfolio's policies and objectives; how the performance and risks of the portfolio are managed, evaluated and reported to management; and the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for sales.
- The contractual cash flow characteristics of financial assets are assessed with reference to whether the cash flows represent solely payments of principal and interest (SPPI). A level of judgement is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

For accounting policy information refer to Accounting policies 4.6, 4.8 and 4.10.

The following tables analyse RBSH N.V. Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

Assets	MVFTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Cash and balances at central banks			**5,979**		**5,979**
Trading assets	**4,693**				**4,693**
Derivatives	**9,890**				**9,890**
Settlement balances			**565**		**565**
Loans to banks - amortised cost (1)			**236**		**236**
Loans to customers - amortised cost			**951**		**951**
Amounts due from holding companies and fellow subsidiaries	**2,740**	**-**	**427**	**14**	**3,181**
Other financial assets	**1**	**402**	**2,202**		**2,605**
Other assets				**105**	**105**
31 December 2023	**17,324**	**402**	**10,360**	**119**	**28,205**
Cash and balances at central banks			3,961		3,961
Trading assets	4,440				4,440
Derivatives	12,335				12,335
Settlement balances			739		739
Loans to banks - amortised cost (1)			223		223
Loans to customers - amortised cost			1,024		1,024
Amounts due from holding companies and fellow subsidiaries	1,406	-	535	10	1,951
Other financial assets	1	1,309	363		1,673
Other assets				90	90
31 December 2022	18,182	1,309	6,845	100	26,436

Liabilities	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Bank deposits (2)			**411**		**411**
Customer deposits			**4,531**		**4,531**
Amounts due to holding company and fellow subsidiaries	**2,708**	**-**	**1,221**	**24**	**3,953**
Settlement balances			**679**		**679**
Trading liabilities	**4,637**				**4,637**
Derivatives	**8,814**				**8,814**
Other financial liabilities	**-**	**535**	**2,270**		**2,805**
Subordinated liabilities (3)		**273**	**20**		**293**
Other liabilities (4)			**9**	**57**	**66**
31 December 2023	**16,159**	**808**	**9,141**	**81**	**26,189**
Bank deposits (2)			150		150
Customer deposits			1,046		1,046
Amounts due to holding company and fellow subsidiaries	2,857	-	1,480	22	4,359
Settlement balances			608		608
Trading liabilities	3,998				3,998
Derivatives	11,114				11,114
Other financial liabilities	-	370	2,071		2,441
Subordinated liabilities (3)		251	114		365
Other liabilities (4)			8	56	64
31 December 2022	17,969	621	5,477	78	24,145

(1) Includes items in the course of collection from other banks of €2 million (2022 - €41 million).
(2) Includes items in the course of transmission to other banks of €14 million (2022 - nil).
(3) The cumulative own credit adjustment, representing a reduction of the subordinated liability value, was €16 million (2022 - €38 million).
(4) Includes lease liabilities of €8 million (2022 - €7 million).

7 Financial instruments – classification continued

Financial instruments – financial assets and liabilities that can be offset

The tables below present information on financial assets and liabilities that are offset in the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

	Instruments which can be offset			Potential for offset not recognised by IFRS					
2023	Gross €m	IFRS offset €m	Balance sheet €m	Effect of master netting and similar agreements €m	Cash collateral €m	Securities collateral €m	Net amount after effect of netting agreements and related collateral €m	Instruments outside netting agreements €m	Balance sheet total €m
Derivative assets	**20,753**	**(10,956)**	**9,797**	**(5,868)**	**(3,143)**	**(456)**	**330**	**93**	**9,890**
Derivative liabilities	**20,550**	**(11,855)**	**8,695**	**(5,868)**	**(1,685)**	**(601)**	**541**	**119**	**8,814**
Net position (1)	**203**	**899**	**1,102**	**-**	**(1,458)**	**145**	**(211)**	**(26)**	**1,076**
Trading reverse repos	**3,443**	**(702)**	**2,741**	**(479)**	**-**	**(2,262)**	**-**	**28**	**2,769**
Trading repos	**2,319**	**(702)**	**1,617**	**(479)**	**-**	**(1,138)**	**-**	**-**	**1,617**
Net position	**1,124**	**-**	**1,124**	**-**	**-**	**(1,124)**	**-**	**28**	**1,152**
2022									
Derivative assets	25,953	(13,716)	12,237	(7,528)	(3,642)	(646)	421	98	12,335
Derivative liabilities	25,668	(14,762)	10,906	(7,528)	(2,348)	(423)	607	208	11,114
Net position (1)	285	1,046	1,331	-	(1,294)	(223)	(186)	(110)	1,221
Trading reverse repos	2,082	(564)	1,518	(72)	-	(1,445)	1	331	1,849
Trading repos	989	(564)	425	(72)	-	(353)	-	-	425
Net position	1,093	-	1,093	-	-	(1,092)	1	331	1,424

(1) The net IFRS offset balance of €899 million (2022 – €1,046 million) relates to variation margin netting reflected on other balance sheet lines.

8 Financial instruments – valuation

Critical accounting policy: Fair value - financial instruments

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

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

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

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

For accounting policy information refer to Accounting policies 3.2, 4.6 and 4.10.

Valuation

Fair value hierarchy

Financial instruments carried at fair value have been classified under the fair value hierarchy. The classification ranges from level 1 to level 3, with more expert judgement and price uncertainty for those classified at level 3.

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on the level of market activity for the referenced entity.

Level 1 – instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - instruments valued using valuation techniques that have observable inputs. Observable inputs are those that are readily available with limited adjustments required. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products - including collateralised loan obligations (CLOs), most bank loans, repos and reverse repos, state and municipal obligations, most notes issued, certain money market securities, loan commitments and most over the counter (OTC) derivatives.

Level 3 - instruments valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include non-derivative instruments which trade infrequently, certain syndicated and commercial mortgage loans, private equity, and derivatives with unobservable model inputs.

8 Financial instruments – valuation continued

Valuation techniques

RBSH N.V. Group derives the fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input, typically on a position-by-position basis. Examples include equities and most debt securities.

Non-modelled products can fall into any fair value levelling hierarchy depending on the observable market activity, liquidity, and assessment of valuation uncertainty of the instruments. The assessment of fair value and the classification of the instrument to a fair value level is subject to the valuation controls discussed in the "Valuation control" section.

Modelled products valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g., interest rate caps and floors) through to more complex derivatives (e.g., balance guaranteed swaps).

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

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

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

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the cashflow amounts and timing of those cash flows, and application of appropriate discount rates, incorporating both funding and credit risk. Values between and beyond available data points are obtained by interpolation and extrapolation. The principal inputs to these valuation techniques are as follows:

Bond prices - quoted prices are generally available for government bonds, certain corporate securities, and some mortgage-related products.

Credit spreads/margins - these reflect credit default swap levels or the return required over a benchmark rate or index to compensate for the referenced credit risk. Where available, these are derived from the price of credit default swaps or other credit-based instruments, such as debt securities. When direct prices are not available; credit spreads/margins are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing Interbank Offered Rates (IBOR) and overnight interest rates, including SONIA (Sterling Overnight Interbank Average Rate). Other quoted interest rates may also be used from both the bond, and futures markets.

Foreign currency exchange rates - there are observable prices both for spot and forward contracts and futures in the world's major currencies.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Price volatilities and correlations - volatility is a measure of the tendency of a price to change with time. Correlation measures the degree which two or more prices or variables are observed to move together. Variables that move in the same direction show positive correlation; those that move in opposite directions are negatively correlated.

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

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

Valuation control

RBSH N.V. Group's control environment for the determination of the fair value of financial instruments includes formalised procedures for the review and validation of fair values. The review of market prices and inputs is performed by an independent price verification (IPV) team.

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

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

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

8 Financial instruments – valuation continued

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

The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument and forms part of the information considered when determining fair value hierarchy classifications.

Initial fair value level classification of a financial instrument is carried out by the IPV team. These initial classifications are subject to senior management review. Particular attention is paid to instruments transferring from one level to another, new instrument classes or products, instruments where the transaction price is significantly different from the fair value and instruments where valuation uncertainty is high.

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversees pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant industry matters.

The Group model risk policy sets the policy for model documentation, testing and review. Governance of the model risk policy is carried out by the Group model risk oversight committee, which comprises model risk owners and independent model experts. All models are required to be independently validated in accordance with the Model Risk Policy.

Key areas of judgement

Over the years the business has simplified, with most products classified as level 1 or 2 of the fair value hierarchy. However, the diverse range of products historically traded by RBSH N.V. Group means some products remain classified as level 3. Level 3 indicates a significant level of pricing uncertainty, where expert judgement is used. As such, extra disclosures are required in respect of level 3 instruments.

In general, the degree of expert judgement used and hence valuation uncertainty depends on the degree of liquidity of an instrument or input.

Where markets are liquid, little judgement is required. However, when the information regarding the liquidity in a particular market is not clear, a judgement may need to be made. For example, for an equity traded on an exchange, daily volumes of trading can be seen, but for an OTC derivative, assessing the liquidity of the market with no central exchange is more challenging.

A key related matter is where a market moves from liquid to illiquid or vice versa. Where this movement is considered temporary, the fair value level is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been liquid. In this case, the instrument will continue to be classified at the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects. Material movements between levels are reviewed quarterly by the business and IPV.

The breadth and depth of the IPV data allows for a rules-based quality assessment to be made of market activity, liquidity, and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available, the quality assessment will result in the instrument being assessed as level 3.

8 Financial instruments – valuation continued

The table below shows the assets and liabilities held by RBSH N.V. Group split by fair value hierarchy level. level 1 are considered the most liquid instruments, and level 3 most illiquid, valued using expert judgement and so carry the most significant price uncertainty.

	2023				2022			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Trading assets								
Loans	-	4,689	4	4,693	-	4,403	37	4,440
Derivatives								
Interest rate	-	4,343	35	4,378	-	5,238	43	5,281
Foreign exchange	-	5,507	4	5,511	-	7,040	13	7,053
Other	-	1	-	1	-	1	-	1
Amounts due from holding companies and fellow subsidiaries	-	2,740	-	2,740	-	1,406	-	1,406
Other financial assets								
Loans	-	-	-	-	-	-	30	30
Securities	339	62	2	403	982	295	3	1,280
Total financial assets held at fair value	339	17,342	45	17,726	982	18,383	126	19,491
As % of total fair value assets	2%	98%	-		5%	94%	1%	
Liabilities								
Amounts due to holding companies and fellow subsidiaries	-	2,708	-	2,708	-	2,857	-	2,857
Trading liabilities								
Deposits	-	4,619	-	4,619	-	3,930	-	3,930
Short positions	-	18	-	18	51	17	-	68
Derivatives								
Interest rate	-	3,102	121	3,223	-	3,837	162	3,999
Foreign exchange	-	5,580	4	5,584	-	7,099	13	7,112
Other	-	7	-	7	-	2	1	3
Other financial liabilities								
Debt securities in issue	-	255	-	255	-	54	-	54
Deposits	-	280	-	280	-	316	-	316
Subordinated liabilities	-	273	-	273	-	251	-	251
Total financial liabilities held at fair value	-	16,842	125	16,967	51	18,363	176	18,590
As % of total fair value liabilities	-	99%	1%		-	99%	1%	

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instrument was transferred.

8 Financial instruments – valuation continued

Valuation adjustments

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, funding and credit risk. These adjustments are presented in the table below:

Adjustment	2023 €m	2022 €m
Funding valuation adjustments	**(11)**	(16)
Credit valuation adjustments	**125**	134
Bid-offer	**2**	2
Product and deal specific	**(1)**	1
Total	**115**	121

The negative FVA reserves related to uncollateralised exposures with funding benefits to RBSH N.V. Group. The decrease in CVA was driven by credit spreads tightening and a reduction in exposures, primarily due to portfolio ageing. The negative Product and deal specific reserves include Day 1 losses as well as gains.

Funding valuation adjustments (FVA)

FVA represents an estimate of the adjustment that a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures. FVA is calculated as a portfolio level adjustment and can result in either a funding charge (positive) or funding benefit (negative).

Funding levels are applied to estimated potential future exposures. For uncollateralised derivatives, the exposure reflects the future valuation of the derivative. For collateralised derivatives, the exposure reflects the difference between the future valuation of the derivative and the level of collateral posted.

Credit valuation adjustments (CVA)

CVA represents an estimate of the adjustment to fair value that is made to incorporate the counterparty credit risk inherent in derivative exposures. CVA is calculated on a portfolio basis reflecting an estimate of the amount a third party would charge to assume the credit risk.

Collateral held under a credit support agreement is factored into the CVA calculation. In such cases where RBSH N.V. Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

FVA and CVA are actively managed by a credit and market risk hedging process, and therefore movements in CVA and FVA are partially offset by trading revenue on the hedges.

Bid-offer

Fair value positions are required to be marked to exit, represented by bid (long positions) or offer (short positions) levels. Non-derivative positions are typically marked directly to bid or offer prices. However derivative exposures are adjusted to exit levels by taking bid-offer reserves calculated on a portfolio basis. The reserving approach is based on current market bid-offer spreads and standard market bucketing of risk.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability.

Netting is applied on a portfolio basis to reflect the value at which RBSH N.V. Group believes it could exit the net risk of the portfolio, rather than the sum of exit costs for each of the portfolio's individual trades. This is applied where the asset and liability positions are managed as a portfolio for risk and reporting purposes.

Product and deal specific

On initial recognition of financial assets and liabilities valued using valuation techniques which have a significant dependence on information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in the income statement over the life of the transaction; when market data becomes observable; or when the transaction matures or is closed out as appropriate.

Where system generated valuations do not accurately reflect market prices, manual valuation adjustments are applied either at a position or portfolio level. Manual adjustments are subject to the scrutiny of independent control teams and are subject to monthly review by senior management.

Own credit

RBSH N.V. Group considers the effect of its own credit standing when valuing financial liabilities recorded at fair value. Own credit spread adjustments are made when valuing issued debt held at fair value, including issued structured notes. An own credit adjustment is applied to positions where it is believed that counterparties would consider RBSH N.V. Group's creditworthiness when pricing trades.

8 Financial instruments – valuation continued

Level 3 additional information

For illiquid assets and liabilities classified as level 3, additional information is provided on the valuation techniques used and price sensitivity of the products to those inputs. This is to enable the reader to gauge the level of uncertainty that arises from positions with significant unobservable inputs or modelling parameters.

Level 3 ranges of unobservable inputs

The table below provides additional information on level 3 instruments and inputs. This shows the valuation technique used for the fair value calculation, the unobservable input and input range.

Financial instruments	Valuation techniques	Unobservable inputs	Units	2023 Low	2023 High	2022 Low	2022 High
Trading assets and other financial assets							
Loans to customers	Price-based	Price	%	-	100	92	100
Equity shares	Price-based	Price	EUR	1	1,020	1	1,020
Derivative assets and liabilities							
Interest rate and FX derivatives	Option pricing	Correlation	%	-	60	-	60
		Volatility	%	51	111	56	127
		Constant prepayment rate	%	7	22	7	21
		Mean reversion	%	-	10	-	10

(1) RBSH N.V. Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

Level 3 sensitivities

The level 3 sensitivities presented below are calculated at a trade or low-level portfolio basis rather than an overall portfolio basis. As individual sensitivities are aggregated with no reflection of the correlated nature between instruments, the overall portfolio sensitivity may not be accurately reflected. For example, some portfolios may be negatively correlated to others, where a downwards movement in one asset would produce an upwards movement in another. However, due to the additive presentation of the above figures this correlation impact cannot be displayed. As such, the actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the below table.

Alternative assumptions

Reasonably plausible alternative assumptions of unobservable inputs are determined based on a specified target level of certainty of 90%.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information considering consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 profit or loss arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Other considerations

Whilst certain inputs used to calculate CVA, FVA and own credit adjustments are not based on observable market data, the uncertainty of these inputs is not considered to have a significant effect on the net valuation of the related derivative portfolios and issued debt.

As such, the fair value levelling of the derivative portfolios and issued debt is not determined by CVA, FVA or own credit inputs. In addition, any fair value sensitivity driven by these inputs is not included in the level 3 sensitivities presented.

The table below shows the high and low range of fair value of the level 3 assets and liabilities. This range incorporates the range of fair value inputs as described in the previous table.

	2023			2022		
	Level 3 €m	Favourable €m	Unfavourable €m	Level 3 €m	Favourable €m	Unfavourable €m
Assets						
Trading assets						
Loans	4	-	-	37	-	-
Derivatives						
Interest rate	35	-	-	43	-	-
Foreign Exchange	4	-	-	13	-	-
Other financial assets						
Loans	-	-	-	30	-	-
Securities	2	-	-	3	-	-
Total	45	-	-	126	-	-
Liabilities						
Derivatives						
Interest rate	121	10	(10)	162	10	(10)
Foreign Exchange	4	-	-	13	-	-
Other	-	-	-	1	-	-
Total	125	10	(10)	176	10	(10)

8 Financial instruments – valuation continued

Movement in Level 3 assets and liabilities over the reporting period

The following table shows the movement in level 3 assets and liabilities in the year.

2023	Derivatives assets €m	Other trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Derivatives liabilities €m	Other trading liabilities (2) €m	Other financial liabilities €m	Total liabilities €m
At 1 Jaunary	56	37	33	126	176	-	-	176
Amounts recorded in the income statement (3)	(13)	2	-	(11)	(87)	-	-	(87)
Amount recorded in the statement of comprehensive income	-	-	(2)	(2)	-	-	-	-
Level 3 transfers in	-	-	-	-	2	-	-	2
Level 3 transfers out	-	(29)	-	(29)	(4)	-	-	(4)
Purchases/originations	14	-	-	14	64	-	-	64
Settlements/other decreases	-	-	-	-	(10)	-	-	(10)
Sales	(17)	(6)	(30)	(53)	(17)	-	-	(17)
Foreign exchange and other adjustments	(1)	-	1	-	1	-	-	1
At 31 December	39	4	2	45	125	-	-	125
Amounts recorded in the income statement in respect of balances held at period end - unrealised	8	-	-	8	(23)	-	-	(23)

2022	Derivatives assets €m	Other trading assets (2) €m	Other financial assets (3) €m	Total assets €m	Derivatives liabilities €m	Other trading liabilities (2) €m	Other financial liabilities €m	Total liabilities €m
At 1 Jaunary	112	62	-	174	60	-	-	60
Amounts recorded in the income statement (3)	(38)	-	-	(38)	86	-	-	86
Amount recorded in the statement of comprehensive income	-	-	(4)	(4)	-	-	-	-
Level 3 transfers in	-	-	-	-	2	-	-	2
Level 3 transfers out	-	-	-	-	(3)	-	-	(3)
Purchases/originations	18	122	37	177	62	-	-	62
Settlements/other decreases	(9)	-	-	(9)	(6)	-	-	(6)
Sales	(26)	(147)	-	(173)	(24)	-	-	(24)
Foreign exchange and other adjustments	(1)	-	-	(1)	(1)	-	-	(1)
At 31 December	56	37	33	126	176	-	-	176
Amounts recorded in the income statement in respect of balances held at period end - unrealised	(38)	-	-	(38)	86	-	-	86

(1) There were €76 million net gains on trading assets and liabilities (2022 - €124 million net losses) recorded in income from trading activities.
(2) Other trading assets and other trading liabilities comprise assets and liabilities held at fair value in trading portfolios.
(3) Other financial assets comprise fair value through other comprehensive income, designated as at fair value through profit or loss and other fair value through profit or loss.

8 Financial instruments – valuation continued

Fair value of financial instruments measured at amortised cost on the balance sheet

The following table shows the carrying value and fair value of financial instruments measured at amortised cost on the balance sheet.

	Carrying value	Fair value	Fair value hierarchy level		Items where fair value approximates carrying value
			Level 2	Level 3	
2023	€m	€m	€m	€m	€m
Financial assets					
Cash and balances at central banks	**5,979**	**5,979**	**-**	**-**	**5,979**
Settlement balances	**565**	**565**	**-**	**-**	**565**
Loans to banks	**236**	**236**	**-**	**-**	**236**
Loans to customers	**951**	**951**	**-**	**951**	**-**
Amounts due from holding companies and fellow subsidiaries	**427**	**427**	**-**	**109**	**318**
Other financial assets - securities	**2,202**	**2,194**	**196**	**1,998**	**-**
2022					
Financial assets					
Cash and balances at central banks	3,961	3,961	-	-	3,961
Settlement balances	739	739	-	-	739
Loans to banks	223	223	79	103	41
Loans to customers	1,024	989	-	989	-
Amounts due from holding companies and fellow subsidiaries	535	535	-	393	142
Other financial assets - securities	363	411	-	411	-
2023					
Financial liabilities					
Bank deposits	**411**	**411**	**-**	**397**	**14**
Customer deposits	**4,531**	**4,531**	**-**	**4,502**	**29**
Amounts due to holding companies and fellow subsidiaries	**1,221**	**1,225**	**154**	**898**	**173**
Settlement balances	**679**	**679**	**-**	**-**	**679**
Other financial liabilities					
Debt securities in issue	**2,269**	**2,269**	**1,509**	**760**	**-**
Subordinated liabilities	**20**	**21**	**21**	**-**	**-**
2022					
Financial liabilities					
Bank deposits	150	150	-	150	-
Customer deposits	1,046	1,046	-	1,039	7
Amounts due to holding companies and fellow subsidiaries	1,480	1,482	152	1,013	317
Settlement balances	608	608	-	-	608
Other financial liabilities					
Debt securities in issue	2,071	2,073	1,076	997	-
Subordinated liabilities	114	120	120	-	-

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows.

Short-term financial instruments

For certain short-term financial instruments, including but not limited to; cash and balances at central banks, settlement balances, loans with short-term maturities and customer demand deposits, carrying value is deemed a reasonable approximation of fair value.

Loans to banks and customers

In estimating the fair value of net loans to customers and banks measured at amortised cost, RBSH N.V. Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Loans are valued using contractual cashflows that are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing.

Debt securities and subordinated liabilities

Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments. The remaining population is valued using discounted cashflows at current offer rates.

Bank and customer deposits

Fair values of deposits are estimated using contractual cashflows using a market discount rate incorporating the current spread.

9 Financial instruments - maturity analysis

Remaining maturity

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

	2023			2022		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	5,979	-	5,979	3,961	-	3,961
Trading assets	4,688	5	4,693	4,399	41	4,440
Derivatives	3,849	6,041	9,890	4,742	7,593	12,335
Settlement balances	565	-	565	739	-	739
Loans to banks - amortised cost	236	-	236	223	-	223
Loans to customers - amortised cost	316	635	951	178	846	1,024
Amounts due from holding companies and fellow subsidiaries (1)	3,165	2	3,167	1,266	675	1,941
Other financial assets	617	1,988	2,605	1,375	298	1,673
Liabilities						
Bank deposits	310	101	411	100	50	150
Customer deposits	4,523	8	4,531	1,038	8	1,046
Amounts due to holding companies and fellow subsidiaries (2)	3,928	1	3,929	4,186	151	4,337
Settlement balances	679	-	679	608	-	608
Trading liabilities	4,617	20	4,637	3,928	70	3,998
Derivatives	4,073	4,741	8,814	4,764	6,350	11,114
Other financial liabilities	2,246	559	2,805	1,588	853	2,441
Subordinated liabilities	-	293	293	94	271	365
Lease liabilities	2	6	8	2	5	7

(1) Excludes amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of €14 million (2022 – €10 million).
(2) Excludes amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €24 million (2022 – €22 million).

Assets and liabilities by contractual cash flows up to 20 years

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by RBSH N.V. Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by RBSH N.V. Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

MFVTPL assets of €17.3 billion (2022 - €18.2 billion) and HFT liabilities of €16.2 billion (2022 - €18 billion) have been excluded from the following tables.

9 Financial instruments - maturity analysis continued

2023	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	**5,979**	-	-	-	-	-
Settlement balances	**565**	-	-	-	-	-
Loans to banks - amortised cost	**236**	-	-	-	-	-
Loans to customers - amortised cost	**45**	**332**	**476**	**201**	**24**	-
Amounts due from holding companies and fellow subsidiaries (1)	**427**	-	-	-	-	-
Other financial assets (2)	**170**	**257**	**171**	**11**	**323**	**979**
	7,422	**589**	**647**	**212**	**347**	**979**
Liabilities by contractual maturity up to 20 years						
Bank deposits	**14**	**301**	**101**	-	-	-
Customer deposits	**3,919**	**618**	-	-	-	**18**
Amounts due to holding companies and fellow subsidiaries (3)	**1,071**	**150**	**1**	-	-	-
Settlement balances	**679**	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	**273**
Other financial liabilities	**542**	**1,703**	**178**	**308**	**9**	**115**
Lease liabilities	**1**	**1**	**3**	**3**	-	-
	6,226	**2,773**	**283**	**311**	**9**	**406**
Guarantees and commitments - notional amount						
Guarantees (4)	**527**	-	-	-	-	-
Commitments (5)	**6,898**	-	-	-	-	-
	7,425	-	-	-	-	-

2022	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	3,961	-	-	-	-	-
Settlement balances	739	-	-	-	-	-
Loans to banks - amortised cost	223	-	-	-	-	-
Loans to customers - amortised cost	26	195	620	194	102	-
Amounts due from holding companies and fellow subsidiaries (1)	514	-	-	-	-	-
Other financial assets (2)	282	751	259	97	119	109
	5,745	946	879	291	221	109
Liabilities by contractual maturity up to 20 years						
Bank deposits	-	101	50	-	-	-
Customer deposits	648	396	-	-	-	19
Amounts due to holding companies and fellow subsidiaries (3)	1,328	-	151	-	-	-
Settlement balances	608	-	-	-	-	-
Subordinated liabilities	-	94	-	-	-	251
Other financial liabilities	720	883	677	121	-	61
Lease liabilities	1	2	3	2	-	-
	3,305	1,476	881	123	-	331
Guarantees and commitments notional amount						
Guarantees (4)	508	-	-	-	-	-
Commitments (5)	7,801	-	-	-	-	-
	8,309	-	-	-	-	-

(1) Excludes amounts due from holding companies and fellow subsidiaries relating to non-financial instruments.
(2) Other financial assets exclude equity shares.
(3) RBSH N.V. Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. RBSH N.V. Group expects most guarantees it provides to expire unused.
(4) RBSH N.V. Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. RBS Holdings N.V. does not expect all facilities to be drawn, and some may lapse before drawdown.

10 Trading assets and liabilities

Trading assets and liabilities comprise assets and liabilities held at fair value in trading portfolios.

	2023 €m	2022 €m
Assets		
Loans		
Reverse repos	**2,769**	1,849
Collateral given	**1,900**	2,539
Other loans	**24**	52
Total	**4,693**	4,440
Liabilities		
Deposits		
Repos	**1,617**	425
Collateral received	**3,000**	3,503
Other deposits	**2**	2
Total deposits	**4,619**	3,930
Short positions		
Central and local government		
- UK	**-**	51
- Other	**18**	17
Total short positions	**18**	68
Total	**4,637**	3,998

For accounting policy information refer to Accounting policy 3.2.

11 Derivatives

RBSH N.V. Group uses derivatives as part of its trading activities or to manage its own risk such as interest rate, foreign exchange, or credit risk.

	Notional			Asset			Liability		
	Traded on recognised exchanges	Traded over the counter	Total	Traded on recognised exchanges	Traded over the counter	Total	Traded on recognised exchanges	Traded over the counter	Total
2023	€bn	€bn	€bn	€m	€m	€m	€m	€m	€m
Interest rate	**20**	**1,119**	**1,139**	**-**	**4,378**	**4,378**	**-**	**3,223**	**3,223**
- *Swaps*	-	*936*	*936*	-	*4,042*	*4,042*	-	*2,879*	*2,879*
- *Options*	-	*75*	*75*	-	*336*	*336*	-	*344*	*344*
- *Forwards and futures*	*20*	*108*	*128*	-	-	-	-	-	-
Exchange rate	**-**	**349**	**349**	**-**	**5,511**	**5,511**	**-**	**5,584**	**5,584**
- *Swaps*	-	*40*	*40*	-	*1,632*	*1,632*	-	*1,630*	*1,630*
- *Options*	-	*13*	*13*	-	*80*	*80*	-	*86*	*86*
- *Spot, forwards and futures*	-	*296*	*296*	-	*3,799*	*3,799*	-	*3,868*	*3,868*
Credit	**-**	**1**	**1**	**-**	**1**	**1**	**-**	**7**	**7**
Equity and commodity	-	-	-	-	-	-	-	-	-
Total	**20**	**1,469**	**1,489**	**-**	**9,890**	**9,890**	**-**	**8,814**	**8,814**
2022									
Interest rate	8	2,249	2,257	-	5,281	5,281	-	3,999	3,999
- *Swaps*	-	*1,727*	*1,727*	-	*4,817*	*4,817*	-	*3,548*	*3,548*
- *Options*	-	*59*	*59*	-	*464*	*464*	-	*451*	*451*
- *Forwards and futures*	*8*	*463*	*471*	-	-	-	-	-	-
Exchange rate	-	341	341	-	7,053	7,053	-	7,112	7,112
- *Swaps*	-	*43*	*43*	-	*2,120*	*2,120*	-	*2,111*	*2,111*
- *Options*	-	*13*	*13*	-	*109*	*109*	-	*110*	*110*
- *Spot, forwards and futures*	-	*285*	*285*	-	*4,824*	*4,824*	-	*4,891*	*4,891*
Credit	-	1	1	-	1	1	-	3	3
Equity and commodity	-	-	-	-	-	-	-	-	-
Total	8	2,591	2,599	-	12,335	12,335	-	11,114	11,114

Included in the table above is the notional amount of €684 billion (2022 - €1,865 billion) of interest rate derivatives that are traded over the counter and settled through central clearing counterparties. RBSH N.V. Group has no other type of derivatives that are settled through central counterparties.

11 Derivatives continued

Hedge accounting using derivatives

For accounting policy information refer to Accounting policies 4.6 and 4.10.

Refer to Note 27 for amounts due from/to fellow NatWest Group companies.

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

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

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

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

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged item's fair value attributable to changes in the interest rate risk component of the hedged item. The significant interest rates identified as risk components are SOFR and EURIBOR. These risk components are identified using the risk management systems of RBSH N.V. Group and encompass the majority of the hedged item's fair value risk.

RBSH N.V. Group hedges the exchange rate risk of its net investment in foreign currency denominated operations with currency borrowings and forward foreign exchange contracts.

RBSH N.V. Group reviews the value of the investments' net assets, executing hedges where appropriate to reduce the sensitivity of capital ratios to foreign exchange rate movement. Hedge accounting relationships will be designated where required.

Exchange rate risk also arises in RBSH N.V. Group where payments are denominated in currencies other than the functional currency. Residual risk positions are hedged with forward foreign exchange contracts, fixing the exchange rate the payments will be settled in. The derivatives are documented as cash flow hedges.

For all cash flow hedging, fair value hedge relationships and net investment hedging, RBSH N.V. Group determines that there is an economic relationship between the hedged item and hedging instrument via assessing the initial and ongoing effectiveness by comparing movements in the fair value of the expected highly probable forecast interest cash flows/ fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging instrument. The method used for comparing movements is either regression testing, or the dollar offset method. The method for testing effectiveness and the period over which the test is performed depends on the applicable risk management strategy and is applied consistently to each risk management strategy. Hedge effectiveness is assessed on a cumulative basis and the determination of effectiveness is in line with the requirements of IAS 39.

RBSH N.V. Group uses either the actual ratio between the hedged item and hedging instrument(s) or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured in line with the requirements of IAS 39 and recognised in the income statement as it arises.

11 Derivatives continued

Derivatives in hedge accounting relationships

Included in the table below are derivatives held for hedging as follows.

	2023				2022			
	Notional €bn	Assets €m	Liabilities €m	Changes in fair value used for hedge ineffectiveness (1) €m	Notional €bn	Assets €m	Liabilities €m	Changes in fair value used for hedge ineffectiveness (1) €m
Fair value hedging								
Interest rate contracts	0.3	-	1	2	0.4	1	4	(6)
Cash flow hedging								
Interest rate contracts	1.7	25	5	37	1.8	1	10	(10)
	2.0	25	6	39	2.2	2	14	(16)
IFRS netting and clearing house settlements		(25)	(6)			(2)	(13)	
		-	-			-	1	

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

Hedge ineffectiveness

Hedge ineffectiveness recognised in other operating income comprised.

	2023 €m	2022 €m
Fair value hedging		
(Loss)/gain on hedged items attributable to the hedged risk	(2)	7
Gain/(loss) on hedging instruments	2	(6)
Fair value hedging ineffectiveness	-	1

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:
- The effect of the counterparty credit risk on the fair value of the interest rate swap which is not reflected in the fair value of the hedged item attributable to the change in interest rate (fair value hedge);
- Differences in the repricing basis between the hedging instrument and hedged cash flows (cash flow hedge); and
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date (cash flow hedge and fair value hedge).

11 Derivatives continued

Maturity of notional hedging contracts

The following table shows the period in which notional of the hedging contract ends.

2023	0-3 months €bn	3-12 months €bn	1-3 years €bn	3-5 years €bn	5-10 years €bn	Over 10 years €bn	Total €bn
Fair value hedging							
Interest rate risk							
Hedging liabilities	-	0.3	-	-	-	-	0.3
2022							
Fair value hedging							
Interest rate risk							
Hedging liabilities	-	0.1	0.3	-	-	-	0.4

2023							
Cash flow hedging							
Interest rate risk							
Hedging assets	0.1	0.2	0.6	0.2	0.6	-	1.7
2022							
Cash flow hedging							
Interest rate risk							
Hedging assets	-	0.2	0.6	0.4	0.6	-	1.8

Average fixed interest rates

Average fixed rate for cash flow hedges, interest rate risk.

2023	0-3 months %	3-12 months %	1-3 years %	3-5 years %	5-10 years %	Over 10 years %	Total %
Average fixed interest rate							
Hedging assets	2.57	2.64	2.68	2.74	2.78	-	2.71
Hedging liabilities	-	-	-	-	-	-	-
2022							
Average fixed interest rate							
Hedging assets	1.75	2.29	2.64	2.71	2.75	-	2.62
Hedging liabilities	-	-	-	-	-	-	-

11 Derivatives continued

Analysis of hedged items and related hedging instruments

The table below analyses assets and liabilities including intercompany, subject to hedging derivatives.

2023	Carrying value of hedged assets and liabilities €m	Impact on hedged items included in carrying value €m	Changes in fair value used as a basis to determine ineffectiveness (1) €m
Fair value hedging - interest rate			
Other financial liabilities - debt securities in issue	**297**	**(2)**	**(1)**
Subordinated liabilities	**-**	**-**	**(1)**
Total	**297**	**(2)**	**(2)**
2022			
Fair value hedging - interest rate			
Other financial liabilities - debt securities in issue	309	(2)	3
Subordinated liabilities	83	(1)	4
Total	392	(3)	7
2023			
Cash flow hedging - interest rate			
Balances with central banks	**1,662**		**(37)**
2022			
Cash flow hedging - interest rate			
Balances with central banks	1,848		10

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

Analysis of cash flow and foreign exchange hedge reserve

The following table shows a pre-tax analysis of the cash flow hedge reserve and foreign exchange hedge reserve.

	Cash flow hedge reserve	
	2023	2022
	€m	€m
Continuing		
Interest rate risk	**27**	(10)

	Cash flow hedge reserve	
	2023	2022
	€m	€m
Amount recognised in equity		
Interest rate risk	**31**	(19)
Amount transferred from equity to earnings		
Interest rate risk to net interest income	**7**	9

There was nil (2022 - €8 million) transferred from equity to non-interest income for the foreign exchange hedge reserve.

12 Loan impairment provisions

The table below summarises loans and related credit impairment measures within the scope of ECL framework.

	2023 €m	2022 €m
Loans - amortised cost		
Stage 1	**1,052**	944
Stage 2	**141**	303
Stage 3	**-**	-
Inter-group (1)	**110**	393
Total	**1,303**	1,640
ECL provisions		
Stage 1	**7**	6
Stage 2	**2**	5
Stage 3	**-**	-
Total	**9**	11
ECL provisions coverage (2)		
Stage 1 (%)	**0.67**	0.64
Stage 2 (%)	**1.42**	1.65
Stage 3 (%)	**-**	-
Total	**0.75**	0.88
Other financial assets - Gross exposure	**8,583**	5,564
Other financial assets - ECL provision	**3**	1
Impairment losses		
ECL charge - third party (3)	**-**	14
Amounts written off	**1**	48

(1) RBSH N.V. Group intercompany assets were classified in Stage 1. The ECL for these loans was nil (2022 – €0.1 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high provision of debt securities or unutilised exposure may result in a not meaningful coverage.
(3) Includes €1.8 million (2022 – €0.4 million) related to other financial assets and €0 million (2022 – €0.2 million release) relating to contingent liabilities.
(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 25 for Financial instruments within the scope of the IFRS 9 ECL framework in the NatWest Markets N.V. 2023 Annual Accounts and Report for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €2.6 billion (2022 – €4.0 billion) and debt securities of €6.0 billion (2022 – €1.6 billion).
(5) RBSH Group N.V. held collateral against third party loans in Stage 3 of nil (2022 - nil) and against Stage 1 and Stage 2 third party loans of €287 million (2022 - €185 million). Inter-group loans were uncollateralised.

Credit risk enhancement and mitigation

For information on Credit risk enhancement and mitigation held as security, refer to Risk and capital management – Credit risk enhancement and mitigation section.

Critical accounting policy: Loan impairment provisions

Accounting policy 3.3 sets out how the expected loss approach is applied. At 31 December 2023, customer loan impairment provisions amounted to €1,303 million (2022 - €1,640 million). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced. Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement, significant reduction in the value of any security, breach of limits or covenants, and observable data about relevant macroeconomic measures.

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

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

IFRS 9 ECL model design principles

Refer to Credit risk – IFRS 9 ECL model design principles section for further details.

Approach for multiple economic scenarios (MES)

The base scenario plays a greater part in the calculation of ECL than the approach to MES. Refer to Credit risk – Economic loss drivers – Probability weightings of scenarios section for further details.

13 Other financial assets

	Debt securities						
	Central and local government						
	US	Other	Other debt	Total	Equity shares	Loans	Total
2023	€m	€m	€m	€m	€m	€m	€m
Mandatory fair value through profit or loss	-	-	-	-	1	-	1
Fair value through other comprehensive income	90	254	57	401	1	-	402
Amortised cost	-	-	2,202	2,202	-	-	2,202
Total	90	254	2,259	2,603	2	-	2,605
2022							
Mandatory fair value through profit or loss	-	-	-	-	1	-	1
Fair value through other comprehensive income	233	737	265	1,235	44	30	1,309
Amortised cost	-	-	363	363	-	-	363
Total	233	737	628	1,598	45	30	1,673

There were no significant acquisitions of equity shares in either year. RBSH N.V. Group disposed of equity shares in UBS Equity Funds of €41 million in the year (2022 - €77 million). There were no significant dividends on equity shares held at FVOCI in either year.

14 Other assets

	2023	2022
	€m	€m
Property and equipment	24	27
Deferred tax	63	52
Other assets	18	11
	105	90

15 Other financial liabilities

	2023	2022
	€m	€m
Customer deposits - designated as at fair value through profit or loss	281	316
Debt securities in issue - amortised cost	2,269	2,071
Debt securities in issue - DFV	255	54
	2,805	2,441

For accounting policy information refer to Accounting policies 4.6 and 4.9.

16 Subordinated liabilities

Dated loan capital		First call date	Maturity date	Capital treatment	2023 €m	2022 €m
€170 million	Floating rate notes	-	Feb-2041	Not applicable	273	251
$150 million	7.125% notes	-	Oct-2093	Not applicable	20	20
$136 million	7.750% notes	-	May-2023	Not applicable	-	94
					293	365

Following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries, refer to Note 27.

Dated loan capital		First call date	Maturity date	Capital treatment	2023 €m	2022 €m
€150 million	Floating rate notes	Dec-2024	Dec-2029	Tier 2	150	150
					150	150

17 Other liabilities

	2023 €m	2022 €m
Lease liabilities	**8**	7
Provisions for liabilities and charges	**5**	5
Accruals	**23**	22
Deferred income	**10**	12
Current tax	**4**	3
Deferred tax	**2**	3
Other liabilities	**14**	12
Total	**66**	64

Included in other liabilities are provisions for liabilities and charges of €5 million (2022 - €5 million), of which litigation provisions are €1 million (2022 - €1 million) and restructuring provisions of €4 million (2022 - €4 million). Arising out of its normal business operations, the RBSH N.V. Group is party to legal proceedings in the Netherlands, the United Kingdom, the United States of America and other jurisdictions.

Litigation provisions at 31 December 2023 related to numerous proceedings; no individual provision is material. Detailed descriptions of the RBSH N.V. Group's legal proceedings and discussion of the associated uncertainties are given in Note 22.

For accounting policy information refer to Accounting policy 4.

18 Share capital and reserves

RBSH N.V.'s share capital at 31 December 2023 consisted of 89.287 issued and fully paid ordinary shares of €0.56 each. Its authorised share capital amounts to €224,000. It comprises 400,000 ordinary shares, each with a nominal value of €0.56. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of RBSH N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Share premium reserve

Ordinary shares carry certain pre-emption rights and rank equally in voting, dividend and liquidation rights.

Dutch law prescribes that only the freely distributable reserves of RBSH N.V. are taken into account for the purpose of making distributions and in determining the permissible applications of the share premium account. RBSH N.V. optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. The remittance of reserves to RBSH N.V. or the redemption of capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

Ordinary dividends

In 2023, RBSH N.V. paid ordinary dividends of €360 million (2022 – nil).

Paid-in equity

Additional Tier 1 instruments issued by RBSH N.V. having the legal form of debt are classified as equity under IFRS. The coupons on these instruments are non-cumulative and payable at RBSH N.V.'s discretion. In June 2019 RBSH N.V. issued capital securities of €250 million which qualify as Additional Tier 1 capital as described in CRD IV and CRR. These securities are perpetual. They can be called on after five years and have a coupon of 3-month Euribor plus 6.10%, payable on a quarterly basis.

19 Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose. They do not carry out a business or trade and typically have no employees.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to structured entities not controlled by RBSH N.V. Group, and which are established either by RBSH N.V. Group or a third party. An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns for RBSH N.V. Group arising from the performance of the entity. Such interests include holdings of debt or equity securities, derivatives that transfer financial risks from the entity to RBSH N.V. Group, provision of lending and loan commitments, financial guarantees and investment management agreements. RBSH N.V. Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions, to provide risk management services and for specific investment opportunities. Structured entities may take the form of funds, trusts, partnerships, securitisation vehicles, and private investment companies. RBSH N.V. Group considers itself to be the sponsor of a structured entity where it is primarily involved in the set up and design of the entity and where RBSH N.V. Group transfers assets to the entity, markets products associated with the entity in its own name, and/or provides guarantees in relation to the performance of the entity.

The nature and extent of RBSH N.V. Group's interests in structured entities is summarised below.

	2023			2022		
	Asset-backed securitisation vehicles €m	Investment funds and other €m	Total €m	Asset-backed securitisation vehicles €m	Investment funds and other €m	Total €m
Assets						
Trading assets	**107**	**-**	**107**	152	-	152
Loans to customers	**-**	**4**	**4**	-	2	2
Other financial assets	**1,919**	**221**	**2,140**	104	260	364
Total	**2,026**	**225**	**2,251**	256	262	518
Liabilities						
Derivatives	**85**	**-**	**85**	133	-	133
Total	**85**	**-**	**85**	133	-	133
Off balance sheet						
Liquidity facilities/loan commitments	**174**	**26**	**200**	23	41	64
Total	**174**	**26**	**200**	23	41	64
Maximum exposure	**2,115**	**251**	**2,366**	146	303	449

20 Asset transfers

Transfers that do not qualify for derecognition

RBSH N.V. Group enters into securities repurchase and securities lending agreements in accordance with normal market practice which includes the provision of additional collateral if necessary. Under standard terms in the UK and US markets, the recipient has an unrestricted right to sell or repledge collateral, subject to returning equivalent securities on maturity of the transactions. Securities sold under repurchase transactions and transactions with the substance of securities repurchase agreements are not derecognised if RBSH N.V. Group retains substantially all the risks and rewards of ownership. Securities received as collateral under reverse repurchase agreements were €2.8 billion (2022 - €2.6 billion) of which €2.8 billion (2022 - €2.4 billion) had been sold or repledged as collateral of the RBSH N.V. Group's own transactions.

The following assets have failed derecognition	2023 €m	2022 €m
Other financial assets	**447**	-

(1) Associated liabilities were €418 million (2022- nil).

Assets pledged as collateral

RBSH N.V. Group pledges collateral with its counterparties in respect of derivative liabilities. There were €2.9 billion of assets pledged against liabilities in 2023 (2022 - €2.5 billion).

21 Capital resources

RBSH N.V. Group's regulatory capital resources were as follows:

	2023 €m	2022 €m
Tier 1		
Controlling interests	**1,789**	2,056
Adjustment for:		
- Other regulatory (1)	**(205)**	(364)
Common Equity Tier 1	**1,584**	1,692
Hybrid capital	**250**	250
Additional Tier 1	**250**	250
Total Tier 1	**1,834**	1,942
Tier 2		
Subordinated liabilities	**150**	150
Deductions from Tier 2 capital	**2**	-
Total Tier 2 capital	**152**	150
Total regulatory capital	**1,986**	2,092

(1) Includes reversal of own credit risk of €40 million (2022 - €66 million) plus the elimination of the profit that has not been approved yet.

It is RBSH N.V. Group's policy to maintain an appropriate capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBSH N.V. Group has regard to the supervisory requirements of DNB. DNB uses capital ratios as a measure of capital adequacy in the Dutch banking sector, comparing a bank's capital resources with its risk-weighted assets (RWAs) (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks). RBSH N.V. Group has complied with its capital requirements during the year.

A number of subsidiaries and sub-groups within RBSH N.V. Group are subject to various individual regulatory capital requirements. Furthermore, the payment of dividends by subsidiaries and the ability of members of RBSH N.V. Group to lend money to other members of RBSH N.V. Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

22 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2023. Although RBSH N.V. Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of RBSH N.V. Group's expectation of future losses.

	2023 €m	2022 €m
Contingent liabilities and commitments		
Guarantees	**527**	508
Standby facilities, credit lines and other commitments	**6,998**	7,901
Total	**7,525**	8,409

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. RBSH N.V. Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to RBSH N.V. Group's normal credit approval processes.

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

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

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

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

Risk-sharing agreements

NWM Plc and NWM N.V. have limited risk-sharing arrangements to facilitate the smooth provision of services to NatWest Markets' customers. The arrangements, which NWM Plc recognises as financial guarantees within Amounts due to subsidiaries, include:

- The provision of a funded guarantee of up to €1.2 billion by NWM Plc to NWM N.V. that limits NWM N.V.'s exposure to large individual customer credits to 10% of NWM N.V.'s capital. Funding is provided by NWM Plc deposits placed with NWM N.V. of not less than the guaranteed amount. At 31 December 2023 the deposits amounted to €0.8 billion and the guaranteed fees in the year were €5.3 million.
- The provision of funded and unfunded guarantees by NWM Plc in respect of NWM N.V.'s legacy portfolio. At 31 December 2023 the exposure at default covered by the guarantees was approximately €0.2 billion (of which €31 million was cash collateralised). Fees of €1.6 million in relation to the guarantees were recognised in the year.

Obligations with ABN AMRO Bank N.V.

Included within guarantees as at 31 December 2023 is €0.5 billion (2022 - €0.5 billion), which relates to RBSH N.V. Group's obligations over liabilities held within the Dutch State acquired businesses included in ABN AMRO Bank N.V.

On the division of an entity by demerger, Dutch law establishes a cross liability between surviving entities in respect of the creditors at the time of the demerger. RBSH N.V. Group's cross liability is limited by law to the lower of its equity and the eligible debts of ABN AMRO Bank N.V. on 6 February 2010. The likelihood of cross liability crystallising is considered not probable.

Net asset value of RBSI DS S.A. customers

The net asset value of the customers RBSI DS S.A. provides services to as at 31 December 2023 is €45.8 billion (2022: €39.4 billion).

22 Memorandum items continued

Litigation and regulatory matters

NWM N.V. and certain members of NatWest Group are party to various legal proceedings and are involved in, or subject to, various regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the Netherlands, the United Kingdom (UK), the European Union (EU), the United States (US) and other jurisdictions.

RBSH N.V. Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many of the Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on RBSH N.V. Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before the probability of a liability, if any, arising can reasonably be estimated in respect of any Matter. RBSH N.V. Group and/or NWM N.V. cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for Matters that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where RBSH N.V. Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending or contesting Matters, even for those for which RBSH N.V. Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all Matters affect the amount and timing of any potential economic outflows for both matters with respect to which provisions have been established and other contingent liabilities in respect of any such Matter.

It is not practicable to provide an aggregate estimate of potential liability for our Matters as a class of contingent liabilities.

The future economic outflow in respect of any matter may ultimately prove to be substantially greater than, or less than, the aggregate provision, if any, that RBSH N.V. Group has recognised in respect of such Matter. Where a reliable estimate of the economic outflow cannot be reasonably made, no provision has been recognised.

Matters which are, or could be, material, either individually or in aggregate, having regard to RBSH N.V. Group, considered as a whole, in which RBSH N.V. group is currently involved are set out below. We have provided information on the procedural history of certain Matters, where we believe appropriate, to aid the understanding of the Matter.

NatWest Group is involved in ongoing litigation and regulatory matters that are not described below but are described on pages 377 to 381 in NatWest Group's Annual Report & Accounts 2023. NatWest Group expects that in future periods, additional provisions and economic outflows relating to Matters that may or may not be currently known by NatWest Group will be necessary, in amounts that are expected to be substantial in some instances. While RBSH N.V. Group may not be directly involved in such NatWest Group matters, any final adverse outcome of those matters may also have an adverse effect on RBSH N.V. Group.

Litigation

FX litigation

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

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

Madoff

NWM N.V. was named as a defendant in two actions filed by the trustee for the bankrupt estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC, in bankruptcy court in New York, which together seek to clawback more than US$298 million that NWM N.V. allegedly received from certain Madoff feeder funds and certain swap counterparties. The claims were previously dismissed, but as a result of an August 2021 decision by the United States Court of Appeals for the Second Circuit (US Court of Appeals), they will now proceed in the bankruptcy court, where they have been consolidated into one action, subject to NWM N.V.'s legal and factual defences. In May 2022, NWM N.V. filed a motion to dismiss the amended complaint in the consolidated action and such motion was denied in March 2023. As a result, the case has now entered the discovery phase.

US Anti-Terrorism Act litigation

NWM N.V. and certain other financial institutions are defendants in several actions filed by a number of US nationals (or their estates, survivors, or heirs), most of whom are or were US military personnel, who were killed or injured in attacks in Iraq between 2003 and 2011. NWM Plc is also a defendant in some of these cases.

According to the plaintiffs' allegations, the defendants are liable for damages arising from the attacks because they allegedly conspired with and/or aided and abetted Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells that committed the attacks, in violation of the US Anti-Terrorism Act, by agreeing to engage in 'stripping' of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected.

The first of these actions, alleging conspiracy claims but not aiding and abetting claims, was filed in the United States District Court for the Eastern District of New York in November 2014. In

September 2019, the district court dismissed the case, finding that the claims were deficient for several reasons, including lack of sufficient allegations as to the alleged conspiracy and causation. In January 2023, the US Court of Appeals affirmed the district court's dismissal of this case. The plaintiffs filed a petition with the United States Supreme Court seeking review of the dismissal of their claims and that petition was denied in October 2023. It is anticipated that the plaintiffs will file a motion to re-open the case to assert aiding and abetting claims that they previously did not assert. Another action, filed in the United States District Court for the Southern District of New York (SDNY) in 2017, which asserted both conspiracy and aiding and abetting claims, was dismissed by the SDNY in March 2019 on similar grounds as the first case, but remains subject to appeal to the US Court of Appeals. Other follow-on actions that are substantially similar to those described above are pending in the same courts.

Regulatory matters

RBSH N.V. Group's financial condition can be affected by the actions of various governmental and regulatory authorities in the Netherlands, the UK, the EU, the US and elsewhere. NatWest Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the Netherlands, the UK, the EU, the US and elsewhere, on an ongoing and regular basis, and in response to informal and formal inquiries or investigations, regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, investment advice, business conduct, competition/anti-trust, VAT recovery, anti-bribery, anti-money laundering and sanctions regimes.

Any matters discussed or identified during such discussions and inquiries may result in, among other things, further inquiry or investigation, other action being taken by governmental and regulatory authorities, increased costs being incurred by RBSH N.V. Group, remediation of systems and controls, public or private censure, restriction of RBSH N.V. Group business activities and/or fines. Any of these events or circumstances could have a material adverse effect on RBSH N.V. Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it, or lead to material additional provisions being taken.

23 Non-cash and other items

This note shows non-cash items adjusted for in the cash flow statement and movement in operating assets and liabilities.

	2023 €m	2022 €m
Impairment losses	-	14
Depreciation and amortisation	2	2
Change in fair value taken to profit or loss on subordinated liabilities	17	(105)
Elimination of foreign exchange differences	2	(6)
Other non-cash items	1	4
Income receivable on other financial assets	(84)	(6)
Loss on sale of other financial assets	1	5
Interest payable on subordinated liabilities	13	19
Loss on redemption of subordinated liabilities	-	82
Charges and releases on provisions	2	-
Non-cash and other items	(46)	9
Change in operating assets and liabilities		
Change in trading assets	1,477	(296)
Change in derivative assets	2,475	(4,587)
Change in settlement balance assets	174	(348)
Change in loans to banks	28	(28)
Change in loans to customers	75	(379)
Change in amounts due from holding companies and fellow subsidiaries	88	(127)
Change in other financial assets	30	(30)
Change in other assets	2	-
Change in bank deposits	261	150
Change in customer deposits	3,485	166
Change in amounts due to holding companies and fellow subsidiaries	(407)	436
Change in settlement balance liabilities	71	422
Change in trading liabilities	639	1,918
Change in derivative liabilities	(2,300)	2,260
Change in other financial liabilities	355	534
Change in other liabilities	(4)	15
Change in operating assets and liabilities	6,449	106

24 Analysis of changes in financing during the year

	Share capital, share premuim and paid-in equity		Subordinated liabilities (1)	
	2023 €m	2022 €m	2023 €m	2022 €m
At 1 January	1,950	1,950	515	802
Redemption of subordinated liabilities			(92)	(240)
Interest paid on subordinated liabilities			(12)	(21)
Net cash flows from financing activities	-	-	(104)	(261)
Capital restructuring	(150)	-		
Effects of foreign exchange			(2)	15
Changes in fair value of subordinated liabilities			17	(105)
Interest payable on subordinated liabilities			13	19
Loss on redemption of subordinated liabilities			-	82
Other	-	-	4	(37)
At 31 December	1,800	1,950	443	515

(1) Subordinated liability includes intercompany subordinated liabilities for the purpose of cash flow statement.

25 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash, loans to banks and treasury bills with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

	2023 €m	2022 €m
Cash and balances at central banks	**5,979**	3,961
Trading assets	**2,968**	1,239
Loans to banks including intragroup balances (1)	**2,670**	1,318
Cash and cash equivalents	**11,617**	6,518

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities is €746 million (2022 - €820 million).

Certain members of NatWest Group are required by law or regulation to maintain balances with the central banks in the jurisdictions in which they operate. The RBSH N.V. Group had mandatory reserve deposits with De Nederlandsche Bank N.V of €132 million (2022 - €64 million).

26 Remuneration of the Managing Board and Supervisory Board

Remuneration of the Managing Board

The Managing Board during the year comprised the following members:

(1) V. Goedegebuure
(2) C. Visscher
(3) M. Elkenbracht
(4) A. Slach (until 11 October 2023)

Members receive pension benefits through their employment in NatWest Group.

The remuneration of the Managing Board is presented in aggregate in the table below. NatWest Group plc and its subsidiaries adhere to relevant statutory requirements and NatWest Group discloses individual remuneration of NatWest Group executive directors, compliant with the UK PRA Remuneration Code.

	2023 €000	2022 €000
Salaries and short-term benefits	**1,887**	1,675
Pensions	**328**	300
Profit sharing and bonus payments	**280**	394
Other benefits (1)	**594**	-
Total	**3,089**	2,369

(1) Other benefits includes severance payments,
(2) There are no loans from RBSH N.V. Group to the Managing Board members.
(3) The vesting of long-term incentive awards in the form of shares in NatWest Group will normally be subject to the satisfaction of financial and non-financial performance conditions. The performance conditions will be set by the NatWest Group Performance and Remuneration Committee for each award. In addition, awards will only vest to the extent the Committee is satisfied that the vesting outcome reflects underlying financial results and if conduct and risk management during the performance period has been effective.

Remuneration of the Supervisory Board

The Supervisory Board during the year comprised the following members:

(1) R. Begbie
(2) M. Klessens
(3) A. van der Pauw
(4) A. Snel (until 25 March 2023)

The Supervisory Board included members employed elsewhere within NatWest Group. The Supervisory Board members from NatWest Group were not remunerated for time spent on matters relating to RBS Holdings N.V. Group.

The table below provides information on the remuneration of the Supervisory Board in aggregate.

	2023 €000	2022 €000
Remuneration (1)	**143**	141

(1) There were no loans from RBSH N.V. Group to the Supervisory Board members.

27 Related parties

RBSH N.V. Group has a related party relationship with associates, joint ventures, key management and shareholders. The UK Government through HM Treasury is the ultimate controlling party of NatWest Group plc.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. RBSH N.V. Group enters into a number of banking transactions with related parties in the normal course of business. These transactions include loans, deposits, foreign currency transactions and receiving of services. These transactions are carried out on commercial terms and at market rates. No allowances for loan losses have been recognised in respect of loans to related parties in 2023 and 2022.

Transfer pricing

RBSH N.V.'s subsidiary NWM N.V. is a party to transfer pricing arrangements with NWM Plc. Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is remunerated on the same basis as two independent parties negotiating a contract covering similar activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties.

Since 2019 individual transfer pricing models for each of the main business line interactions with NWM Plc are in place. Each type of transaction relies on a transfer pricing model with an appropriate remuneration, based on cost-plus, (hurdle rate of) return on equity or revenue split. Under the 2023 transfer pricing arrangements, RBSH N.V. Group reported income of €128 million (2022 - €130 million) for the activities it performed for European customers as part of the NWM Plc post Brexit operating model. The at arm's length nature of the transfer pricing arrangements is confirmed by transfer pricing documentation which has been prepared by an external expert.

Judgement and estimation uncertainty – RBSH N.V. Group management has concluded it is probable that the Dutch and UK tax authorities will accept the current transfer pricing models. The transfer pricing models are sensitive to parameters used, such as the mark-ups and the return on capital. The tax authorities could have a different interpretation of the OECD Transfer Pricing Guidelines and / or facts and circumstances.

Any adjustments requested by the Dutch and UK tax authorities to the current transfer pricing models may therefore have a material impact on the RBSH N.V.'s non-interest income and hence its taxable profit and unused taxable losses and tax credits. For the cost-plus, RBSH N.V. Group has considered a range of mark-ups from benchmarking studies. Applying the lower quartiles of the benchmarks used for the cost-plus calculations and reducing the return on equity percentage by 2%, would decrease the transfer pricing income by €22 million to €106 million. Applying the upper quartiles of the benchmarks used for the cost-plus calculations and increasing the return on equity percentage by 2%, would increase the transfer pricing income by €20 million to €148 million.

Acquisition of RBSI DS S.A.

On 1 December 2023, RBSH N.V. acquired RBSI DS S.A. from RBSIH. The consideration paid was €32 million and the transaction has taken place on an arm's length basis.

Business transfers and loan portfolio transfers

In 2023 no contingent liabilities and commitments were transferred from NatWest Bank Plc to NWM N.V. in relation to the Western European Corporate Portfolio (2022 - €0.5 billion). The total contingent liabilities and commitments transferred from NWM N.V. to NatWest Bank Plc in 2023 was nil (2022 - nil). An amount of €0.1 billion (2022 – nil) of contingent liabilities and commitments was transferred from NWM N.V. to NWM Plc. As part of a larger initiative to increase the diversity of the banking book portfolio, €0.3 billion of contingent liabilities and commitments and €0.1 billion of drawn balances were transferred from NatWest Bank Plc to NWM N.V. in 2022.

Transactions and balances with the UK Government

Transactions conducted directly with the UK Government are limited to normal banking transactions, taxation and other administrative relationships. There may be other significant transactions with entities under the common control of or subject to significant influence by the UK Government. These would include, amongst others, loans, deposits, guarantees, fee based relationships, or equity holdings. Disclosure is made of any significant transactions with these entities.

Transactions with directors or key management

At 31 December 2023 there were no transactions outstanding with directors or key management (for RBSH N.V. this comprises the members of the Managing and Supervisory Boards). Refer to Note 26 for further details of remuneration of the Managing and Supervisory Boards.

27 Related parties continued

Holding companies and fellow subsidiaries

Transactions RBSH N.V. Group enters with its holding companies and fellow subsidiaries also meet the definition of related party transactions. The table below discloses transactions between RBSH N.V. Group and subsidiaries of NatWest Group.

	2023	2022
	€m	€m
Interest receivable	**8**	11
Interest payable	**(60)**	(17)
Fees and commissions receivable	**128**	135
Fees and commissions payable	**(11)**	(11)
Other administrative expenses (1)	**(50)**	(43)
	15	75

(1) Includes internal service recharges of €50 million (2022- €43 million).

Amounts due from/to holding companies and fellow subsidiaries are as below:

	2023			2022		
	Holding companies	Fellow subsidiaries	Total	Holding companies	Fellow subsidiaries	Total
	€m	€m	€m	€m	€m	€m
Assets						
Trading assets	**2,740**	**-**	**2,740**	1,406	-	1,406
Loans to banks - amortised cost	**76**	**13**	**89**	358	15	373
Loans to customers - amortised cost	**20**	**-**	**20**	21	-	21
Settlement balances	**291**	**27**	**318**	141	-	141
Other assets	**14**	**-**	**14**	10	-	10
Amounts due from holding companies and fellow subsidiaries	**3,141**	**40**	**3,181**	1,936	15	1,951
Derivatives (1)	**3,059**	**-**	**3,059**	4,140	-	4,140
Liabilities						
Trading liabilities	**2,708**	**-**	**2,708**	2,857	-	2,857
Bank deposits - amortised cost	**917**	**-**	**917**	1,102	-	1,102
Other financial liabilities - subordinated liabilities	**150**	**-**	**150**	150	-	150
Settlement balances	**153**	**-**	**153**	222	4	226
Other liabilities	**10**	**15**	**25**	9	15	24
Amounts due to holding companies and fellow subsidiaries	**3,938**	**15**	**3,953**	4,340	19	4,359
Derivatives (1)	**2,770**	**-**	**2,770**	3,777	-	3,777

(1) Intercompany derivatives are included within derivative classification on the balance sheet.

28 Post balance sheet events

Ms Marije Elkenbracht has notified RBSH N.V. that she will step down as member of the RBSH N.V. Managing Board.

Other than as disclosed in the accounts, there have been no significant events between 31 December 2023 and the date of approval of these accounts which would require a change to or additional disclosure.

Parent Company financial statements

Basis of preparation

RBSH N.V. financial statements are prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. RBSH N.V. Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies applied in RBSH N.V. financial statements are the same as those applied in the consolidated financial statements on pages 48 to 52.

Investments in subsidiaries are accounted for using the equity method.

The financial statements are presented in euros, which is the presentation currency of the RBSH N.V. Refer to Accounting policies in the consolidated financial statements for further information on going concern.

Future accounting developments

International Financial Reporting Standards

A number of amendments to IFRS standards were in issue at 31 December 2023 and effective from 1 January 2024 or later. RBSH N.V is assessing the effect of adopting these amendments on its financial statements but does not expect the effect to be material.

Company income statement for the year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest receivable		**8**	3
Interest payable		**(8)**	(3)
Net interest income		**-**	-
Result before tax		**-**	-
Tax (charge)/credit	2	**-**	-
Income from subsidiaries	6	**108**	53
Profit for the year		**108**	53
Attributable to:			
Ordinary shareholders		**84**	38
Paid-in equity		**24**	15

The accompanying notes on pages 89 to 94 form an integral part of these financial statements.

Company balance sheet as at 31 December 2023 (before appropriation of result)

	Note	2023 €m	2022 €m
Assets			
Amounts due from holding companies and fellow subsidiaries	3,4,5	**150**	150
Investment in subsidiaries	6	**2,016**	2,291
Total assets		**2,166**	2,441
Amounts due to holding companies and fellow subsidiaries	3,4,5,8	**150**	150
Total liabilities		**150**	150
Share capital and share premium account		**1,550**	1,700
Legal reserves		**129**	346
Other reserves		**3**	(43)
Paid-in equity		**250**	250
Unappropriated results		**84**	38
Total equity	9	**2,016**	2,291

The accompanying notes on pages 89 to 94 form an integral part of these financial statements.

Company statement of changes in equity for the year ended 31 December 2023

	2023 €m	2022 €m
Share capital and share premium (1)		
At 1 January	**1,700**	1,700
Capital restructuring (2)	**(150)**	-
At 31 December	**1,550**	1,700
Legal reserves		
At 1 January	**346**	384
Changes in non-distributable profit participations	**(217)**	(38)
At 31 December	**129**	346
Other reserves		
At 1 January	**(43)**	(197)
Transfer from unappropriated results	**-**	110
Ordinary dividends paid	**(322)**	-
Changes in non-distributable profit participations	**217**	38
Capital restructuring (2)	**150**	-
Transfer on purchase of a subsidiary (3)	**(17)**	-
Other movements (4)	**18**	6
At 31 December	**3**	(43)
Paid-in equity at 1 January and 31 December	**250**	250
Unappropriated results		
At 1 January	**38**	110
Transfer to other reserves	**-**	(110)
Net result for the year	**108**	53
Paid-in equity dividends paid	**(24)**	(15)
Ordinary dividends paid	**(38)**	-
At 31 December	**84**	38
Total equity at 31 December	**2,016**	2,291

(1) Includes ordinary share capital of €50,001 (2022 - €50,001). Refer to Note 9 for further details.
(2) On 31 March 2023, after obtaining regulatory permission, RBSH N.V. executed a capital restructuring, converting €150 million of share premium to other reserves.
(3) On 1 December 2023, RBSH N.V. acquired RBSI DS S.A. from RBSIH. Refer to Note 13 for further details. The difference between the consideration paid and the assets and liabilities recognised at inherited values, is recognised in other reserves.
(4) Other movements relate to other comprehensive income of subsidiaries.

1 Operating expenses

RBSH N.V. did not have any employees in 2023 or 2022.

Fees for the audit and audit related services provided to RBSH N.V. are incurred by its subsidiary NWM N.V. Refer to Note 5 to the consolidated financial statements for further details on auditor's remuneration.

2 Tax

RBSH N.V. is head of a fiscal unit for corporation tax together with NWM N.V. and is therefore jointly and severally liable for tax liabilities of the fiscal unit. RBSH N.V. settles with NWM N.V. as if NWM N.V. was independently taxable for corporation tax.

3 Financial instruments – classification

The following tables analyse RBSH N.V.'s financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

	Amortised cost €m	Other assets €m	Total €m
Assets			
Amounts due from holding companies and fellow subsidiaries	**150**	**-**	**150**
Investments in subsidiaries		**2,016**	**2,016**
31 December 2023	**150**	**2,016**	**2,166**
Amounts due from holding companies and fellow subsidiaries	150	-	150
Investments in subsidiaries		2,291	2,291
31 December 2022	150	2,291	2,441

	Amortised cost €m	Other liabilities €m	Total €m
Liabilities			
Amounts due to holding companies and fellow subsidiaries	**150**	**-**	**150**
31 December 2023	**150**	**-**	**150**
Amounts due to holding companies and fellow subsidiaries	150	-	150
31 December 2022	150	-	150

4 Financial instruments – valuation

Fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

			Fair value hierarchy level			
	Carrying value	Fair value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value
2023	€m	€m	€m	€m	€m	€m
Financial assets						
Amounts due from holding companies and fellow subsidiaries	**150**	**154**	**-**	**154**	**-**	**-**
Financial liabilities						
Amounts due to holding companies and fellow subsidiaries	**150**	**154**	**-**	**154**	**-**	**-**
2022						
Financial assets						
Amounts due from holding companies and fellow subsidiaries	150	152	-	152	-	-
Financial liabilities						
Amounts due to holding companies and fellow subsidiaries	150	152	-	152	-	-

5 Financial instruments - maturity analysis

Remaining maturity

The following table shows the RBSH N.V.'s residual maturity of financial instruments, based on contractual date of maturity.

	2023								
	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years €m	Maturity not relevant €m
Assets									
Amounts due from holding companies and fellow subsidiaries	-	-	-	-	150	-	-	-	-
Liabilities									
Amounts due to holding companies and fellow subsidiaries	-	-	-	-	150	-	-	-	-

	2022								
	Repayable on demand €m	0-1 months €m	1-3 months €m	3-6 months €m	6-12 months €m	1-2 years €m	2-5 years €m	Over 5 years €m	Maturity not relevant €m
Assets									
Amounts due from holding companies and fellow subsidiaries	-	-	-	-	-	150	-	-	-
Liabilities									
Amounts due to holding companies and fellow subsidiaries	-	-	-	-	-	150	-	-	-

Assets and liabilities by contractual cash flow maturity

The tables below show the contractual undiscounted cash flows receivable and payable, up to a period of 20 years, including future receipts and payments of interest of financial assets and liabilities by contractual maturity. The balances in the following tables do not agree directly with the consolidated balance sheet, as the tables include all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by RBSH N.V. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months' period whatever the level of the index at the year end.

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by RBSH N.V. depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from tables along with interest payments after 20 years.

The maturity of guarantees and commitments is based on the earliest possible date they would be drawn in order to evaluate RBSH N.V.'s liquidity position.

5 Financial instruments - maturity analysis continued

2023	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contactual maturity						
Amounts due from holding companies and fellow subsidiaries	-	150	-	-	-	-
	-	150	-	-	-	-
Liabilities contactual maturity						
Amounts due to holding companies and fellow subsidiaries	-	150	-	-	-	-
	-	150	-	-	-	-

2022	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contactual maturity						
Amounts due from holding companies and fellow subsidiaries	-	-	150	-	-	-
	-		150	-	-	-
Liabilities by contactual maturity						
Amounts due to holding companies and fellow subsidiaries	-	-	150	-	-	-
	-	-	150	-	-	-

6 Investment in Group undertakings

RBSH N.V.'s subsidiary undertakings are shown below. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted. All of these subsidiaries are included in RBSH N.V. Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operation	Notes
NatWest Markets N.V.	Banking	The Netherlands	*i, (1)*
RBS International Depositary Services S.A.	Depositary services	Luxembourg	*i, (2)*

NWM N.V.'s subsidiary undertakings, participating interests and branches at 31 December 2023 are shown below:

Group interest 100%	Notes	Group interest <100%	Notes
Alcover A.G.	*i, (3)*	Eris Finance S.R.L	*ii, (6)*
Alternative Investment Fund B.V.	*i, (1)*	Maja Finance S.R.L	*iii, (6)*
KEB Investors, L.P.	*i, (4)*		
RBS Hollandsche N.V.	*i, (1)*		
RBS Investments (Ireland) Ltd	*i, (5)*		
RBS Nominees (Ireland) Ltd	*i, (5)*		

Branches geographic location
France, Germany, Italy, Sweden

i Group interest of 100%
ii Group interest of 45%
iii Group interest of 97.87%

	Registered addresses	Country of incorporation
(1)	Claude Debussylaan 94, 1082 MD, Amsterdam	The Netherlands
(2)	Avenue John F. Kennedy 46, L-1865, Luxembourg	Luxembourg
(3)	Tirolerweg 8, Zug, CH-6300	Switzerland
(4)	Clarendon House, Two Church Street, Suite 104, Reid Street, Hamilton, HM 11	Bermuda
(5)	Ulster Bank Head Office, Bock B Central Park, Leopardstown, Dublin 18, D18 N153	Republic of Ireland
(6)	Via Vittorio Alfieri 1, Conegliano TV, IT-TN 31015	Italy

All subsidiaries and participating interests operate principally in their country of incorporation.

The list of participating interests for which statements of liability have been issued, has been filed with the Chamber of Commerce in Amsterdam.

Some of RBSH N.V.'s subsidiaries and participating investments are regulated entities and therefore their ability to transfer funds to RBSH N.V. is subject to regulatory approvals.

Changes in investments in subsidiaries

Investments in subsidiaries are accounted for using the equity method. Movements during the year were as follows:

	2023 €m	2022 €m
At 1 January	**2,291**	2,247
Income from subsidiaries	**108**	53
Capital repatriation/dividends received (1)	**(416)**	(15)
Acquisitions (2)	**15**	-
Other changes (3)	**18**	6
At 31 December	**2,016**	2,291

(1) 2023 includes dividends of €416 million from NWM N.V. (2022 - €15 million).
(2) 2023 includes the acquisition of RBSI DS S.A. from RBSIH.
(3) Other changes relate to other comprehensive income of subsidiaries.

7 Contingent liabilities and commitments

The amounts shown in the table below pertain to debts for which RBSH N.V. has issued a statement of liability under article 403 of section 2 of Dutch Civil Code.

	2023 €m	2022 €m
Contingent liabilities and commitments		
Guarantees	**311**	384
Total	**311**	384

8 Subordinated liabilities

Following table analyses intercompany subordinated liabilities. These balances are included in amounts due to holding companies and fellow subsidiaries.

Dated loan capital		First call date	Maturity date	Capital treatment	2023 €m	2022 €m
€150 million	Floating rate notes	Dec-2024	Dec-2029	Tier 2	**150**	150
					150	150

9 Equity

Share capital

RBSH N.V.'s share capital at 31 December 2023 consisted of 89.287 issued and fully paid ordinary shares of €0.56 each. Its authorised share capital amounts to €224,000. It comprises 400,000 ordinary shares, each with a nominal value of €0.56. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of RBSH N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Share premium account

The share premium account amounts to €1,550 million (2022 - €1,700 million). On 31 March 2023, after obtaining regulatory permission, RBSH N.V. executed a capital restructuring, converting €150 million of share premium to other reserves.

Legal reserves

Legal reserves consist of €129 million non-distributable profit participations (2022 - €346 million).

Paid-in equity

Additional Tier 1 instruments issued by RBSH N.V. having the legal form of debt are classified as equity under IFRS. The coupons on these instruments are non-cumulative and payable at RBSH N.V.'s discretion. In June 2019 RBSH N.V. issued capital securities of €250 million which qualify as Additional Tier 1 capital as described in CRD IV and CRR. These securities are perpetual. They can be called on after five years and have a coupon of 3-month Euribor plus 6.10%, payable on a quarterly basis.

Dividends

In 2023, RBSH N.V. paid ordinary dividends of €360 million (2022 - nil).

10 Profit appropriation

Profit is appropriated in accordance with article 37 of the Articles of Association. The main stipulations with respect to shares currently in issue are as follows:

The Managing Board may decide to make appropriations to reserves, subject to the approval of the Supervisory Board (article 37.2.a.). The allocation of the amount remaining after these appropriations shall be determined by the General Meeting of Shareholders. The Managing Board, subject to the approval of the Supervisory Board, shall make a proposal to that effect. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders (article 37.2.a.).

RBSH N.V.'s policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Managing Board. The adoption of and each subsequent amendment to the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item (article 37.2.b.).

Subject to approval of the Supervisory Board, the Managing Board may make the dividend or interim dividend on the shares payable, at the discretion of the holders, either in cash or, provided it is authorised to issue shares, partly or wholly in shares in the Company's capital or in a combination thereof, such combination to be determined by the Managing Board (article 37.3.).

Subject to the approval of the Supervisory Board, the Managing Board shall be authorised, in so far as such is permitted by the profit as evidenced by an interim balance sheet drawn up with due observance of the provisions of Section 105, Subsection 4 of Book 2 of the Netherlands Civil Code, to make payable an interim dividend on the shares once or more frequently in the course of any financial year and prior to the approval of the Annual Report and Accounts by the General Meeting of Shareholders (article 37.4.).

10 Profit appropriation continued

Subject to the approval of the Supervisory Board, the Managing Board may decide on a distribution charged against reserves in cash or, if the Board is authorised to issue shares, in the form of shares (article 37.5).

Proposed profit appropriation

Appropriation of unappropriated profit pursuant to articles 37.2 and 37.3 of the Articles of Association:

	2023 €m	2022 €m
Addition to reserves	**42**	-
Available for dividend distribution	**42**	38
	84	38

11 Incorporation and registration

RBSH N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Claude Debussylaan 94, 1082 MD Amsterdam, Netherlands and is entered in the Trade Register of the Amsterdam Chamber of Commerce under no. 33220369.

12 Remuneration of the Managing Board and Supervisory Board

Refer to Note 26 to the consolidated financial statements for further details.

13 Related parties

Refer to Note 27 to the consolidated financial statements for further details.

14 Post balance sheet events

Ms Marije Elkenbracht has notified RBSH N.V. that she will step down as member of the RBSH N.V. Managing Board.

Other than as disclosed in the accounts, there have been no significant events between 31 December 2023 and the date of approval of these accounts which would require a change to or additional disclosure.

The publication of these accounts was approved by the Supervisory Board on 7 March 2024. The financial statements will be presented for adoption at the forthcoming General Meeting. With regard to the adoption of the financial statements of RBSH N.V., the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of votes validly cast be the General Members' Council.'

Amsterdam, 7 March 2024

Supervisory Board	**Managing Board**
Robert Begbie	Vincent Goedegebuure
Maarten Klessens	Cornelis Visscher
Annelies van der Pauw	Marije Elkenbracht

Other information

Articles of Association

The description set out below is a summary of the material information relating to the Company's share capital, including summaries of certain provisions of the Articles of Association and applicable Dutch law in effect at the relevant date. The Articles of Association of RBS Holdings N.V. were last amended by a notarial deed executed by Mr B.J. Kuck, civil law notary in Amsterdam on 5 April 2013, under register entry number 33220369. As stated in the Articles of Association the object of the Company is:

- The participation in, collaboration with and financing, administration and management of other enterprises and companies and the performance of all acts, activities and services which are related or may be conducive thereto.
- The engagement in banking and stockbroking activities, the management of third-party assets, acting as trustee, administrator, executor of wills and executive director, non-executive director or liquidator of companies or other organisations, the provision of insurances and the performance of all other acts and activities which are related or may be conducive thereto, all in the broadest possible sense.
- The fostering of the direct and indirect interests of all those who are involved in any way in the Company and the safeguarding of the continuity of the Company and its affiliated enterprise(s).

Shares and voting rights

The company's share capital at 31 December 2023 consisted of 89.287 issued and fully paid ordinary shares of €0.56 each. The Company's authorised share capital amounts to €224.000. It comprises 400.000 ordinary shares, each with a nominal value of €0.56.

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of the company or of a group company (art.9).

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts will be distributed to the shareholders of ordinary shares on a pro-rata basis (art 38.3).

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association or dissolve RBS Holdings N.V. may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board. A copy of the proposal containing the literal text of the proposed amendments shall be made available for inspection by the holders of shares of RBS Holdings N.V. at the offices of RBS Holdings N.V. and at the offices stated in the convocation to the meeting, from the day of convocation to the end of the Meeting. Each Shareholder may obtain a full copy of the proposal free of charge.

Meetings of shareholders and convocation

General meetings of shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General meetings of shareholders shall be held as frequently as deemed necessary by the Managing Board or the Supervisory Board and when required by law or by the Articles of Association. General meetings of shareholders shall be convened by the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices.

Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be

Important addresses

Corporate Governance & Regulatory Affairs

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Website

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Independent auditor's report

To: the shareholder and Supervisory Board of RBS Holdings N.V.

Report on the audit of the financial statements 2023 included in the Annual Report and Accounts

Our opinion

We have audited the financial statements for the financial year ended 2023 of RBS Holdings N.V. ("RBSH N.V.", the "Company" or the "group") based in Amsterdam, the Netherlands. The financial statements comprise the consolidated and the parent company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of RBSH N.V. as at 31 December 2023 and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted in the European Union (EU-IFRSs) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying parent company financial statements give a true and fair view of the financial position of RBSH N.V. as at 31 December 2023 and of its result for 2023 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2023
- The following statements for the year ended 31 December 2023: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity and the consolidated cash flow statement
- The notes comprising material accounting policy information and other explanatory information

The parent company financial statements comprise:

- The company balance sheet as at 31 December 2023
- The company income statement for the year ended 31 December 2023
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of RBSH N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of RBSH N.V. and its environment and the components of the system of internal control, including the risk assessment process and the Managing Board's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes.

We refer to section "Risk and capital management" of the annual report and accounts 2023 for the Managing Board's risk assessment after consideration of potential fraud risks.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption, in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

We addressed the risks related to management override of controls, as this risk is present in all companies. For these risks we have performed procedures among other things to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in Note "Accounting Policies – Critical accounting policies" to the financial statements, including valuation of financial instruments with higher risk characteristics, recognition of deferred tax assets and expected credit losses. We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties.

Additionally, in order to respond to the identified risks of management override of controls, we have evaluated the appropriateness of the methods and the reasonableness of assumptions used in determination of deferred tax assets, mainly being the approved forecast of taxable income for future periods, including transfer pricing income.

When identifying and assessing fraud risks we presumed that there are risks of fraud in revenue recognition. We considered amongst other things the complex model-dependent valuations, inputs used in valuation of illiquid instruments and fair value adjustments used in valuation of financial instruments with higher risk characteristics. We designed and performed our audit procedures relating to revenue recognition responsive to this presumed fraud risk.

We considered available information and made enquiries of relevant executives, directors, internal audit, legal, compliance, human resources, business heads and the Supervisory Board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board, reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in Note "Basis of preparation" to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, the Managing Board made a specific assessment of RBSH N.V.'s ability to continue as a going concern and to continue its operations for the foreseeable future. We discussed and evaluated the specific assessment with the Managing Board exercising professional judgment and maintaining professional skepticism.

We considered whether the Managing Board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify material uncertainties about going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Report on other information included in the Annual Report and Accounts

The annual report and accounts contains other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRSs and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Information in support of our opinion section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Managing Board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 7 March 2024

Ernst & Young Accountants LLP

J.G. Kolsters

Additional information

Major shareholders

RBSH N.V. is a 100% subsidiary of NWM Plc.

Stock exchange listings

None of the shares in the RBSH N.V. Group are listed.

Issued share capital

The issued share capital of RBSH N.V. consists of 89,287 ordinary shares with a nominal value of €0.56 each.

Dividends

RBSH N.V. Group's policy is to pay dividends on ordinary shares taking account the capital position and prospects. For further information on the payment of dividends, refer to Note 18 to the consolidated financial statements.

Off-balance sheet arrangements

RBSH N.V. has no off-balance sheet arrangements that have or are reasonably likely to have an adverse effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

For further information on off-balance sheet commitments and contingent liabilities refer to Note 22 to the consolidated financial statements.