



NatWest
Group

National Westminster Bank Plc



2023 Annual Report and Accounts

Strategic report

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Presentation of information

National Westminster Bank Plc ('NWB Plc') is a wholly owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). The term 'NWB Group' or 'we' refers to NWB Plc and its subsidiary and associated undertakings. The term 'NWH Group' refers to NWH Ltd and its subsidiary and associated undertakings. NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' refers to NatWest Group plc and its subsidiaries.

NWB Plc publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling ('GBP'), respectively, and references to 'pence' represent pence where amounts are denominated in 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 abbreviation '€' represents the 'euro', and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

Description of business

National Westminster Bank Plc ('NWB Plc', which wholly owns Coutts & Company) is a principal entity under NatWest Holdings Limited ('NWH Ltd'), together with The Royal Bank of Scotland plc ('RBS plc'). In 2022 Ulster Bank Ireland DAC ('UBIDAC') was also a principal entity under NWH Ltd. The term 'NWB Group' refers to NWB Plc and its subsidiary and associated undertakings.

Principal activities and operating segments

NWB Group serves customers across the UK with a range of retail and commercial banking products and services. A wide range of personal products are offered including current accounts, credit cards, personal loans, mortgages and wealth management services. NWB Plc is the main provider of shared services for NatWest Group.

The reportable operating segments are as follows:

Retail Banking - serves personal customers in the UK and includes Ulster Bank customers in Northern Ireland.

Private Banking - serves UK-connected, high-net-worth individuals and their business interests.

Commercial & Institutional - consists of customer businesses reported under Business Banking, Commercial Mid-market and Corporate & Institutions, supporting our customers across the full non-personal customer lifecycle, both domestically and internationally.

Central items & other - includes corporate functions such as treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc is the main service provider of shared services and treasury activities for NatWest Group. The services are mainly provided to NWH Group, however, in certain instances where permitted, services are also provided to the wider NatWest Group including the non ring-fenced business.

Performance overview

Strong financial performance

NWB Group profit for the year was £3,509 million compared with £3,689 million in 2022, driven by additional operating expenses and net impairment losses, partially offset by increased income.

Total income increased by £343 million to £12,086 million, primarily reflecting the beneficial impact from base rate rises and lending growth, partially offset by higher funding costs.

Operating expenses increased by £505 million to £6,793 million, reflecting higher staff costs as a result of increased pay awards to support our colleagues with cost of living challenges combined with an increase in restructuring costs, an increase in other administrative costs primarily driven by a new profit share arrangement with a fellow NatWest Group subsidiary, and an increase in depreciation and amortisation costs.

Net impairment losses of £504 million principally reflects increased economic uncertainty. Defaults remain stable and at low levels across the portfolio. Total impairment provisions increased by £0.3 billion to £2.9 billion in the year. Expected credit loss (ECL) coverage ratio increased from 0.84% to 0.88%.

Robust balance sheet with strong capital levels

Total assets increased by £6.0 billion to £415.5 billion at 31 December 2023. This was primarily driven by increases in other financial assets, as a result of bond activity, and loans to customers, partially offset by a decrease in cash and balances at central banks resulting from business segment net funding outflows due to overall market liquidity contraction.

Loans to customers increased by £16.8 billion to £318.5 billion primarily driven by growth in Retail Banking mortgage business, an increase in commercial lending and Treasury reverse repo activity.

Customer deposits decreased by £8.9 billion to £313.8 billion primarily reflecting higher outflows and overall market liquidity contraction.

The Common Equity Tier 1 (CET1) ratio increased 30 basis points over the period due to a £1.4 billion increase in CET1 capital, driven by attributable profit, partially offset by interim and foreseeable dividends. This is partially offset by a £9.3 billion increase in RWAs.

Total risk-weighted assets (RWAs) increased by £9.3 billion mainly reflecting an increase in credit risk RWAs of £7.8 billion, primarily driven by an increase in internal ratings based (IRB) Temporary Model Adjustments as well as increased exposures in Retail Banking and Commercial & Institutional, and an increase following the annual operational risk RWA recalculation.

Stakeholder engagement and s.172(1) statement

This statement describes how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 (section 172) when performing their duty to promote the success of the company.

Board engagement with stakeholders

The Board reviews and confirms its key stakeholder groups for the purposes of section 172 annually. For 2023, they remained investors, customers, colleagues, regulators, communities and suppliers.

Directors are mindful that it is not always possible to achieve an outcome which meets the expectations of all stakeholders who may be impacted, and that there may be impacted stakeholders outside the six key groups the Board has identified. Examples of how the Board has engaged with key stakeholders, including the impact on principal decisions, can be found in this statement and on page 78 (Corporate governance statement).

Supporting effective Board discussions and decision-making

Board and Committee terms of reference reinforce the importance of considering the matters set out in section 172 (the s172 factors, as set out below). The Board and Committee paper template also supports consideration of stakeholders and enables good decision making.

Principal decisions

Principal decisions are those decisions taken by the Board that are material or of strategic importance to the company, or are significant to the company's key stakeholders.

This statement includes a case study of a principal decision taken by the Board during 2023. Further information on the Board's principal activities can be found in the Corporate governance statement on pages 78 to 84.

The s172 factors

- A – Likely long-term consequences
- B – Employee interests
- C – Relationships with customers, suppliers and others
- D – The impact on community and environment
- E – Maintaining a reputation for high standards of business conduct
- F – Acting fairly between members of the company

Case Study – Appointing a new non-executive director

Factors considered: A C E

What was the decision-making process?

On 22 August 2023 the Board approved the appointment of Mark Rennison as an independent non-executive director with effect from 1 September 2023.

The appointment followed a rigorous search process led by the NWH Ltd Nominations Committee on behalf of the Board to recruit an additional double independent non-executive director (DINED) to the Boards of NWH Ltd, National Westminster Bank Plc and The Royal Bank of Scotland plc, as part of ongoing Board succession planning activity. An additional DINED was also needed in order to maintain three DINEDs on the Board following the resignation of Graham Beale on 31 August 2023, ensuring continued compliance with ring-fencing requirements.

To support the Board's decision, a detailed paper was prepared for consideration by the directors which described how Mr Rennison had been identified as the preferred candidate. Directors considered how the role specification criteria had been met, and how the appointment would enhance the Board's composition.

Following discussion, the Board approved the appointment, noting that Mr Rennison had extensive retail banking and financial services expertise alongside broad experience at a board and committee level.

How did the directors fulfil their duties under section 172? How were stakeholders considered?

In identifying the skills, knowledge and experience required at Board level to support delivery of NatWest Group's purpose and strategic priorities, a long-term view was taken.

The Board discussed how Mr Rennison's background as a Chartered Accountant with 12 years' experience as CFO for Nationwide would enhance the balance of skills and experience on the Board. Mr Rennison would also bring significant non-executive experience from previous external roles, including as non-executive director and audit committee Chair of another UK bank.

In the context of maintaining a reputation for high standards of business conduct, directors considered detailed character references from Mr Rennison's current and previous Boards and employers prior to approval, and in order to support their assessment of Mr Rennison's fitness, propriety and suitability. Directors also noted that Mr Rennison had sufficient time to devote to the role and that the UK Corporate Governance Code criteria on director independence would be met.

The Board noted that Mr Rennison's strengths and experience, combined with his non-executive portfolio experience would complement and enhance the overall knowledge and experience of the Board.

Actions and outcomes

Since joining the Board, Mr Rennison has embarked on a tailored induction programme, spending time with key stakeholders to deepen his knowledge of the business and the context in which it operates.

He has also joined the NWH Audit Committee and the NWH Performance and Remuneration Committee.

Further details on the search process leading to Mr Rennison's appointment can be found in the Group Nominations and Governance Committee report on pages 105 to 109 of the NatWest Group plc 2023 Annual Report and Accounts.

Board of directors and secretary

Approval of Strategic report

The Strategic report for the year ended 31 December 2023 set out on pages 2 to 77 was approved by the Board of directors on 15 February 2024.

By order of the Board

Jan Cargill

Chief Governance Officer and Company Secretary

15 February 2024

Chairman

Howard Davies

Executive directors

John-Paul Thwaite (CEO)

Katie Murray (CFO)

Non-executive directors

Francesca Barnes

Ian Cormack

Roisin Donnelly

Patrick Flynn

Rick Haythornthwaite

Yasmin Jetha

Stuart Lewis

Mark Rennison

Mark Seligman

Lena Wilson

Board and committee membership

Nominations Committee

Howard Davies (Chair)

Ian Cormack

Patrick Flynn

Rick Haythornthwaite

Stuart Lewis

Mark Seligman

Lena Wilson

Audit Committee

Patrick Flynn (Chair)

Ian Cormack

Stuart Lewis

Mark Rennison

Mark Seligman

Board Risk Committee

Stuart Lewis (Chair)

Francesca Barnes

Ian Cormack

Patrick Flynn

Lena Wilson

Performance and Remuneration Committee

Lena Wilson (Chair)

Ian Cormack

Mark Rennison

Mark Seligman

Senior independent non-executive director

Ian Cormack

Chief Governance Officer and Company Secretary

Jan Cargill

Board changes

Stuart Lewis (non-executive director) appointed on 1 April 2023
Mike Rogers (non-executive director) stood down on 25 April 2023

Alison Rose (executive director) stood down on 25 July 2023
Morten Friis (non-executive director) stood down on 31 July 2023
Graham Beale (non-executive director) stood down on 31 August 2023.

Mark Rennison (non-executive director) appointed on 1 September 2023

Rick Haythornthwaite (non-executive director and Chair Designate) appointed on 8 January 2024

For additional detail on the activities of the Committees above, refer to the Report of the directors.

Auditor

Ernst & Young LLP

Chartered Accountants and Statutory Auditor

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London E14 5EY

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London, EC2M 4AA

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Other principal offices

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London WC2R 0QS

National Westminster Bank Plc

Registered in England No. 929027

Top and emerging risks

Top and emerging risks are scenarios that could have a significant negative impact on our ability to operate or deliver our strategy and are managed through the enterprise-wide risk management framework toolkit. They usually combine elements of several principal risks and require a coordinated management response. Top risks could occur or require management action within 1-2 years while emerging risks are evolving and/or could occur over a longer time horizon, but have the potential to become a top risk. Both are subject to review by senior governance forums including Executive Risk Committee (ERC) and Board Risk Committee (BRC). Horizon scanning is an important element of the toolkit, enabling NWB Group to identify, assess and mitigate both top and emerging risks. A range of methods are used including scenario exercises, analysis, planning, monitoring, review of industry/institutional insights and discussion with external experts. In 2023, there was continued focus on assessing and managing interconnected risks assessing preparedness for correlated risk scenarios. This approach helps to integrate strategic risk considerations into business processes, as well as planning and strategy.

Top risk scenarios in focus in 2023	Description	Mitigants
Increased competition	Competitive pressures could intensify, impeding NWB Group's ability to grow or retain market share, impacting revenues and profitability, particularly in key UK Retail, Commercial & Institutional banking segments. Drivers of competition mainly relate to developments in technology, evolving incumbents, challengers, new entrants to the market, shifts in customer behaviour and changes in regulation. For example, increased competition from technology conglomerates, who may have competitive advantages in scale, technology and customer engagement (including brand recognition).	NWB Group closely monitors the competitive environment and adapts strategy as appropriate. This includes utilising scenario analysis and assessing how mega-trends will impact industry competitive dynamics. Strategic responses are focused on investing to deliver innovative and compelling propositions for customers and effectively leveraging acquisitions and partnerships.
Cyberattack	There is a constantly evolving threat from cyberattacks that are increasing in terms of frequency, sophistication, impact and severity. This includes hostile attempts to gain access to and exploit potential vulnerabilities of IT systems including via malware. Any failure in NWB Group's cybersecurity policies, procedures or controls may result in significant financial losses, major business disruption, inability to deliver customer services, loss of data, and may cause associated reputational damage.	NWB Group continues to invest in additional capability to defend against threats including developing and evolving cybersecurity policies, procedures and controls that are designed to minimise the potential effect of such attacks. The focus is to manage the impact of the attacks and maintain services for NWB Group's customers. This includes testing and proving cyber resilience capabilities via stress testing of NWB Group's important business services.
Economic and rate volatility	High interest rates and the rising cost of living created uncertain economic conditions in 2023 including driving a shifts in customer behaviours and increased deposit competition. Economic conditions could deteriorate, depending on factors including weak economic activity, volatility in interest rates, liquidity pressures, sharp falls in asset prices, escalating geopolitical tensions and concerns regarding sovereign debt or sovereign credit ratings. Any of the above may have a material adverse effect on NWB Group's future financial prospects.	A range of complementary approaches is used to mitigate the risks, such as targeted scenario analysis, stress tests, targeted customer reviews and reviews of risk appetite. Stress tests included completion of regulatory stress tests including the Bank of England 2022/23 Annual Cyclical Scenario and the 2023/24 System Wide Exploratory Scenario as well as a range of internal scenarios.
Climate change	Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks, both physical and transition risk, are expected to be widespread and may disrupt the proper functioning of financial markets and institutions, including NWB Group.	NWB Group's climate-related strategy, targets and transition plan support the identification and management of climate-related risks. However, they also entail significant execution and reputational risk and are unlikely to be achieved without significant and timely government policy, technology and customer behavioural changes.
Operational risk scenarios	Operational risks are inherent in NWB Group's businesses and a broad range of scenarios are considered. NWB Group could be adversely impacted by a broad range of operational risk scenarios including a failure to have or be able to access current, complete, and accurate data or disruption to services should a third-party service provider experience any interruptions. These scenarios could result in business and customer interruption and related reputational damage, significant compensation costs, regulatory sanctions and/or a breach of applicable regulations.	NWB Group devotes significant resources to third-party risk management. Focus areas include identification of critical service suppliers, developing robust exit and contingency plans in the event of supply-chain disruption, and ensuring appropriate monitoring and oversight of third-party performance. Effective and ethical use of data is critical to NWB Group's goals, with continued focus on delivering a long-term data strategy alongside enhancing control and policy frameworks governing data usage.
Evolving regulation	NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may have an adverse impact on NWB Group. Areas of focus include Basel 3.1 standards implementation, including the resulting effect on RWAs and models and the FCA's Consumer Duty standards on consumer protection.	NWB Group constantly monitor regulatory change and work with the regulators to help shape those developments that materially impact NWB Group, responding when necessary either bilaterally or in partnership with one of the affiliated industry bodies. We implement new regulatory requirements where applicable and use our frequent engagement meetings with regulators to discuss key regulatory priorities.

Emerging risk scenarios in focus in 2023	Description	Mitigants
Artificial intelligence	Innovations in artificial intelligence (AI), including generative AI, may rapidly transform and disrupt customers, industry and the economy. NWB Group's ability to continue to deploy AI solutions and integrate AI in systems and controls will become increasingly important to retain and grow business. There can be no certainty that NWB Group's innovation strategy will be successful, and competitors may be more successful in implementing AI technologies, in turn, affecting industry competitive dynamics. Developments in AI may also result in increased model risk and rising levels of fraud.	NWB Group closely monitors developments in disruptive technologies including AI and adapts strategy as appropriate. The focus is on how we use AI and machine-learning technologies safely and ethically to improve the support we can offer to our customers and ensure that our use of data continues to be secure, accountable, fair and ethical.
Biodiversity and nature loss	NWB Group and its customers, suppliers and counterparties face uncertainty in terms of risks relating to the degradation of the environment, such as air, water and land pollution, biodiversity loss and deforestation. There is also increasing investor, regulatory and stakeholder scrutiny regarding how businesses address these changes and related climate change, biodiversity and other sustainability issues.	NWB Group is developing its approach to assess, manage and mitigate nature-related risks. Using emerging industry guidance such as the Task Force on Nature Related Financial Disclosure framework, NWB Group is seeking to further its understanding of nature-related risks. This includes how its business activities impact nature, the dependencies NWB Group and its counterparties (including its suppliers) and customers have on nature, and the risks and opportunities nature can generate.
Central bank digital currency	NWB Group operates in markets which would be exposed to any developments in digital money, including a UK central bank digital currency (CBDC). The Bank of England and HMT are exploring the case and design for a retail CBDC that could be used by the public and businesses, the digital pound. The future introduction of retail CBDCs, including a digital pound, could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NWB Group.	NatWest Group engages with the UK government and regulators on digital currency developments. This includes engagement with policymakers on a bilateral and industry level. For example, NatWest Group is represented on the Bank of England's CBDC Engagement Forum, and responds to relevant consultations, discussion papers and other publications. In addition, NatWest Group has established an Executive Steering Group on digital assets including overseeing developments and engagement on digital currencies, such as CBDCs. NatWest Group has also reviewed the potential impact of a UK central bank digital currency including on deposits, funding costs and broader implications for the business model.
Geopolitical risk	NWB Group is exposed to risks arising from geopolitical events or political developments. Geopolitical tensions remain elevated and a range of potential scenarios and impacts were considered. This includes the potential impact of armed conflict, global trade and supply-chain disruption, volatility in commodity prices, protectionist policies or trade barriers and state sponsored cyberattacks.	NWB Group closely monitors the geopolitical risk outlook and undertakes regular scenario analysis to understand the potential impacts and takes mitigating actions as required. This includes second and third order analysis of impacts, for example, through customers' supply-chain disruption or disruption to third-party providers.

Financial review

Summary consolidated income statement for the year ended 31 December 2023

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	2023	2022	Variance	
	£m	£m	£m	£m	£m	£m	£m	%
Net interest income	4,595	709	2,955	(236)	8,023	7,532	491	7
Non-interest income	436	276	1,410	1,941	4,063	4,211	(148)	(4)
Total income	5,031	985	4,365	1,705	12,086	11,743	343	3
Operating expenses	(2,311)	(615)	(2,315)	(1,552)	(6,793)	(6,288)	(505)	8
Profit before impairment losses/releases	2,720	370	2,050	153	5,293	5,455	(162)	(3)
Impairment (losses)/releases	(410)	(13)	(82)	1	(504)	(341)	(163)	48
Operating profit before tax	2,310	357	1,968	154	4,789	5,114	(325)	(6)
Tax charge					(1,280)	(1,425)	145	(10)
Profit for the year					3,509	3,689	(180)	(5)

Key metrics and ratios

	2023	2022
Cost:income ratio (1)	56.2%	53.5%
Loan impairment rate (2)	15bps	11bps
CET1 ratio (3)	11.6%	11.3%
Leverage ratio (4)	4.5%	4.4%
Risk weighted assets (RWAs)	£121.7bn	£112.4bn
Loan:deposit ratio (5)	97%	90%

(1) Cost:income ratio is total operating expenses divided by total income.

(2) Loan impairment rate is the loan impairment charge divided by gross customer loans.

(3) CET1 ratio is CET1 capital divided by RWAs.

(4) Leverage ratio is Tier 1 capital divided by total exposure. This is in accordance with changes to the UK's leverage ratio framework, refer to page 62 for further details.

(5) Loan deposit ratio is total loans divided by total deposits.

NWB Group reported a profit of £3,509 million compared with £3,689 million in 2022, driven by increased operating expenses of £505 million and impairment losses of £163 million, partially offset by an increase in total income of £343 million.

Total income increased by £343 million, or 3%, to £12,086 million, primarily reflecting increases in net interest income.

Net interest income increased by £491 million, or 7%, to £8,023 million, primarily reflecting beneficial impact from base rate rises and lending growth partially offset by higher funding costs.

Non-interest income decreased by £148 million, or 4%, to £4,063 million, primarily driven by other operating income, partially offset by an increase in net fees and commissions.

Net fees and commissions increased by £43 million, or 3%, to £1,669 million, largely within Commercial & Institutional, driven by increased lending fees and card volumes coupled with higher payment services income.

Other operating income reduced by £191 million, or 7%, to £2,394 million primarily reflecting:

- £309 million lower income from hedging activities, including reduced gains on economic hedging derivatives, due to interest rate rises, reflecting interest rate volatility across all currencies. This is partially offset by a £3 million increase as a result of hedge ineffectiveness; and
- an £80 million prior year non-recurring profit from insurance liabilities included within other income; partially offset by
- a £234 million gain on redemption of own debt.

Operating expenses increased by £505 million, or 8%, to £6,793 million reflecting:

- an increase in staff costs of £213 million primarily as a result of increased pay awards to support our colleagues with cost of living challenges combined with an increase in restructuring costs;
- an increase in other administrative costs of £138 million primarily driven by a new profit share arrangement with a fellow NatWest Group subsidiary; and
- an increase in depreciation and amortisation costs of £109 million primarily as a result of intangible and fixed asset additions and a property impairment in 2023.

Net impairment losses of £504 million principally reflects increased economic uncertainty. Defaults remain stable and at low levels across the portfolio. Total impairment provisions increased by £0.3 billion to £2.9 billion in the year. ECL coverage ratio increased from 0.84% to 0.88%.

Segmental performance

Retail Banking

Operating profit was £2,310 million in 2023.

Net interest income increased by £101 million to £4,595 million, reflecting lending growth, combined with the impact of rate rises on deposit funding income, partly offset by reduction in mortgage margins, higher funding costs and impact of deposit balance mix shift from non-interest bearing balances to interest bearing balances.

Non-interest income increased by £37 million to £436 million, primarily due to higher profit share and increased spend related fee income.

Operating expenses increased by £196 million to £2,311 million, primarily reflecting higher pay awards to support our colleagues with cost of living challenges, property lease termination losses, increased restructuring costs and continued investment in the business. This was partly offset by savings from headcount reductions.

Net impairment losses of £410 million reflect higher stage 3 inflows and increased good book charges driven by both lending growth and normalisation of risk parameters.

Loans to customers increased by £9.1 billion to £190.7 billion, primarily reflecting strong mortgage growth of £7.6 billion driven by gross new mortgage lending of £29.4 billion. Credit card balances increased by £1.3 billion in 2023 reflecting continued strong customer demand and personal advances increased by £0.3 billion.

Customer deposits increased by £0.8 billion to £152.7 billion driven by higher fixed term savings deposits, partially offset by higher outflows from current accounts.

Private Banking

Operating profit was £357 million in 2023.

Net interest income decreased by £45 million to £709 million. Margins have been adversely impacted reflecting lower deposit balances with mix shifting from non-interest bearing to interest bearing balances, as customers migrated to savings products offering higher returns, combined with reduced lending volumes and mortgage margin dilution, and partially offset by the impact of rate rises on deposit income.

Non-interest income increased by £5 million to £276 million, reflecting increases in fee income and other operating income.

Operating expenses increased by £19 million to £615 million, reflecting an increase in pay awards to support our colleagues with cost of living challenges, an additional VAT charge, property revaluation costs and strategic spend to increase operational efficiency.

Net impairment losses of £13 million in 2023 largely reflect non-repeat of good book releases in 2022 whilst overall impairments remain at low levels.

Loans to customers decreased by £0.7 billion to £18.5 billion as higher levels of customer repayments more than offset gross new lending.

Customer deposits decreased by £3.5 billion to £37.6 billion, reflecting an increase in competition and an increase in tax outflows in Q1 2023. Changes in customer behaviour drove a change in mix of deposits with a decrease in instant access savings and current accounts, and a switch to term accounts.

Commercial & Institutional

Operating profit was £1,968 million in 2023.

Net interest income increased by £215 million to £2,955 million, reflecting higher deposit returns supported by interest rate rises, partially offset by higher funding costs.

Non-interest income increased by £124 million to £1,410 million, primarily reflecting higher lending and finance fees in relation to volume growth, increased credit and debit card fees reflecting higher volumes and margins and higher payment services fees.

Operating expenses increased by £376 million to £2,315 million, primarily reflecting an increase in relation to a new profit share arrangement with a fellow NatWest Group subsidiary, higher pay awards to support our colleagues with cost of living challenges and continued investment in the business.

Net impairment losses of £82 million were primarily driven by good book releases and lower stage 3 charges.

Loans to customers increased by £1.8 billion to £83.4 billion, primarily due to an increase in term loan facilities, partly offset by UK Government scheme repayments.

Customer deposits decreased by £7.0 billion to £111.3 billion driven by overall market liquidity contraction.

Central items & other

Operating profit was £154 million in 2023.

Total income decreased by £94 million to £1,705 million in 2023, primarily due to lower income from hedging activities, including reduced gains on economic hedging derivatives, and a prior year £80 million profit from insurance liabilities, partially offset by a £234 million gain on redemption of own debt and increased funding income. Income from the recharging of costs to other NatWest Group entities reduced, principally reflecting the impact of organisational restructure activity.

Operating expenses decreased by £86 million to £1,552 million, principally reflecting the reduction in costs related to data and technology. £1,430 million of total expenses were recovered through service charges in non-interest income.

Summary consolidated balance sheet as at 31 December 2023

	2023	2022	Variance	
	£m	£m	£m	%
Assets				
Cash and balances at central banks	48,259	73,065	(24,806)	(34)
Derivatives	3,184	4,407	(1,223)	(28)
Loans to banks - amortised cost	3,355	3,197	158	5
Loans to customers - amortised cost	318,466	301,684	16,782	6
Amounts due from holding companies and fellow subsidiaries	2,311	4,903	(2,592)	(53)
Other financial assets	31,944	14,546	17,398	120
Other assets	7,949	7,667	282	4
Total assets	415,468	409,469	5,999	1
Liabilities				
Bank deposits	18,052	16,060	1,992	12
Customer deposits	313,752	322,614	(8,862)	(3)
Amounts due to holding companies and fellow subsidiaries	47,252	38,771	8,481	22
Derivatives	1,718	2,088	(370)	(18)
Other financial liabilities	9,011	5,384	3,627	67
Subordinated liabilities	122	197	(75)	(38)
Notes in circulation	806	809	(3)	-
Other liabilities	3,325	3,470	(145)	(4)
Total liabilities	394,038	389,393	4,645	1
Total equity	21,430	20,076	1,354	7
Total liabilities and equity	415,468	409,469	5,999	1

Total assets increased by £6.0 billion to £415.5 billion at 31 December 2023.

Cash and balances at central banks decreased by £24.8 billion to £48.3 billion, reflecting:

- £19.5 billion decrease due to net bond purchases, disposal and maturity combined with net repo and collateral activity;
- £10.7 billion decrease due to business segment net funding outflows; partially offset by
- £4.0 billion increase due to the funding of a subsidiary undertaking being transferred from NWB Plc to RBS plc; and
- £1.6 billion increase in debt capital market activity.

Loans to banks – amortised cost increased by £0.2 billion to £3.4 billion, as a result of an increase in non-sterling lending and treasury activities offset by a reduction in sterling activities.

Loans to customers increased by £16.8 billion to £318.5 billion, reflecting:

- £7.2 billion growth in mortgage business;
- £6.7 billion increase as a result of treasury reverse repo activity;
- £1.8 billion net increase in commercial lending, primarily due to an increase in term loan facilities, partly offset by UK Government scheme repayments; and
- £0.4 billion increase in credit card balances due to business initiatives.

Amounts due from holding companies and fellow subsidiaries decreased by £2.6 billion to £2.3 billion primarily due to reduced balances with fellow subsidiaries of NWH Group.

Other financial assets increased by £17.4 billion to £31.9 billion, primarily reflecting £36.8 billion of bond purchases, partially offset by bond disposals of £12.3 billion and maturities of £8.5 billion.

Bank deposits increased by £2.0 billion to £18.1 billion, driven primarily by an increase in repo balances.

Customer deposits decreased by £8.9 billion to £313.8 billion, driven primarily by higher outflows from business current account balances, overall market liquidity contraction and a reduction in savings, demand and non-interest bearing deposits, as a result of a change in customer behaviour, partly offset by an increase in repo balances.

Amounts due to holding companies and fellow subsidiaries increased by £8.5 billion to £47.3 billion, primarily due to increased balances with RBS plc, NWH Ltd and other fellow subsidiaries of NatWest Group, partially offset by a net reduction in balances with NatWest Group plc.

Derivative liabilities decreased by £0.4 billion to £1.7 billion, driven by an adverse movement within the liquidity portfolio due to float rate decreases and foreign exchange swap movements.

Other financial liabilities increased by £3.6 billion to £9.0 billion, driven by short term issuances as a result of the current market environment and increasing rates during the year.

Total equity increased by £1.4 billion to £21.4 billion. The increase reflects attributable profit for 2023 of £3.4 billion, partially offset by dividends paid to NWH Ltd and an increase in the cash flow hedging reserves due to interest rate rises.

Risk and capital management

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Presentation of information

Where marked as audited in the section header, certain information in the Risk and capital management section (pages 10 to 77) is within the scope of the Independent auditor's report. 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 NWB Group.

Risk management framework

Introduction

NWB 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 NWB 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 NWB Group. It aligns risk management with NWB 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 NWB Group colleagues are responsible for managing risk, the Risk function provides oversight and monitoring of risk management activities, including the implementation of the framework and adherence to its supporting policies, standards and operational procedures. The Chief Risk Officer plays an integral role in providing the Board with advice on NWB Group's risk profile, the performance of its controls and in providing challenge where a proposed business strategy may exceed risk tolerance.

In addition, there is a process to identify and manage top and emerging threats, which are those that could have a significant negative impact on NWB Group's ability to meet its strategic objectives. Both top and emerging threats may incorporate aspects of – or correlate to – a number of principal risks and are reported alongside them to the Board on a regular basis.

Risk management framework continued

Culture

NWB 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 NWB Group to support better customer outcomes, develop a stronger and more sustainable business and deliver an improved cost base.

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

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

Training

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

Our Code

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

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

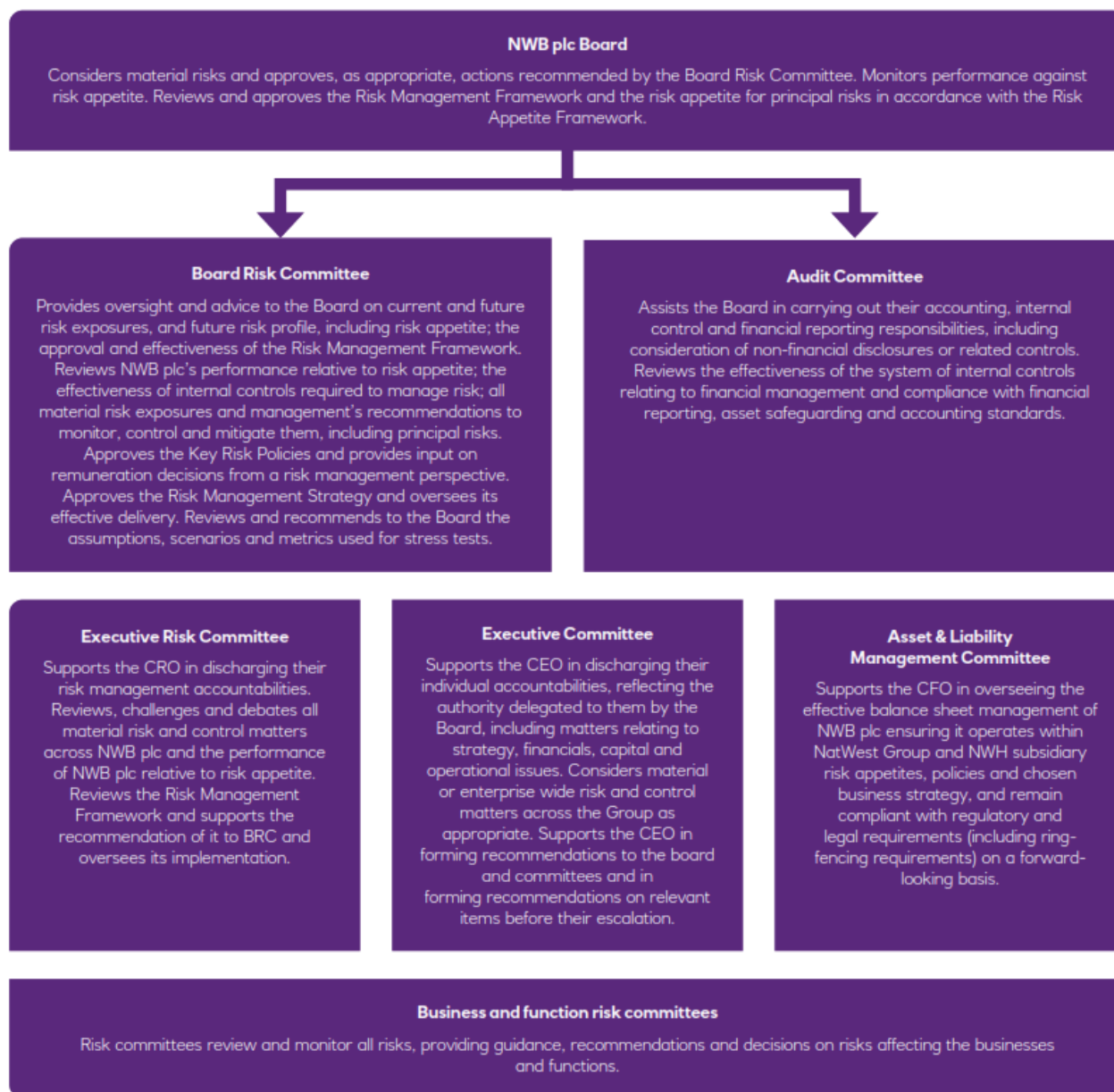
Where appropriate, if conduct falls short of NatWest Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for the individuals concerned. The NatWest Group remuneration policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the PRA rulebook and the FCA handbook. Any employee falling short of the expected standards would also be subject to internal disciplinary policies and procedures. If appropriate, the relevant authority would be notified.

Risk management framework continued

Governance

Committee structure

The diagram shows NWB Group's governance structure in 2023.

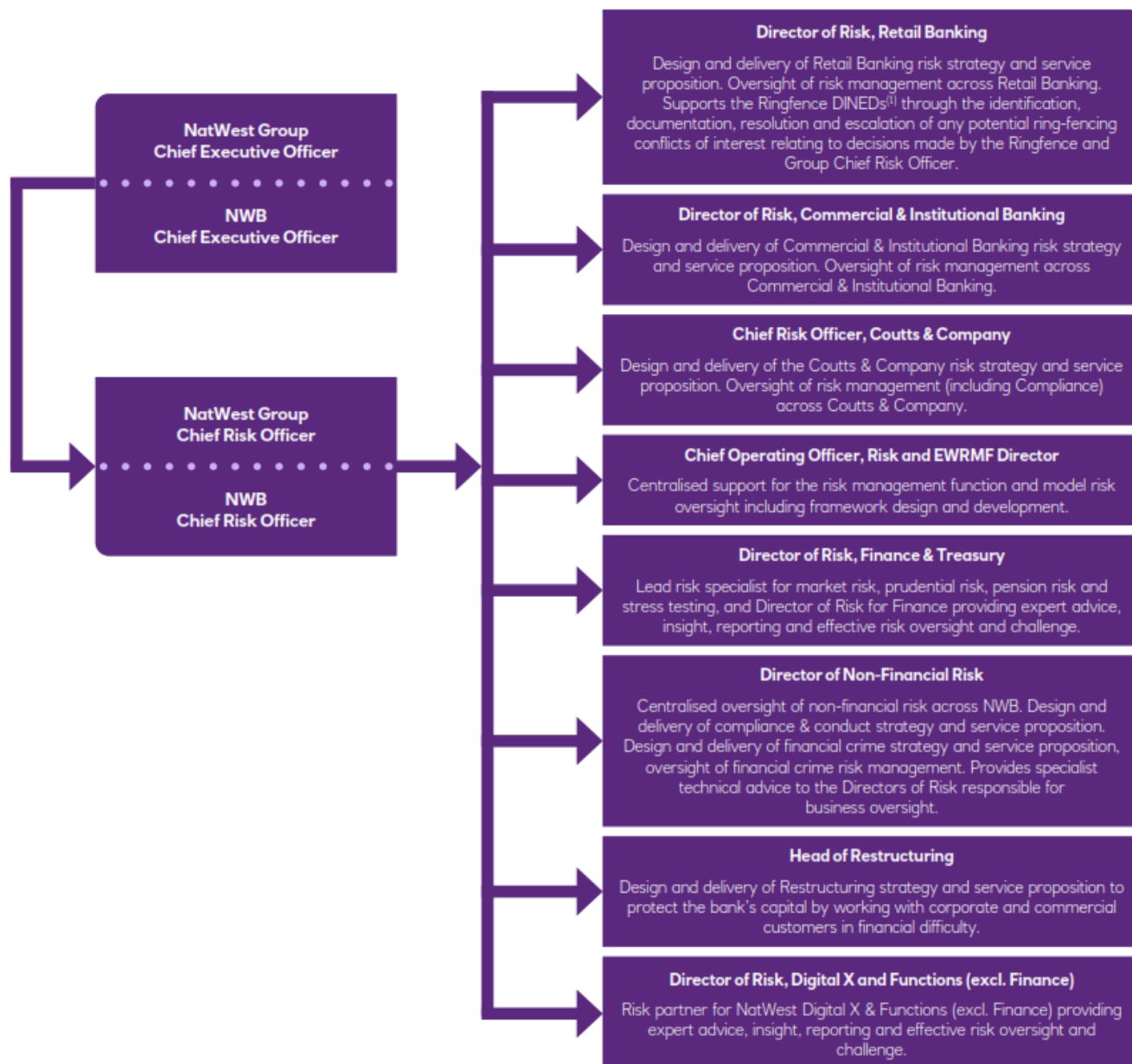


- (1) The NatWest Group Chief Executive Officer also performs the role of NWB plc Chief Executive Officer.
- (2) The NatWest Group Chief Risk Officer also performs the role of NWB plc Chief Risk Officer.
- (3) The NatWest Group Chief Financial Officer also performs the role of NWB plc Chief Financial Officer.

Risk management framework continued

Risk management structure

The diagram shows NWB Group's risk management structure in 2023 and key risk management responsibilities.



- (1) Double Independent Non-Executive Directors.
- (2) The NatWest Group Chief Executive Officer also performs the role of NWB Chief Executive Officer.
- (3) The NatWest Group Chief Risk Officer also performs the role of NWB Chief Risk Officer.
- (4) The NWB Chief Risk Officer reports directly to the NWB Chief Executive Officer. There is a further secondary reporting line to the chair of the Board Risk Committee and a right of access to the Committee, including the deputy chair.
- (5) The Risk function is independent of the customer-facing business segments and support functions. Its structure is divided into three parts (Directors of Risk, Specialist Risk Directors and Chief Operating Officer) to facilitate effective management of the risks facing NWB. Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that these are adequately monitored and controlled. The directors of Risk (Retail Banking; Commercial & Institutional Banking; Financial & Strategic Risk; Non-Financial Risk and Compliance & Conduct) as well as the Director, Financial Crime Risk NatWest Holdings; the Chief Risk Officer, Coutts & Company and the Chief Operating Officer report to the NWB Chief Risk Officer.

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 the NWB Group Board.

The first line of defence is responsible for managing its direct risks, and with the support of specialist functions, it is also responsible for managing its consequential risks, by identifying, assessing, mitigating, monitoring and reporting risks.

Second line of defence

The second line of defence comprises the Risk function and is independent of the first line.

The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NWB 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 NWB Group Board.

Third line of defence

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

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

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

Risk appetite

Risk appetite defines the type and aggregate level of risk NWB 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 NWB Group can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between internal risk appetite and NWB Group's ultimate capacity to absorb losses.

Risk appetite framework

The risk appetite framework supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures emerging threats and risk-taking activities that might be out of appetite are identified, assessed, escalated and addressed in a timely manner.

To facilitate this, a detailed annual review of the framework is carried out. The review includes:

- Assessing the adequacy of the framework compared to internal and external expectations.
- Ensuring the framework remains effective and acts as a strong control environment for risk appetite.
- Assessing the level of embedding of risk appetite across the organisation.

Establishing risk appetite

In line with the risk appetite framework, risk appetite is maintained across NWB Group through risk appetite statements. These are in place for all principal risks and describe the extent and type of activities that can be undertaken.

Risk appetite statements consist of qualitative statements of appetite supported by risk limits and triggers that operate as a defence against excessive risk-taking. Risk measures and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for each principal risk is set in alignment with business activities.

The process of reviewing and updating risk appetite statements is completed alongside the business and financial planning process. This ensures that plans and risk appetite are appropriately aligned.

The Board sets risk appetite for all principal risks to help ensure NWB Group is well placed to meet its priorities and long-term targets, even in challenging economic environments. This supports NWB Group in remaining resilient and secure as it pursues its strategic business objectives.

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

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

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

Risk management framework continued

Identification and measurement

Identification and measurement within the risk management process comprises:

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

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

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

Testing and monitoring

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

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

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

Stress testing

Stress testing – capital management

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

Stress testing includes:

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

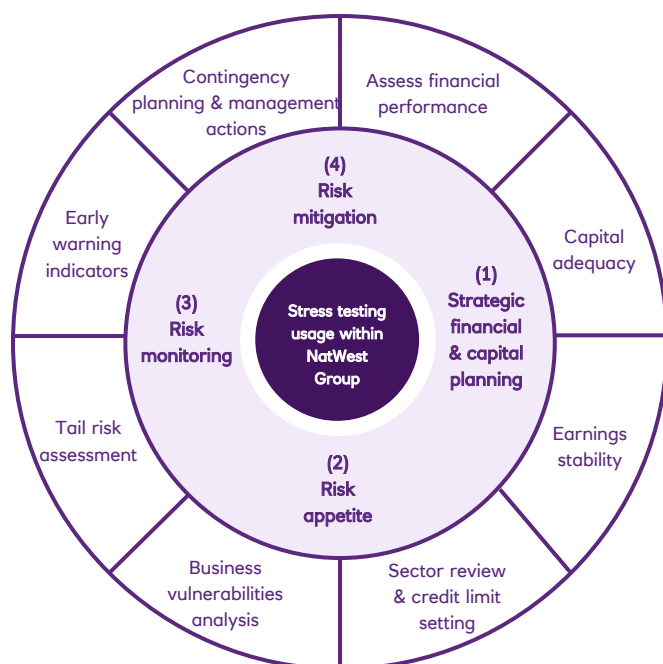
The process for stress testing consists of four broad stages:

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

Risk management framework continued

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

Specific areas that involve capital management include:



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

Capital sufficiency – going concern forward-looking view

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

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

The examination of capital requirements under both normal and adverse economic and market conditions enables NatWest Group to determine whether its projected business performance meets internal plans and regulatory capital requirements.

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

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

Internal assessment of capital adequacy

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

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

Capital allocation

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

Governance

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

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

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

Risk management framework continued

Internal assessment of liquidity

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

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

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

Stress testing – recovery and resolution planning

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

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

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

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

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

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

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

Stress testing – market risk

Non-traded market risk

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

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

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

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

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

Risk management framework continued

Internal scenarios - climate

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

This involved running the following two climate scenarios:

- A disruptive policy response scenario, where the introduction of policy from the Network for Greening the Financial System delayed transition scenario, is accelerated to this decade.
- Inevitable policy response 1.8°C scenario, which anticipates investor, corporate and civil society pressure will push policymakers to make changes between 2023 and 2033, that could result in warming at or below 1.8°C by 2100.

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

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

Regulatory stress testing

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

The 2022 stress test aimed to assess the impact of a UK and global macroeconomic stress on UK banks, spanning a five-year period from Q3 2022 to Q2 2027. It is a coherent 'tail risk' scenario, designed to be severe and broad enough to assess the resilience of UK banks to a range of adverse shocks.

The stress scenario is broadly similar to the 2019 ACS and more severe overall than the global financial crisis, with the key difference being elevated levels of inflation. Annual UK inflation averaged around 11% over the first three years of the scenario, peaking at 17% in early 2023.

The stress test was based on an end-of-June 2022 balance sheet starting position.

Further details can be found at:

<https://www.bankofengland.co.uk/stress-testing/2023/bank-of-england-stress-testing-results>

Following the UK's exit from the European Union on 31 December 2020, only relevant European subsidiaries of NatWest Group take part in the European Banking Authority stress tests. NatWest Group itself does not participate.

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

Credit risk

Definition (audited)

Credit risk is the risk that customers, counterparties or issuers fail to meet a contractual obligation to settle outstanding amounts.

Sources of risk (audited)

The principal sources of credit risk for NWB Group are lending and related undrawn commitments. Derivatives and securities financing and debt securities are also a source of credit risk, primarily related to Treasury activities for NWB Group. NWB Group is also exposed to settlement risk through foreign exchange and payments activities.

Governance (audited)

The Credit Risk function provides oversight and challenge of frontline credit risk management activities. Governance activities include:

- Defining and proposing credit risk appetite measures for Board approval.
- Establishing credit risk policy, standards and toolkits which set out the mandatory limits and parameters required to ensure that credit risk is managed within risk appetite and which provide the minimum standards for the identification, assessment, management, monitoring and reporting of credit risk.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that it is being managed adequately and effectively.
- Assessing the adequacy of 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 NatWest Group and business unit provisions and model committees.
- Development and approval of credit grading models.
- Providing regular reporting on credit risk to the Board Risk Committee and Board.

Risk appetite

Credit risk appetite is approved by the Board and is set and monitored through risk appetite frameworks tailored to NWB Group's Personal and Wholesale segments. Risk appetite statements and associated measures are reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

Personal

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

Wholesale

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

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

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

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

All credit grades map to an asset quality (AQ) scale, used for financial reporting. This AQ scale is based on Basel 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.

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

Mitigation

Mitigation techniques, as set out in the appropriate credit risk toolkits and transactional acceptance standards, are used in the management of credit portfolios across NWB Group. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations. Mitigation tools can include structuring a security interest in a physical or financial asset, the use of credit derivatives including credit default swaps, credit-linked debt instruments and securitisation structures, and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate (CRE).

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

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

Within the Private Banking segment, properties securing loans greater than £2.5 million are revalued every three years.

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

Credit risk continued

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

Assessment and monitoring

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

Personal

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

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

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

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

Wholesale

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

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

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

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

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

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

Problem debt management

Personal

Early problem identification

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

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

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

Collections

When a customer exceeds an agreed limit or misses a regular monthly payment the customer is contacted by NWB Group and requested to remedy the position. If the situation is not resolved then, where appropriate, the Collections team will become more involved and the customer will be supported by skilled debt management staff who endeavour to provide customers with bespoke solutions. Solutions include short-term account restructuring, refinance loans and forbearance which can include interest suspension and 'breathing space'. All treatments available to customers experiencing financial difficulties are reviewed to ensure they remain appropriate for customers impacted by current economic conditions. In the event that an affordable and sustainable agreement with a customer cannot be reached, the debt will transition to the Recoveries team. For provisioning purposes, under IFRS 9, exposure to customers managed by the Collections team is categorised as Stage 2 and subject to a lifetime loss assessment, unless it is 90 days past due or has triggered any other unlikelihood to pay indicators, in which case it is categorised as Stage 3.

Credit risk continued

Recoveries

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

Wholesale

Early problem identification

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

The aligned Risk of Credit Loss and Viability framework

This framework focuses on all Wholesale customers to provide early identification of credit deterioration, support intelligent risk-taking, ensure fair and consistent customer outcomes and provide key insights into Wholesale lending portfolios. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk to NWB Group. There are two classifications in the framework that apply to non-defaulted customers who are in financial stress – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures categorised as Heightened Monitoring or Risk of Credit Loss are categorised as Stage 2 and subject to a lifetime loss assessment.

The framework also applies to those customers that have met NWB Group's default criteria (AQ10 exposures). Defaulted exposures are categorised as Stage 3 impaired for provisioning purposes.

Heightened Monitoring customers are performing customers that have met certain characteristics, which have led to significant credit deterioration. Collectively, characteristics reflect circumstances that may affect the customer's ability to meet repayment obligations. Characteristics include trading issues, covenant breaches, material PD downgrades and past due facilities. Heightened Monitoring customers require pre-emptive actions (outside the customer's normal trading patterns) to return or maintain their facilities within NWB Group's current risk appetite.

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

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

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

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

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

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

Restructuring

Where customers are categorised as Risk of Credit Loss and the lending exposure is above £1 million, relationships are supported by the Restructuring team. The objective of Restructuring is to protect NWB Group's capital. Restructuring does this by working with corporate and commercial customers in financial difficulty to help them understand their options and how their restructuring or repayment strategies can be delivered. Helping viable customers return to financial health and restoring a normal banking relationship is always the preferred outcome, however, where this is not possible, NWB Group will work with customers to achieve a solvent outcome. Throughout this period, the mainstream relationship manager will remain an integral part of the customer relationship. Insolvency is considered as a last resort and if deemed necessary, NWB Group will work to recover its capital in a fair and efficient manner, while upholding the fair treatment of customers and NWB Group's core values.

Forbearance (audited)

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

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

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

Credit risk continued

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

Types of forbearance

Personal

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

Wholesale

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

Monitoring of forbearance

Personal

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

Wholesale

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

Provisioning for forbearance (audited)

Personal

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

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

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

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

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

Wholesale

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

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

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

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

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

Refer to pages 44 and 46 for further details on Wholesale and Personal forbearance.

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs (audited)

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

NWB Group's IFRS 9 provisioning models, which use existing IRB models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the IRB models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:

Model build:

- The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
- The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for exposures in Stage 2.

Credit risk continued

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 2.3 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 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

Personal models

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

Wholesale models

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

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

LGD estimates

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

Personal

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

Wholesale

Forward-looking economic information is incorporated into LGD estimates using the existing point-in-time/through-the-cycle framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

EAD estimates

Personal

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

- Revolving products use the existing IRB models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios except mortgages. Therefore, forward-looking information is only incorporated in the mortgage EAD model (through forecast changes in interest rates).

Wholesale

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

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

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to NWB 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 NWB 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.

Credit risk continued

ECL post model adjustments (audited)

The table below shows ECL post model adjustments.

	Retail Banking		Private Banking	Commercial & Institutional	Central items & other	Total
	Mortgages	Other				
	£m	£m	£m	£m	£m	£m
2023						
Deferred model calibrations	-	-	1	14	-	15
Economic uncertainty	109	31	13	191	3	347
Other adjustments	1	-	-	6	-	7
Total	110	31	14	211	3	369
<i>Of which:</i>						
- Stage 1	72	11	6	83	-	172
- Stage 2	29	20	8	124	3	184
- Stage 3	9	-	-	4	-	13
2022						
Economic uncertainty	91	40	6	151	-	288
Other adjustments	7	15	-	11	-	33
Total	98	55	6	162	-	321
<i>Of which:</i>						
- Stage 1	58	21	3	50	-	132
- Stage 2	29	34	3	108	-	174
- Stage 3	11	-	-	4	-	15

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

- The addition of deferred model calibration post model adjustments to account for elevated refinance risks on deteriorated exposures largely due to pressures from inflation and liquidity.
- The increase in the economic uncertainty post model adjustments for Wholesale portfolios relating to inflation, supply chain and liquidity prompted by continued affordability risks, as a result of higher interest rates and sustained inflation. This was partially offset by a reduction in COVID-19 related post model adjustments.
- **Retail Banking** – The post model adjustments for economic uncertainty increased slightly to £140 million at 31 December 2023, from £131 million at 31 December 2022. Continued consumer affordability risks, as a result of higher interest rates and sustained inflation, prompted an uplift in the cost of living post model adjustment (up from £112 million to £130 million). The cost of living post model adjustment captured the risk on segments in the Retail Banking portfolio that are more susceptible to the effects of cost of living rises. It focused on key affordability lenses, including customers with lower income in fuel poverty, over-indebted borrowers and customers vulnerable to a potential mortgage rate shock. This increase during the year was partly offset by some LGD post model adjustment reductions.

Additionally, the judgemental post model adjustment relating to the modelling of cards EAD (£15 million at 31 December 2022) was discontinued at H1 2023 and the latest update to the post model adjustment for legacy higher risk interest only residential mortgages resulted in a £6 million reduction in the post model adjustment from 31 December 2022, reflecting latest analysis of the portfolio segment.

- **Commercial & Institutional** – The post model adjustments for economic uncertainty increased to £191 million at 31 December 2023, from £151 million at 31 December 2022. It included an overlay of £36 million, at 31 December 2023, from £85 million at 31 December 2022, to cover the residual risks from COVID-19, including the risk that government support schemes could affect future recoveries and concerns surrounding associated debt, to customers that have utilised government support schemes. The inflation and supply chain post model adjustment was maintained with a mechanistic adjustment, via a sector-level downgrade, being applied to the sectors that were considered most at risk from these headwinds. A number of additional sectors were added to the sector-level downgrade reflecting the ongoing pressures from inflation being higher for longer plus broader concerns around reducing cash reserves across many sectors. The impact of the sector-level downgrades is a post model adjustment increase to £153 million at 31 December 2023 from £66 million at 31 December 2022, reflecting these significant headwinds which are not fully captured in the models.

The £14 million judgemental overlay for deferred model calibrations relates to refinance risk with the existing mechanistic modelling approach not fully capturing the risk on deteriorated exposures.

Other adjustments included an overlay of £6 million to mitigate the effect of operational timing delays in the identification and flagging of a SICR.

Credit risk continued

Significant increase in credit risk (SICR) (audited)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12 month ECL). NWB Group has adopted a framework to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied are consistent across NWB Group and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

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

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

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

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

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

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

Asset lifetimes (audited)

The choice of initial recognition and asset duration is another critical 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** – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual customer review schedules and will be set to the next review date.

In the case of credit cards, the most significant judgement is to reflect the operational practice of card reissuance and the associated credit assessment as enabling a formal re-origination trigger. As a consequence, a capped lifetime approach of up to 36 months is used on credit card balances. If the approach was uncapped the ECL impact is estimated at approximately £82 million (2022 – £62 million). However, credit card balances originated under the 0% balance transfer product and representing approximately 40% (2022 – 20%) of performing card balances, have their ECL calculated on a behavioural lifetime approach as opposed to being capped at a maximum of three years.

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

Economic loss drivers (audited)

Introduction

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

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

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

Economic scenarios

At 31 December 2023, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly in relation to the path of inflation and interest rates.

For 2023, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

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

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

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

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

The peak to trough house price correction remains broadly similar to the previous assumption but the timing of the fall is more spread out.

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

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

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

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

Credit risk continued

Economic loss drivers (audited)

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

Main macroeconomic variables

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

(1) The five-year summary runs from 2023-27 for 31 December 2023 and from 2022-26 for 31 December 2022.

(2) The table shows CAGR for annual GDP, average levels for the unemployment rate and Bank of England base rate and Q4 to Q4 CAGR for other parameters.

Climate transition

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

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

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

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

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

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

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

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

Economic loss drivers

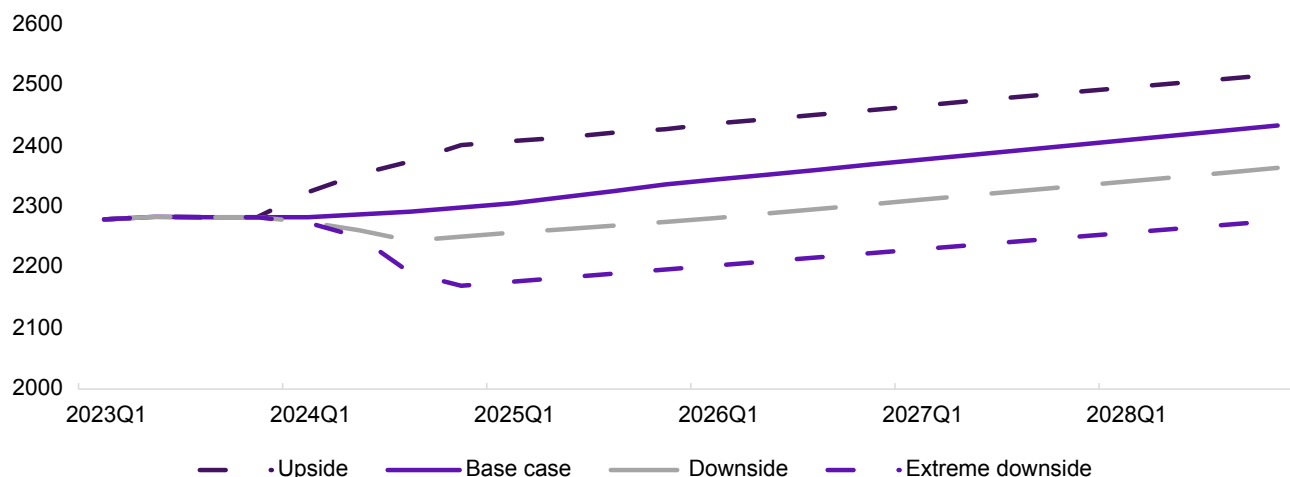
Probability weightings of scenarios

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

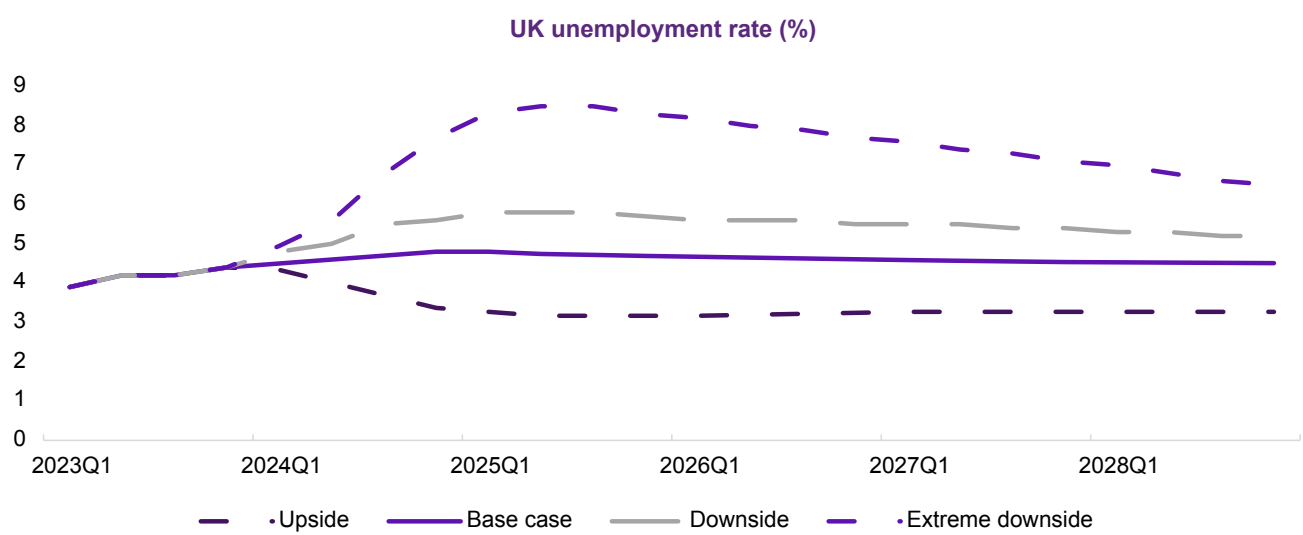
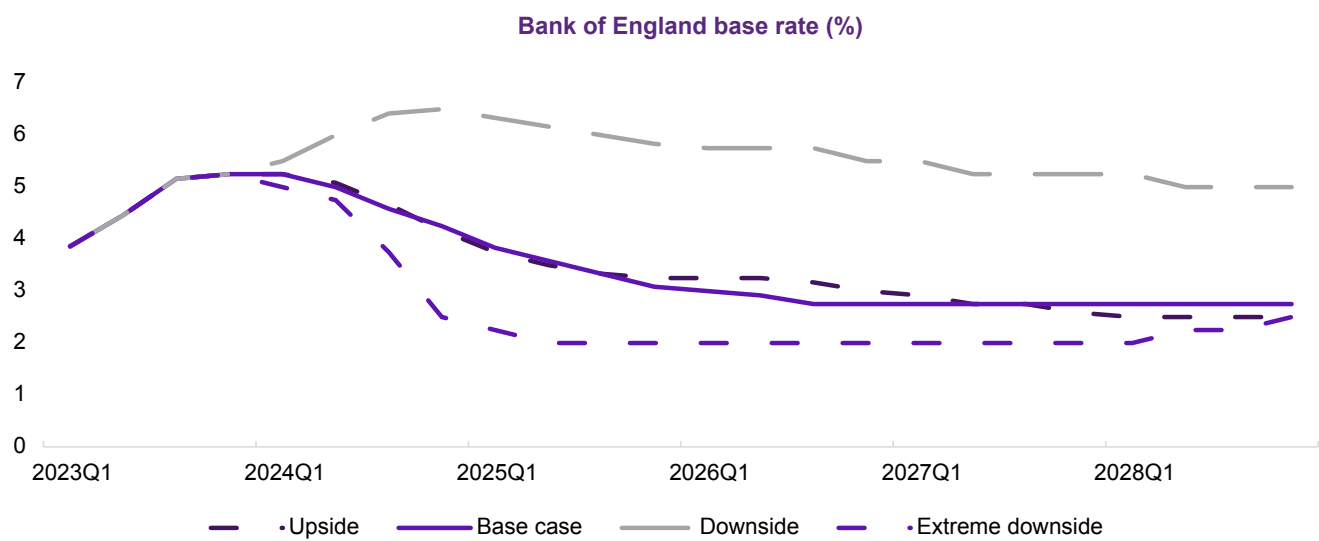
The approach involves comparing UK GDP paths for NWB Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability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

UK gross domestic product (£bn)



Credit risk continued
Economic loss drivers



Credit risk continued

Economic loss drivers (audited)

Annual figures

GDP - annual growth

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	0.5	0.5	0.5	0.5	0.5
2024	3.6	0.4	(1.1)	(2.7)	0.3
2025	2.3	1.3	0.4	(1.6)	1.0
2026	1.2	1.6	1.2	1.2	1.4
2027	1.2	1.4	1.3	1.2	1.3
2028	1.2	1.4	1.3	1.2	1.3

Consumer price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	4.6	4.6	4.6	4.6	4.6
2024	0.9	2.5	8.5	(1.2)	2.9
2025	0.7	2.0	5.3	1.7	2.4
2026	1.1	1.9	3.8	2.0	2.1
2027	1.2	1.9	3.7	2.0	2.2
2028	1.1	1.9	3.6	2.0	2.1

Unemployment rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	4.2	4.2	4.2	4.2	4.2
2024	3.9	4.7	5.2	6.2	4.8
2025	3.2	4.7	5.8	8.4	5.1
2026	3.2	4.6	5.6	8.0	5.0
2027	3.3	4.6	5.5	7.4	4.8
2028	3.3	4.5	5.3	6.7	4.7

Bank of England base rate - annual average

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	4.68	4.68	4.68	4.68	4.68
2024	4.79	4.77	6.10	4.00	4.94
2025	3.46	3.46	6.08	2.06	3.81
2026	3.17	2.85	5.69	2.00	3.38
2027	2.75	2.75	5.31	2.00	3.17
2028	2.50	2.75	5.06	2.25	3.10

House price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	(2.9)	(2.9)	(2.9)	(2.9)	(2.9)
2024	7.2	(5.0)	(7.1)	(11.5)	(3.7)
2025	9.4	3.1	(3.1)	(14.2)	1.2
2026	2.8	3.4	5.5	(5.8)	2.7
2027	3.3	3.4	6.1	7.2	4.3
2028	3.5	3.4	4.4	6.6	3.9

UK stock price index - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	3.7	3.7	3.7	3.7	3.7
2024	8.1	3.2	(17.4)	(41.5)	(5.9)
2025	5.1	3.2	8.7	24.9	6.5
2026	3.6	3.2	7.9	16.7	5.5
2027	3.6	3.2	5.6	11.0	4.6
2028	2.9	3.2	5.3	9.9	4.3

Commercial real estate - four quarter change

	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
2023	(7.2)	(7.2)	(7.2)	(7.2)	(7.2)
2024	12.7	-	(7.3)	(18.4)	(1.2)
2025	3.5	2.7	(2.0)	(20.0)	(0.5)
2026	4.6	2.0	3.8	6.7	3.4
2027	2.9	1.9	3.1	8.5	3.0
2028	1.3	0.8	2.6	8.6	2.0

Worst points

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

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

Credit risk continued

Use of the scenarios in Personal lending

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

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

Use of the scenarios in Wholesale lending

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

UK economic uncertainty

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

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

Model and monitoring enhancements

During 2023, the monitoring framework for the retail model suite was enhanced to enable more granular performance tracking at key segment levels, such as balance transfers versus non-balance transfers for the credit cards models.

A new Business Banking PD, EAD and LGD model suite was redeveloped in 2023, ensuring appropriate treatment of government-guaranteed loans.

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

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

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

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. Post model adjustments included in the ECL estimates that were modelled were sensitised in line with the modelled ECL movements, but those that were judgemental in nature, primarily those for deferred model calibrations and economic uncertainty, were not (refer to the Governance and post model adjustments section) on the basis these would be re-evaluated by management through ECL governance for any new economic scenario outlook and not be subject to an automated calculation. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit.

The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2023. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

2023	Actual	Base scenario	Moderate upside scenario	Moderate Downside scenario	Extreme downside scenario
Stage 1 modelled loans (£m)					
Retail Banking - mortgages	163,933	164,545	165,165	161,475	155,743
Retail Banking - unsecured	7,171	7,201	7,330	7,042	6,775
Wholesale - property	17,560	17,698	17,750	17,312	13,996
Wholesale - non-property	87,054	87,836	88,402	86,249	72,373
	275,718	277,280	278,647	272,078	248,887
Stage 1 modelled ECL (£m)					
Retail Banking - mortgages	82	82	80	80	75
Retail Banking - unsecured	185	185	183	184	176
Wholesale - property	74	58	44	95	129
Wholesale - non-property	211	189	160	257	331
	552	514	467	616	711
Stage 1 coverage					
Retail Banking - mortgages	0.05%	0.05%	0.05%	0.05%	0.05%
Retail Banking - unsecured	2.58%	2.57%	2.50%	2.61%	2.60%
Wholesale - property	0.42%	0.33%	0.25%	0.55%	0.92%
Wholesale - non-property	0.24%	0.22%	0.18%	0.30%	0.46%
	0.20%	0.19%	0.17%	0.23%	0.29%
Stage 2 modelled loans (£m)					
Retail Banking - mortgages	15,942	15,330	14,710	18,400	24,132
Retail Banking - unsecured	3,065	3,035	2,906	3,194	3,461
Wholesale - property	2,292	2,154	2,102	2,540	5,856
Wholesale - non-property	10,758	9,976	9,410	11,563	25,439
	32,057	30,495	29,128	35,697	58,888
Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	55	51	44	64	92
Retail Banking - unsecured	368	360	316	404	459
Wholesale - property	67	58	50	80	199
Wholesale - non-property	292	247	210	350	656
	782	716	620	898	1,406
Stage 2 coverage					
Retail Banking - mortgages	0.35%	0.33%	0.30%	0.35%	0.38%
Retail Banking - unsecured	12.01%	11.86%	10.87%	12.65%	13.26%
Wholesale - property	2.92%	2.69%	2.38%	3.15%	3.40%
Wholesale - non-property	2.71%	2.48%	2.23%	3.03%	2.58%
	2.44%	2.35%	2.13%	2.52%	2.39%
Stage 1 and Stage 2 modelled loans (£m)					
Retail Banking - mortgages	179,875	179,875	179,875	179,875	179,875
Retail Banking - unsecured	10,236	10,236	10,236	10,236	10,236
Wholesale - property	19,852	19,852	19,852	19,852	19,852
Wholesale - non-property	97,812	97,812	97,812	97,812	97,812
	307,775	307,775	307,775	307,775	307,775
Stage 1 and Stage 2 modelled ECL (£m)					
Retail Banking - mortgages	137	133	124	144	167
Retail Banking - unsecured	553	545	499	588	635
Wholesale - property	141	116	94	175	328
Wholesale - non-property	503	436	370	607	987
	1,334	1,230	1,087	1,514	2,117
Stage 1 and Stage 2 coverage					
Retail Banking - mortgages	0.08%	0.07%	0.07%	0.08%	0.09%
Retail Banking - unsecured	5.40%	5.32%	4.87%	5.74%	6.20%
Wholesale - property	0.71%	0.58%	0.47%	0.88%	1.65%
Wholesale - non-property	0.51%	0.45%	0.38%	0.62%	1.01%
	0.43%	0.40%	0.35%	0.49%	0.69%
Reconciliation to Stage 1 and Stage 2 ECL (£m)					
ECL on modelled exposures	1,334	1,230	1,087	1,514	2,117
ECL on non-modelled exposures	26	26	26	26	26
Total Stage 1 and Stage 2 ECL (£m)	1,360	1,256	1,113	1,540	2,143
Variance to actual total Stage 1 and Stage 2 ECL (£m)		(104)	(247)	180	783

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis continued (audited)

2023	Actual	Base scenario	Moderate upside scenario	Moderate Downside scenario	Extreme downside scenario
Reconciliation to Stage 1 and Stage 2 Flow Exposure (£m)					
Modelled loans	307,775	307,775	307,775	307,775	307,775
Non-modelled loans	17,116	17,116	17,116	17,116	17,116
Other asset classes	70,753	70,753	70,753	70,753	70,753

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

Measurement uncertainty and ECL adequacy

- If the economics were as negative as observed in the extreme downside (i.e. 100% probability weighting), total Stage 1 and Stage 2 ECL was simulated to increase by around £0.8 billion (approximately 58%). In this scenario, Stage 2 exposure increased significantly and was the key driver of the simulated ECL rise. The movement in Stage 2 balances in the other simulations was less significant.
- In the Wholesale portfolio, there was a significant increase in ECL under both a moderate and extreme downside scenario. The Wholesale property ECL increase was mainly due to commercial real estate prices which showed negative growth until 2025 and significant deterioration in the stock index. The non-property increase was mainly due to GDP contraction and significant deterioration in the stock index.
- A net improvement in the economic scenarios since 2022 resulted in a reduction in modelled ECL.
- Given that continued uncertainty remained due to high inflation, high interest rates during 2023 and supply chain disruption, NWB 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 NWB Group operates.

Credit risk – Banking activities

Introduction

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

Refer to Accounting policy 2.3 and Note 13 to the financial statements for policies and critical judgements relating to impairment loss determination.

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

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

Financial assets

	31 December 2023			31 December 2022		
	Gross £bn	ECL £bn	Net £bn	Gross £bn	ECL £bn	Net £bn
Balance sheet total gross amortised cost and FVOCI	404.4			394.6		
In scope of IFRS 9 ECL framework	404.2			394.4		
% in scope	100%			100%		
Loans to customers - in scope - amortised cost	321.6	2.9	318.7	304.5	2.6	301.9
Loans to customers - in scope - FVOCI	-	-	-	-	-	-
Loans to banks - in scope - amortised cost	3.3	-	3.3	3.2	-	3.2
Total loans - in scope	324.9	2.9	322.0	307.7	2.6	305.1
Stage 1	288.8	0.6	288.2	266.7	0.5	266.2
Stage 2	31.7	0.8	30.9	37.2	0.8	36.4
Stage 3	4.4	1.5	2.9	3.8	1.3	2.5
Other financial assets - in scope - amortised cost	55.8	-	55.8	77.0	-	77.0
Other financial assets - in scope - FVOCI	23.5	-	23.5	9.7	-	9.7
Total other financial assets - in scope	79.3	-	79.3	86.7	-	86.7
Stage 1	78.2	-	78.2	85.9	-	85.9
Stage 2	1.1	-	1.1	0.8	-	0.8
Stage 3	-	-	-	-	-	-
Out of scope of IFRS 9 ECL framework	0.2	na	0.2	0.2	na	0.2
Loans to customers - out of scope - amortised cost	(0.3)	na	(0.3)	(0.3)	na	(0.3)
Loans to banks - out of scope - amortised cost	-	na	-	-	na	-
Other financial assets - out of scope - amortised cost	0.5	na	0.5	0.5	na	0.5
Other financial assets - out of scope - FVOCI	-	na	-	-	na	-

na = not applicable

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of £0.6 billion (2022 – £0.7 billion). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Fair value adjustments on loans hedged by interest rate swaps, where the underlying loan was within the IFRS 9 ECL scope of £(0.4) billion (2022 – £(0.5) billion).

In scope assets also include an additional £1.8 billion (2022 – £4.2 billion) of inter-group assets not shown in table above.

Contingent liabilities and commitments

In addition to contingent liabilities and commitments disclosed in Note 26 to the financial statements, reputationally-committed limits are also included in the scope of the IFRS 9 ECL framework. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope of £87.9 billion (2022 – £92.1 billion) comprised Stage 1 £79.2 billion (2022 – £79.3 billion); Stage 2 £8.2 billion (2022 – £12.2 billion); and Stage 3 £0.5 billion (2022 – £0.7 billion).

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

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

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Total
	£m	£m	£m	£m	£m
2023					
Loans - amortised cost and FVOCI					
Stage 1	170,668	17,565	71,748	28,791	288,772
Stage 2	18,690	906	12,131	-	31,727
Stage 3	2,480	258	1,667	-	4,405
Inter-group (1)				1,809	1,809
	191,838	18,729	85,546	30,600	326,713
ECL provisions (2)					
Stage 1	267	20	262	17	566
Stage 2	422	20	349	3	794
Stage 3	869	33	610	-	1,512
Inter-group				1	1
	1,558	73	1,221	21	2,873
ECL provisions coverage (3)					
Stage 1 (%)	0.16	0.11	0.37	0.10	0.20
Stage 2 (%)	2.26	2.21	2.88	NM	2.50
Stage 3 (%)	35.04	12.79	36.59	-	34.32
Inter-group (%)				0.06	0.06
	0.81	0.39	1.43	0.07	0.88
Impairment (releases)/losses					
ECL (release)/charge (4)					
Stage 1	(142)	(9)	(171)	3	(319)
Stage 2	379	15	135	-	529
Stage 3	173	7	118	(1)	297
Inter-group				(3)	(3)
	410	13	82	(1)	504
Amounts written-off					
	143	2	90	-	235

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

Credit risk – Banking activities continued

Segment analysis – portfolio summary (audited)

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Total
2022	£m	£m	£m	£m	£m
Loans – amortised cost and FVOCI					
Stage 1	161,743	18,368	64,407	22,204	266,722
Stage 2	18,768	801	17,563	84	37,216
Stage 3	1,988	241	1,554	-	3,783
Inter-group (1)	-	-	-	4,220	4,220
	182,499	19,410	83,524	26,508	311,941
ECL provisions (2)					
Stage 1	213	22	259	12	506
Stage 2	371	14	419	9	813
Stage 3	713	25	524	-	1,262
Inter-group	-	-	-	4	4
	1,297	61	1,202	25	2,585
ECL provisions coverage (3)					
Stage 1 (%)	0.13	0.12	0.40	0.05	0.19
Stage 2 (%)	1.98	1.75	2.39	10.71	2.18
Stage 3 (%)	35.87	10.37	33.72	-	33.36
Inter-group (%)	-	-	-	0.09	0.09
	0.71	0.31	1.44	0.11	0.84
Impairment (releases)/losses					
ECL (release)/charge (4)					
Stage 1	(116)	2	(119)	(10)	(243)
Stage 2	232	(7)	116	7	348
Stage 3	102	3	129	(1)	233
Inter-group	-	-	-	3	3
	218	(2)	126	(1)	341
Amounts written-off	167	15	139	-	321

(1) NWB Group's intercompany assets are classified in Stage 1.

(2) Includes £8 million (2022 – £2 million) related to assets classified as FVOCI.

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

(4) Includes a £10 million charge (2022 – nil) related to other financial assets, of which a £6 million charge (2022 – £1 million release) related to assets classified as FVOCI, and includes a £2 million release (2022 – nil) related to contingent liabilities.

(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to the Financial instruments within the scope of the IFRS 9 ECL framework section for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling £47.8 billion (2022 – £72.5 billion) and debt securities of £31.5 billion (2022 – £14.1 billion).

(6) The stage allocation of the ECL charge was aligned to the stage transition approach that underpins the analysis in the Flow statement section.

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	Gross loans							ECL provisions (2)						
	Stage 2 (1)							Stage 2 (1)						
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking	170,668	17,788	620	282	18,690	2,480	191,838	267	380	13	29	422	869	1,558
Private Banking	17,565	772	77	57	906	258	18,729	20	18	1	1	20	33	73
Personal	14,296	158	73	24	255	209	14,760	3	2	-	-	2	20	25
Wholesale	3,269	614	4	33	651	49	3,969	17	16	1	1	18	13	48
Commercial & Institutional	71,748	11,297	518	316	12,131	1,667	85,546	262	324	17	8	349	610	1,221
Central items & other	28,791	-	-	-	-	-	28,791	17	3	-	-	3	-	20
Total loans	288,772	29,857	1,215	655	31,727	4,405	324,904	566	725	31	38	794	1,512	2,872
Of which:														
Personal	184,964	17,946	693	306	18,945	2,689	206,598	270	382	13	29	424	889	1,583
Wholesale	103,808	11,911	522	349	12,782	1,716	118,306	296	343	18	9	370	623	1,289
2022														
Retail Banking	161,743	18,026	496	246	18,768	1,988	182,499	213	334	12	25	371	713	1,297
Private Banking	18,368	730	39	32	801	241	19,410	22	14	-	-	14	25	61
Personal	15,182	122	35	16	173	207	15,562	7	2	-	-	2	17	26
Wholesale	3,186	608	4	16	628	34	3,848	15	12	-	-	12	8	35
Commercial & Institutional	64,407	16,302	762	499	17,563	1,554	83,524	259	385	21	13	419	524	1,202
Central items & other	22,204	84	-	-	84	-	22,288	12	9	-	-	9	-	21
Total loans	266,722	35,142	1,297	777	37,216	3,783	307,721	506	742	33	38	813	1,262	2,581
Of which:														
Personal	176,925	18,148	531	262	18,941	2,195	198,061	220	336	12	25	373	730	1,323
Wholesale	89,797	16,994	766	515	18,275	1,588	109,660	286	406	21	13	440	532	1,258

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

Credit risk – Banking activities continued

Segmental loans and impairment metrics (audited)

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

	ECL provisions coverage							ECL	
	Stage 2 (1,2)						Total (release) / charge	Amounts written-off	
	Stage 1	Not past due	1-30 DPD	>30 DPD	Total	Stage 3			Total
2023	%	%	%	%	%	%	%	£m	£m
Retail Banking	0.16	2.14	2.10	10.28	2.26	35.04	0.81	410	143
Private Banking	0.11	2.33	1.30	1.75	2.21	12.79	0.39	13	2
Personal	0.02	1.27	-	-	0.78	9.57	0.17	(3)	2
Wholesale	0.52	2.61	25.00	3.03	2.76	26.53	1.21	16	0
Commercial & Institutional	0.37	2.87	3.28	2.53	2.88	36.59	1.43	82	90
Central items & other	0.06	NM	-	-	NM	-	0.07	2	—
Total loans	0.20	2.43	2.55	5.80	2.50	34.32	0.88	507	235
Of which:									
Personal	0.15	2.13	1.88	9.48	2.24	33.06	0.77	407	145
Wholesale	0.29	2.88	3.45	2.58	2.89	36.31	1.09	100	90
2022									
Retail Banking	0.13	1.85	2.42	10.16	1.98	35.87	0.71	218	167
Private Banking	0.12	1.92	-	-	1.75	10.37	0.31	(2)	15
Personal	0.05	1.64	-	-	1.16	8.21	0.17	(2)	-
Wholesale	0.47	1.97	-	-	1.91	23.53	0.91	-	15
Commercial & Institutional	0.40	2.36	2.76	2.61	2.39	33.72	1.44	126	139
Central items & other	0.05	10.71	-	-	10.71	-	0.09	(4)	-
Total loans	0.19	2.11	2.54	4.89	2.18	33.36	0.84	338	321
Of which:									
Personal	0.12	1.85	2.26	9.54	1.97	33.26	0.67	216	167
Wholesale	0.32	2.39	2.74	2.52	2.41	33.50	1.15	122	154

(1) 30 DPD – 30 days past due, the mandatory 30 days past due backstop as prescribed by IFRS 9 for a SICR.

(2) Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	193,810	4,865	7,923	206,598	21,034	63,187	32,511	1,574	118,306	324,904
- UK	193,810	4,865	7,923	206,598	20,697	54,391	29,739	1,392	106,219	312,817
- RoI	-	-	-	-	9	852	113	-	974	974
- Other Europe	-	-	-	-	217	3,624	486	37	4,364	4,364
- RoW	-	-	-	-	111	4,320	2,173	145	6,749	6,749
Loans by stage and asset quality (2)	193,810	4,865	7,923	206,598	21,034	63,187	32,511	1,574	118,306	324,904
Stage 1	176,085	3,115	5,764	184,964	18,341	51,604	32,311	1,552	103,808	288,772
- AQ1	1,264	-	135	1,399	-	877	644	37	1,558	2,957
- AQ2	1,564	-	133	1,697	2,129	1,282	15,845	1,387	20,643	22,340
- AQ3	3,169	4	98	3,271	2,644	5,134	7,059	5	14,842	18,113
- AQ4	97,273	104	364	97,741	3,668	12,319	6,464	-	22,451	120,192
- AQ5	63,483	859	345	64,687	5,780	18,445	1,334	-	25,559	90,246
- AQ6	4,429	1,185	3,029	8,643	2,561	8,720	722	-	12,003	20,646
- AQ7	4,445	904	1,184	6,533	1,439	4,414	235	-	6,088	12,621
- AQ8	307	53	438	798	114	378	7	123	622	1,420
- AQ9	151	6	38	195	6	35	1	-	42	237
Stage 2	15,951	1,640	1,354	18,945	2,282	10,311	189	-	12,782	31,727
- AQ1	17	-	-	17	-	20	-	-	20	37
- AQ2	12	-	-	12	49	-	-	-	49	61
- AQ3	44	-	4	48	49	11	-	-	60	108
- AQ4	6,603	-	126	6,729	126	726	13	-	865	7,594
- AQ5	6,567	78	92	6,737	549	1,824	75	-	2,448	9,185
- AQ6	995	333	424	1,752	498	3,126	6	-	3,630	5,382
- AQ7	599	973	268	1,840	775	3,205	68	-	4,048	5,888
- AQ8	503	210	345	1,058	182	1,183	20	-	1,385	2,443
- AQ9	611	46	95	752	54	216	7	-	277	1,029
Stage 3	1,774	110	805	2,689	411	1,272	11	22	1,716	4,405
- AQ10	1,774	110	805	2,689	411	1,272	11	22	1,716	4,405
Loans past due analysis (3)	193,810	4,865	7,923	206,598	21,034	63,187	32,511	1,574	118,306	324,904
- Not past due	191,498	4,738	7,085	203,321	20,312	60,429	32,486	1,574	114,801	318,122
- Past due 1-30 days	984	33	59	1,076	376	1,904	17	-	2,297	3,373
- Past due 31-89 days	422	31	94	547	151	347	3	-	501	1,048
- Past due 90-180 days	363	26	85	474	23	56	2	-	81	555
- Past due >180 days	543	37	600	1,180	172	451	3	-	626	1,806
Loans - Stage 2	15,951	1,640	1,354	18,945	2,282	10,311	189	-	12,782	31,727
- Not past due	15,080	1,599	1,267	17,946	2,118	9,610	183	-	11,911	29,857
- Past due 1-30 days	639	21	33	693	82	435	5	-	522	1,215
- Past due 31-89 days	232	20	54	306	82	266	1	-	349	655

For the notes to this table refer to page 42.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale					Total
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Weighted average life (5)										
- ECL measurement (years)	9	4	6	6	6	6	2	-	6	6
Weighted average 12 months PDs (5)										
- IFRS 9 (%)	0.48	3.46	5.33	0.71	1.61	1.67	0.21	0.61	1.24	0.90
- Basel (%)	0.64	3.36	3.24	0.80	1.05	1.31	0.19	0.61	0.94	0.85
ECL provisions by geography	321	299	963	1,583	266	980	33	10	1,289	2,872
- UK	321	299	963	1,583	263	808	19	7	1,097	2,680
- RoI	-	-	-	-	-	2	1	-	3	3
- Other Europe	-	-	-	-	2	131	5	-	138	138
- RoW	-	-	-	-	1	39	8	3	51	51
ECL provisions by stage	321	299	963	1,583	266	980	33	10	1,289	2,872
- Stage 1	83	59	128	270	74	193	22	7	296	566
- Stage 2	55	167	202	424	69	292	8	1	370	794
- Stage 3	183	73	633	889	123	495	3	2	623	1,512
ECL provisions coverage (%)	0.17	6.15	12.15	0.77	1.26	1.55	0.10	0.64	1.09	0.88
- Stage 1 (%)	0.05	1.89	2.22	0.15	0.40	0.37	0.07	0.45	0.29	0.20
- Stage 2 (%)	0.34	10.18	14.92	2.24	3.02	2.83	4.23	NM	2.89	2.50
- Stage 3 (%)	10.32	66.36	78.63	33.06	29.93	38.92	27.27	9.09	36.31	34.32
ECL charge/(release) - Third party	36	161	210	407	35	71	(4)	(2)	100	507
Amounts written-off	19	54	72	145	20	70	-	-	90	235
Other financial assets										
by asset quality (2)	-	-	-	-	-	2,606	14,339	62,352	79,297	79,297
- AQ1-AQ4	-	-	-	-	-	2,606	13,957	62,352	78,915	78,915
- AQ5-AQ8	-	-	-	-	-	-	382	-	382	382
Off-balance sheet	7,537	13,862	6,990	28,389	9,239	45,896	4,246	122	59,503	87,892
Loan commitments	7,537	13,862	6,945	28,344	9,023	43,922	3,928	122	56,995	85,339
Financial guarantees	-	-	45	45	216	1,974	318	-	2,508	2,553
Off-balance sheet										
by asset quality (2)	7,537	13,862	6,990	28,389	9,239	45,896	4,246	122	59,503	87,892
- AQ1-AQ4	7,134	388	6,129	13,651	6,585	26,426	3,244	60	36,315	49,966
- AQ5-AQ8	389	13,223	837	14,449	2,641	19,249	999	45	22,934	37,383
- AQ9	7	5	4	16	2	12	-	-	14	30
- AQ10	7	246	20	273	11	209	3	17	240	513

For the notes to this table refer to page 42.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

2022 (4)	Personal				Wholesale				Total	
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans by geography	186,650	3,509	7,902	198,061	20,335	63,186	24,435	1,704	109,660	307,721
- UK	186,650	3,509	7,902	198,061	19,715	54,283	21,549	1,553	97,100	295,161
- RoI	-	-	-	-	9	838	42	-	889	889
- Other Europe	-	-	-	-	275	3,600	537	36	4,448	4,448
- RoW	-	-	-	-	336	4,465	2,307	115	7,223	7,223
Loans by stage and asset quality (2)	186,650	3,509	7,902	198,061	20,335	63,186	24,435	1,704	109,660	307,721
Stage 1	168,675	2,590	5,660	176,925	17,277	47,069	23,747	1,704	89,797	266,722
- AQ1	1,383	-	198	1,581	877	600	3,247	1,589	6,313	7,894
- AQ2	1,689	-	179	1,868	2,017	1,350	15,943	-	19,310	21,178
- AQ3	3,494	3	190	3,687	1,904	5,360	247	-	7,511	11,198
- AQ4	101,451	71	420	101,942	3,384	8,740	2,480	-	14,604	116,546
- AQ5	51,653	755	481	52,889	5,269	17,435	1,028	-	23,732	76,621
- AQ6	3,981	935	2,746	7,662	2,197	8,069	572	-	10,838	18,500
- AQ7	4,571	744	1,113	6,428	1,450	4,861	218	115	6,644	13,072
- AQ8	291	78	308	677	170	624	12	-	806	1,483
- AQ9	162	4	25	191	9	30	-	-	39	230
Stage 2	16,511	834	1,596	18,941	2,636	14,986	653	-	18,275	37,216
- AQ1	6	-	-	6	54	86	-	-	140	146
- AQ2	3	-	2	5	10	130	-	-	140	145
- AQ3	96	-	2	98	58	295	-	-	353	451
- AQ4	8,009	-	105	8,114	157	2,852	375	-	3,384	11,498
- AQ5	6,074	29	80	6,183	505	2,683	110	-	3,298	9,481
- AQ6	861	146	531	1,538	870	3,741	95	-	4,706	6,244
- AQ7	525	423	336	1,284	722	3,533	46	-	4,301	5,585
- AQ8	414	209	434	1,057	190	1,388	19	-	1,597	2,654
- AQ9	523	27	106	656	70	278	8	-	356	1,012
Stage 3	1,464	85	646	2,195	422	1,131	35	-	1,588	3,783
- AQ10	1,464	85	646	2,195	422	1,131	35	-	1,588	3,783
Loans past due analysis (3)	186,650	3,509	7,902	198,061	20,335	63,186	24,435	1,704	109,660	307,721
- Not past due	184,826	3,417	7,190	195,433	19,634	60,114	24,321	1,704	105,773	301,206
- Past due 1-30 days	733	24	69	826	349	2,212	86	-	2,647	3,473
- Past due 31-89 days	400	21	84	505	162	410	2	-	574	1,079
- Past due 90-180 days	294	18	65	377	26	22	23	-	71	448
- Past due >180 days	397	29	494	920	164	428	3	-	595	1,515
Loans - Stage 2	16,511	834	1,596	18,941	2,636	14,986	653	-	18,275	37,216
- Not past due	15,837	809	1,502	18,148	2,351	13,996	647	-	16,994	35,142
- Past due 1-30 days	476	13	42	531	145	617	4	-	766	1,297
- Past due 31-89 days	198	12	52	262	140	373	2	-	515	777

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

	Personal				Wholesale				Total	
	Mortgages (1)	Credit cards	Other personal	Total	Property	Corporate	FI	Sovereign	Total	
2022 (4)	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Weighted average life (5)										
- ECL measurement (years)	8	2	6	6	5	6	3	—	5	6
Weighted average 12 months PDs (5)										
- IFRS 9 (%)	0.47	2.52	4.72	0.66	1.97	2.13	0.26	0.37	1.64	1.01
- Basel (%)	0.61	2.90	3.09	0.74	1.14	1.45	0.19	0.37	1.09	0.86
ECL provisions by geography	278	197	848	1,323	259	952	38	9	1,258	2,581
- UK	278	197	848	1,323	259	794	25	9	1,078	2,401
- RoI	-	-	-	-	-	4	-	-	4	4
- Other Europe	-	-	-	-	7	65	3	-	75	75
- RoW	-	-	-	-	2	89	10	-	101	101
ECL provisions by stage	278	197	848	1,323	259	952	38	9	1,258	2,581
- Stage 1	75	48	97	220	74	188	15	9	286	506
- Stage 2	55	92	226	373	69	362	9	-	440	813
- Stage 3	148	57	525	730	116	402	14	-	532	1,262
ECL provisions coverage (%)	0.15	5.61	10.73	0.67	1.27	1.51	0.16	0.53	1.15	0.84
- Stage 1 (%)	0.04	1.85	1.71	0.12	0.43	0.40	0.06	0.53	0.32	0.19
- Stage 2 (%)	0.33	11.03	14.16	1.97	2.62	2.42	1.38	-	2.41	2.18
- Stage 3 (%)	10.11	67.06	81.27	33.26	27.49	35.54	40.00	-	33.50	33.36
ECL (release)/charge - Third party	(30)	35	211	216	98	20	7	(3)	122	338
Amounts written-off	18	50	99	167	20	94	40	-	154	321
Other financial assets										
by asset quality (2)	-	-	-	-	-	402	7,785	78,437	86,624	86,624
- AQ1-AQ4	-	-	-	-	-	402	7,556	78,437	86,395	86,395
- AQ5-AQ8	-	-	-	-	-	-	229	-	229	229
Off-balance sheet	15,894	12,287	7,030	35,211	8,791	44,362	3,596	102	56,851	92,062
- Loan commitments	15,894	12,287	6,979	35,160	8,536	41,881	3,344	102	53,863	89,023
- Financial guarantees	-	-	51	51	255	2,481	252	-	2,988	3,039
Off-balance sheet										
by asset quality (2)	15,894	12,287	7,030	35,211	8,791	44,362	3,596	102	56,851	92,062
- AQ1-AQ4	15,212	370	6,170	21,752	6,620	26,097	2,592	39	35,348	57,100
- AQ5-AQ8	674	11,687	839	13,200	2,157	18,005	1,003	63	21,228	34,428
- AQ9	2	3	4	9	3	16	-	-	19	28
- AQ10	6	227	17	250	11	244	1	-	256	506

(1) Includes a portion of Private Banking lending secured against residential real estate, in line with ECL calculation methodology. Private Banking mortgages are reported in UK, reflecting the country of lending origination.

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

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

£0.2 billion (2022 – £0.2 billion) AQ10 Personal balances primarily relate to loan commitments, the drawdown of which is effectively prohibited.

(3) 30 DPD – 30 days past due, the mandatory 30 days past due backstop prescribed by IFRS 9 for a SICR.

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

(5) Not within the scope of the Independent auditors' report.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Loan commitments £m	Contingent liabilities £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
2023										
Personal	184,964	18,945	2,689	206,598	28,344	45	270	424	889	1,583
Mortgages	176,085	15,951	1,774	193,810	7,537	-	83	55	183	321
Credit cards	3,115	1,640	110	4,865	13,862	-	59	167	73	299
Other personal	5,764	1,354	805	7,923	6,945	45	128	202	633	963
Wholesale	103,808	12,782	1,716	118,306	56,995	2,508	296	370	623	1,289
Property	18,341	2,282	411	21,034	9,023	216	74	69	123	266
Financial institutions	32,311	189	11	32,511	3,928	318	22	8	3	33
Sovereign	1,552	-	22	1,574	122	-	7	1	2	10
Corporate	51,604	10,311	1,272	63,187	43,922	1,974	193	292	495	980
Of which:										
Agriculture	3,305	821	75	4,201	768	14	16	28	26	70
Airlines and aerospace	1,330	303	3	1,636	1,260	152	4	5	2	11
Automotive	6,749	989	73	7,811	3,078	34	17	17	25	59
Building materials	1,112	250	67	1,429	1,265	67	6	8	5	19
Chemicals	311	61	4	376	684	11	1	9	1	11
Industrials	1,814	450	63	2,327	2,379	107	8	15	17	40
Land transport and logistics	3,533	529	23	4,085	2,408	132	9	13	10	32
Leisure	3,435	1,867	233	5,535	1,446	98	25	58	74	157
Mining and metals	127	30	1	158	376	2	-	-	1	1
Oil and gas	607	124	25	756	1,415	132	2	2	25	29
Power utilities	4,961	417	39	5,417	5,023	405	12	13	24	49
Retail	4,032	1,152	209	5,393	3,703	357	18	30	110	158
Shipping	191	8	3	202	54	21	-	-	2	2
Water and waste	3,487	120	12	3,619	1,820	68	4	4	4	12
Total	288,772	31,727	4,405	324,904	85,339	2,553	566	794	1,512	2,872
2022 (1)										
Personal	176,925	18,941	2,195	198,061	35,160	51	220	373	730	1,323
Mortgages	168,675	16,511	1,464	186,650	15,894	-	75	55	148	278
Credit cards	2,590	834	85	3,509	12,287	-	48	92	57	197
Other personal	5,660	1,596	646	7,902	6,979	51	97	226	525	848
Wholesale	89,797	18,275	1,588	109,660	53,863	2,988	286	440	532	1,258
Property	17,277	2,636	422	20,335	8,536	255	74	69	116	259
Financial institutions	23,747	653	35	24,435	3,344	252	15	9	14	38
Sovereign	1,704	-	-	1,704	102	-	9	-	-	9
Corporate	47,069	14,986	1,131	63,186	41,881	2,481	188	362	402	952
Of which:										
Agriculture	3,065	824	67	3,956	739	17	17	25	29	71
Airlines and aerospace	367	1,048	17	1,432	919	61	2	37	7	46
Automotive	5,270	1,409	20	6,699	3,194	41	17	16	8	41
Building materials	1,105	240	9	1,354	1,343	74	7	6	4	17
Chemicals	323	113	1	437	546	11	1	2	1	4
Industrials	1,923	694	73	2,690	2,638	129	8	13	19	40
Land transport and logistics	3,249	1,059	28	4,336	2,699	129	11	29	10	50
Leisure	2,769	2,855	174	5,798	1,386	51	22	97	84	203
Mining and metals	157	40	2	199	349	2	-	1	1	2
Oil and gas	608	111	37	756	1,079	136	2	1	27	30
Power utilities	3,715	404	1	4,120	3,916	1,115	9	11	-	20
Retail	4,919	1,248	126	6,293	3,475	335	17	25	56	98
Shipping	141	129	14	284	78	14	-	6	6	12
Water and waste	2,970	303	7	3,280	1,796	79	4	4	4	12
Total	266,722	37,216	3,783	307,721	89,023	3,039	506	813	1,262	2,581

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

Credit risk – Banking activities continued

Wholesale forbearance (audited)

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

	Property	FI	Sovereigns	Other wholesale	Total
	£m	£m	£m	£m	£m
2023					
Forbearance (flow)	490	47	22	2,263	2,822
Forbearance (stock)	600	61	22	3,265	3,948
Heightened Monitoring and Risk of Credit Loss	638	167		3,567	4,372
2022					
Forbearance (flow)	368	105	—	2,123	2,596
Forbearance (stock)	475	106	—	3,694	4,275
Heightened Monitoring and Risk of Credit Loss	471	68	—	2,832	3,371

Sector analysis – portfolio summary (audited)

- **Loans by geography and sector** – In line with NWB Group's strategic focus, exposures continued to be mainly in the UK.
- **Loans by stage** – There was an increase in Stage 1 exposure due to mortgage growth in Personal and financial institutions lending in Wholesale. An overall improvement in forward-looking economics during 2023 drove a reduction in IFRS 9 PDs meaning a reduction in the proportion of most portfolio segments triggering PD deterioration rules.
- **Loans – Past due analysis** – In Personal, the value of arrears increased during 2023 as expected with portfolio growth in recent years and adjustments to lending criteria following COVID-19.
- **Weighted average 12 months PDs** – IFRS 9 PDs remained broadly stable overall, with some increases in Personal portfolios, most notably in credit cards which had an IFRS 9 PD modelling update. In Wholesale, some reductions were observed in PDs in corporate and property portfolios, linked to the economic scenario updates during the year.
- **ECL provisions by stage** – Portfolio growth was the key driver behind an increase in Stage 1 provisions. Stage 2 provisions reduced during 2023, reflecting broadly stable credit performance of the portfolios and the effect of improved 2023 forward-looking scenario updates. As outlined previously, Stage 3 provisions have yet to be materially affected by the customer affordability risks linked to the current economic uncertainty prevalent in the UK. However, there has been an increase in Stage 3 ECL linked to a modest rise in default levels and reduced write-off activity.
- **ECL provisions coverage** – Overall provisions coverage remained broadly consistent with 31 December 2022. This was mainly a result of continued stable portfolio performance and MES economics-driven modelled ECL releases contrasted with increased economic uncertainty, captured through ECL post model adjustments.
- **ECL charge** – The impairment charge for 2023 of £508 million (excluding inter-group lending) primarily reflected the underlying Stage 3 charges and portfolio growth.
- **Loans by residual maturity** – The maturity profile of the portfolios remained consistent with prior periods. In mortgages, as expected, the vast majority of exposures were greater than five years. In unsecured lending, cards and other exposures were concentrated in less than five years.
- **Other financial assets by asset quality** – Consisting almost entirely of cash and balances at central banks and debt securities held in the course of treasury related management activities, these assets were mainly within the AQ1-AQ4 bands.
- **Off-balance sheet exposures by asset quality** – In Personal, undrawn exposures were reflective of available credit lines in credit cards and current accounts. Additionally, the mortgage portfolio had undrawn exposures, where a formal offer had been made to a customer but had not yet drawn down; the value decreased in line with the pipeline of offers. There was also a legacy portfolio of flexible mortgages where a customer had the right and ability to draw down further funds. The asset quality was aligned to the wider portfolio. In Wholesale, off-balance sheet exposures increased due to increased securitisations lending within financial institutions, with asset quality in line with existing off-balance sheet exposures.
- **Wholesale forbearance** – Forbearance flow and stock increased for 2023 compared to 2022. Payment holidays and covenant waivers were the most common forms of forbearance granted.
- **Heightened Monitoring and Risk of Credit Loss** – Risk of Credit Loss framework exposures and inflows increased in 2023 compared to 2022. Retail SME customers do not form part of the Wholesale Risk of Credit Loss framework. Customers in financial difficulty within this group are managed by specialist problem debt management teams. The balances in arrears and recoveries remained flat in 2023, with inflows continuing to be driven by Bounce Back Loan Scheme (BBLs) exposures. Excluding BBLs balances, the debt value for this population that are in problem debt/recoveries also remained stable.

Credit risk – Banking activities continued

Credit risk enhancement and mitigation (audited)

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

	Gross exposure	Maximum credit risk			CREM by type			CREM coverage		Exposure post CREM	
	ECL	Total	Stage 3	Financial (1)	Property	Other (2)	Total	Stage 3	Total	Stage 3	
2023	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	
Financial assets											
Cash and balances at central banks	47.8	-	47.8	-	-	-	-	-	-	47.8	-
Loans – amortised cost (3)	324.9	2.9	322.0	2.9	33.4	222.2	18.8	274.4	2.5	47.6	0.4
Personal (4)	206.6	1.6	205.0	1.8	0.8	193.2	-	194.0	1.6	11.0	0.2
Wholesale (5)	118.3	1.3	117.0	1.1	32.6	29.0	18.8	80.4	0.9	36.6	0.2
Debt securities	31.5	-	31.5	-	-	-	-	-	-	31.5	-
Total financial assets	404.2	2.9	401.3	2.9	33.4	222.2	18.8	274.4	2.5	126.9	0.4
Contingent liabilities and commitments											
Personal (6,7)	28.4	-	28.4	0.3	0.8	1.8	-	2.6	-	25.8	0.3
Wholesale	59.5	-	59.5	0.2	1.0	4.5	3.7	9.1	-	50.4	0.2
Total off-balance sheet	87.9	-	87.9	0.5	1.8	6.3	3.7	11.7	-	76.2	0.5
Total exposure	492.1	2.9	489.2	3.4	35.2	228.5	22.5	286.1	2.5	203.1	0.9

2022											
Financial assets											
Cash and balances at central banks	72.5	-	72.5	-	-	-	-	-	-	72.5	-
Loans – amortised cost (3)	307.8	2.5	305.3	2.6	28.3	214.2	17.8	260.4	2.2	44.9	0.4
Personal (4)	198.1	1.3	196.8	1.5	0.9	185.9	-	186.9	1.3	9.9	0.2
Wholesale (5)	109.7	1.2	108.5	1.1	27.4	28.3	17.8	73.5	0.9	35.0	0.2
Debt securities	14.1	-	14.1	-	-	-	-	-	-	14.1	-
Total financial assets	394.4	2.5	391.9	2.6	28.3	214.2	17.8	260.4	2.2	131.5	0.4
Contingent liabilities and commitments											
Personal (6,7)	35.2	-	35.2	0.2	0.6	1.9	-	2.5	-	32.7	0.2
Wholesale	56.9	0.1	56.8	0.3	0.9	4.5	3.3	8.7	-	48.1	0.3
Total off-balance sheet	92.1	0.1	92.0	0.5	1.5	6.4	3.3	11.2	-	80.8	0.5
Total exposure	486.5	2.6	483.9	3.1	29.8	220.6	21.1	271.6	2.2	212.3	0.9

(1) Includes cash and securities collateral.

(2) Includes guarantees, charges over trade debtors, other asset finance related physical collateral as well as the amount by which credit risk exposure is reduced through netting arrangements, mainly cash management pooling, which give NWB Group a legal right to set off the financial asset against a financial liability due to the same counterparty.

(3) NWB Group holds collateral in respect of individual loans – amortised cost to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant and equipment, inventories and trade debtors; and guarantees of lending from parties other than the borrower. NWB Group obtains collateral in the form of securities in reverse repurchase agreements. Collateral values are capped at the value of the loan.

(4) Stage 3 mortgage exposures have relatively limited uncovered exposure reflecting the security held. On unsecured credit cards and other personal borrowing, the residual uncovered amount reflects historical experience of continued cash recovery post default through ongoing engagement with customers.

(5) Stage 3 exposures post credit risk enhancement and mitigation in Wholesale mainly represent enterprise value and the impact of written down collateral values; an individual assessment to determine ECL will consider multiple scenarios and in some instances allocate a probability weighting to a collateral value in excess of the written down value.

(6) £0.2 billion (2022 – £0.2 billion) Personal Stage 3 balances primarily relate to loan commitments, the draw down of which is effectively prohibited.

(7) The Personal gross exposure value includes £5.8 billion (2022 – £13.8 billion) in respect of pipeline mortgages where a committed offer has been made to a customer but where the funds have not yet been drawn down. When drawn down, the exposure would be covered by a security over the borrower's property.

Credit risk – Banking activities continued

Personal portfolio (audited)

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

	2023			2022		
	Retail Banking	Private Banking	Total	Retail Banking	Private Banking	Total
	£m	£m	£m	£m	£m	£m
Personal lending						
Mortgages	180,629	13,222	193,851	172,941	13,709	186,650
Of which:						
Owner occupied	163,114	11,629	174,743	156,261	12,096	168,357
Buy-to-let	17,515	1,593	19,108	16,680	1,613	18,293
Interest only	22,817	11,631	34,448	18,247	11,877	30,124
Mixed (1)	9,208	25	9,233	8,746	1	8,747
Impairment provisions (2)	308	12	320	269	9	278
Other personal lending (3)	11,251	1,395	12,646	9,567	1,853	11,420
Impairment provisions (2)	1,249	12	1,261	1,026	15	1,041
Total personal lending	191,880	14,617	206,497	182,508	15,562	198,070
Mortgage LTV ratios						
- Owner occupied	56%	59%	56%	53%	59%	53%
- Stage 1	56%	59%	56%	53%	59%	53%
- Stage 2	55%	63%	55%	53%	61%	53%
- Stage 3	49%	61%	50%	47%	59%	48%
- Buy-to-let	53%	59%	54%	51%	59%	52%
- Stage 1	53%	60%	54%	51%	59%	52%
- Stage 2	50%	57%	50%	49%	53%	49%
- Stage 3	51%	53%	51%	47%	55%	50%
Gross new mortgage lending	29,150	1,400	30,550	40,248	2,968	43,216
Of which:						
Owner occupied	27,222	1,267	28,489	35,394	2,701	38,095
LTV > 90%	1,132	-	1,132	1,192	-	1,192
Weighted average LTV	70%	65%	71%	69%	65%	69%
Buy-to-let	1,928	133	2,061	4,854	267	5,121
Weighted average LTV	58%	66%	58%	64%	66%	64%
Interest only	2,626	1,224	3,850	5,229	2,664	7,893
Mixed (1)	1,552	2	1,554	2,266	-	2,266
Mortgage forbearance						
Forbearance flow	500	22	522	152	7	159
Forbearance stock	1,140	28	1,168	744	16	760
Current	782	10	792	473	8	481
1-3 months in arrears	97	2	99	108	-	108
>3 months in arrears	261	16	277	163	8	171

(1) Includes accounts which have an interest only sub-account and a capital and interest sub-account to provide a more comprehensive view of interest only exposures.

(2) Excludes a non-material amount of lending and provisions held on relatively small legacy portfolios.

(3) Comprises unsecured lending except for Private Banking, which includes both secured and unsecured lending. It excludes loans that are commercial in nature.

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

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by stage

The table below shows gross mortgage lending and related ECL by LTV band for Retail Banking. Mortgage lending not within the scope of IFRS 9 ECL reflected portfolios carried at fair value.

	Mortgages				ECL provisions				ECL provisions coverage (2)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total (1)	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%
2023												
≤50%	61,263	6,230	832	68,325	24	16	88	128	0.0	0.3	10.6	0.2
>50% and ≤70%	63,356	6,478	629	70,463	34	24	58	116	0.1	0.4	9.2	0.2
>70% and ≤80%	22,141	1,580	100	23,821	13	7	11	31	0.1	0.4	11.0	0.1
>80% and ≤90%	13,330	1,097	43	14,470	9	6	5	20	0.1	0.6	11.6	0.1
>90% and ≤100%	2,968	361	11	3,340	2	2	2	6	0.1	0.6	18.2	0.2
>100%	21	6	9	36	-	-	4	4	-	-	44.4	11.1
Total with LTVs	163,079	15,752	1,624	180,455	82	55	168	305	0.1	0.4	10.3	0.2
Other	172	-	2	174	1	-	1	2	0.6	-	50.0	1.2
Total	163,251	15,752	1,626	180,629	83	55	169	307	0.1	0.4	10.4	0.2
2022												
≤50%	63,446	6,809	742	70,997	23	17	77	117	-	0.3	10.4	0.2
>50% and ≤70%	65,419	7,118	495	73,032	31	27	47	105	0.1	0.4	9.5	0.1
>70% and ≤80%	17,227	1,540	52	18,819	7	6	7	20	-	0.4	13.5	0.1
>80% and ≤90%	7,714	889	14	8,617	6	4	4	14	0.1	0.5	28.6	0.2
>90% and ≤100%	1,363	17	4	1,384	2	-	1	3	0.2	-	25.0	0.2
>100%	34	7	9	50	2	-	4	6	5.9	-	44.4	12.0
Total with LTVs	155,203	16,380	1,316	172,899	71	54	140	265	0.1	0.3	10.6	0.2
Other	40	1	1	42	3	-	1	4	7.5	-	100.0	9.5
Total	155,243	16,381	1,317	172,941	74	54	141	269	0.1	0.3	10.7	0.2

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

Credit risk – Banking activities continued

Personal portfolio (audited)

Mortgage LTV distribution by region

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

	≤50%	50%≤80%	80%≤100%	>100%	Total	Weighted average LTV	Other	Total
	£m	£m	£m	£m	£m	%	£m	£m
2023								
South East	13,612	18,238	3,094	1	34,945	55	2	34,947
Greater London	13,548	17,720	2,353	1	33,622	54	3	33,625
Scotland	2,745	4,458	1,216	-	8,419	58	1	8,420
North West	6,150	8,164	1,849	2	16,165	56	-	16,165
South West	6,845	8,166	1,372	-	16,383	54	1	16,384
West Midlands	4,933	6,904	1,394	-	13,231	56	1	13,232
East of England	7,953	11,631	2,198	-	21,782	56	2	21,784
Rest of the UK	12,538	19,003	4,334	32	35,907	57	165	36,072
Total	68,324	94,284	17,810	36	180,454	55	175	180,629
2022								
South East	14,606	17,383	1,388	1	33,378	51	3	33,381
Greater London	13,876	17,199	1,324	1	32,400	52	3	32,403
Scotland	2,546	4,466	952	-	7,964	58	-	7,964
North West	6,315	8,133	1,205	2	15,655	54	1	15,656
South West	7,315	7,782	621	-	15,718	51	1	15,719
West Midlands	4,948	6,815	853	1	12,617	54	1	12,618
East of England	8,484	11,304	981	2	20,771	53	2	20,773
Rest of the UK	12,907	18,769	2,677	43	34,396	55	31	34,427
Total	70,997	91,851	10,001	50	172,899	53	42	172,941

Credit risk – Banking activities continued

Commercial real estate (audited)

CRE LTV distribution by stage

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

	Gross Loans				ECL provisions				ECL provisions coverage			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
2023												
≤50%	4,748	304	40	5,092	26	8	6	40	0.6	2.6	15.0	0.8
>50% and ≤70%	2,231	398	64	2,693	15	13	12	40	0.7	3.3	18.8	1.5
>70% and ≤100%	239	24	30	293	1	1	5	7	0.4	4.2	16.7	2.4
>100%	140	6	16	162	1	1	9	11	0.7	16.7	56.3	6.8
Total with LTVs	7,358	732	150	8,240	43	23	32	98	0.6	3.1	21.3	1.2
Total portfolio average LTV	46%	53%	66%	47%	-	-	-	-	-	-	-	-
Other (1)	1,790	294	32	2,116	7	5	11	23	0.4	1.7	34.4	1.1
Investment	9,148	1,026	182	10,356	50	28	43	121	0.6	2.7	23.6	1.2
Development (2)	1,366	87	22	1,475	11	3	12	26	0.8	3.5	54.6	1.8
Total	10,514	1,113	204	11,831	61	31	55	147	0.6	2.8	27.0	1.2
2022												
≤50%	4,306	276	31	4,613	22	8	7	37	0.5	2.9	22.6	0.8
>50% and ≤70%	2,458	424	30	2,912	18	8	8	34	0.7	1.9	26.7	1.2
>70% and ≤100%	205	23	30	258	1	1	3	5	0.5	4.4	10.0	1.9
>100%	84	6	12	102	1	-	8	9	1.2	-	66.7	8.8
Total with LTVs	7,053	729	103	7,885	42	17	26	85	0.6	2.3	25.2	1.1
Total portfolio average LTV	47%	52%	69%	48%	-	-	-	-	-	-	-	-
Other (1)	1,229	484	38	1,751	6	12	15	33	0.5	2.5	39.5	1.9
Investment	8,282	1,213	141	9,636	48	29	41	118	0.6	2.4	29.1	1.2
Development (2)	1,258	126	28	1,412	12	3	16	31	1.0	2.4	57.1	2.2
Total	9,540	1,339	169	11,048	60	32	57	149	0.6	2.4	33.7	1.4

(1) Relates mainly to business banking and unsecured corporate lending.

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

Overall – The majority of the CRE portfolio was located and managed in the UK. Business appetite and strategy was aligned across NWB Group.

2023 trends – In H2 2023, conditions were impacted by the uncertain interest rate outlook. Investment volumes were at historic lows for much of 2023, and values continued to drift downwards in some sectors. There were some early signs of improving sentiment following a sharp reduction in medium-term interest rates, but valuations remain somewhat uncertain, particularly in the office sector.

– **Credit quality** – The CRE portfolio has coped well to date with the fall in capital values and increase in rates, with no significant increase to loans coming into the Risk of Credit Loss Framework.

– **Risk appetite** – Lending appetite is subject to regular review.

Credit risk – Banking activities continued

Flow statements (audited)

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

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
NWB Group total								
At 1 January 2023	359,432	506	39,087	813	3,862	1,262	402,381	2,581
Currency translation and other adjustments	(1,023)	(1)	(176)	-	99	120	(1,100)	119
Inter-Group transfers	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(41,314)	(266)	41,314	266	-	-	-	-
Transfers from Stage 2 to Stage 1	38,528	622	(38,528)	(622)	-	-	-	-
Transfers to Stage 3	(281)	(5)	(2,610)	(225)	2,891	230	-	-
Transfers from Stage 3	255	22	488	39	(743)	(61)	-	-
Net re-measurement of ECL on stage transfer		(440)		673	-	189		422
Changes in risk parameters		(45)		(9)	-	247		193
Other changes in net exposure	6,291	173	(5,819)	(140)	(1,434)	(129)	(962)	(96)
Other (P&L only items)		(7)		5	-	(10)		(12)
Income statement (releases)/charges		(319)		529		297		507
Amounts written-off	-	-	-	-	(235)	(235)	(235)	(235)
Unwinding of discount	-	-		(1)		(111)		(112)
At 31 December 2023	361,888	566	33,756	794	4,440	1,512	400,084	2,872
Net carrying amount	361,322		32,962		2,928		397,212	
At 1 January 2022	388,953	231	27,337	1,105	3,147	1,167	419,437	2,503
2022 movements	(29,521)	275	11,750	(292)	715	95	(17,056)	78
At 31 December 2022	359,432	506	39,087	813	3,862	1,262	402,381	2,581
Net carrying amount	358,926		38,274		2,600		399,800	

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
Retail Banking - mortgages								
At 1 January 2023	153,791	74	16,557	55	1,321	139	171,669	268
Currency translation and other adjustments	-	1	-	-	53	54	53	55
Transfers from Stage 1 to Stage 2	(17,314)	(18)	17,314	18	-	-	-	-
Transfers from Stage 2 to Stage 1	15,396	34	(15,396)	(34)	-	-	-	-
Transfers to Stage 3	(50)	-	(827)	(6)	877	6	-	-
Transfers from Stage 3	34	1	234	5	(268)	(6)	-	-
Net re-measurement of ECL on stage transfer		(20)		27		3		10
Changes in risk parameters		24		(4)		57		77
Other changes in net exposure	12,117	(13)	(1,940)	(6)	(365)	(30)	9,812	(49)
Other (P&L only items)		-		-		(4)		(4)
Income statement (releases)/charges		(9)		17		26		34
Amounts written-off	-	-	-	-	(18)	(18)	(18)	(18)
Unwinding of discount		-		-		(34)		(34)
At 31 December 2023	163,974	83	15,942	55	1,600	171	181,516	309
Net carrying amount	163,891		15,887		1,429		181,207	
At 1 January 2022	146,450	22	8,692	123	875	158	156,017	303
2022 movements	7,341	52	7,865	(68)	446	(19)	15,652	(35)
At 31 December 2022	153,791	74	16,557	55	1,321	139	171,669	268
Net carrying amount	153,717		16,502		1,182		171,401	

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

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking - credit cards								
At 1 January 2023	2,420	47	855	91	88	57	3,363	195
Currency translation and other adjustments	-	-	-	-	3	2	3	2
Transfers from Stage 1 to Stage 2	(1,578)	(34)	1,578	34	-	-	-	-
Transfers from Stage 2 to Stage 1	610	43	(610)	(43)	-	-	-	-
Transfers to Stage 3	(17)	(1)	(98)	(36)	115	37	-	-
Transfers from Stage 3	2	1	5	2	(7)	(3)	-	-
Net re-measurement of ECL on stage transfer		(26)		136		33		143
Changes in risk parameters		15		22		7		44
Other changes in net exposure	1,432	13	(74)	(40)	(28)	(1)	1,330	(28)
Other (P&L only items)		-		(1)		2		1
Income statement (releases)/charges		2		117		41		160
Amounts written-off	-	-	-	-	(54)	(54)	(54)	(54)
Unwinding of discount		-		-		(5)		(5)
At 31 December 2023	2,869	58	1,656	166	117	73	4,642	297
Net carrying amount	2,811		1,490		44		4,345	
At 1 January 2022	2,096	47	751	114	69	45	2,916	206
2022 movements	324	-	104	(23)	19	12	447	(11)
At 31 December 2022	2,420	47	855	91	88	57	3,363	195
Net carrying amount	2,373		764		31		3,168	

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

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
Retail Banking - other personal unsecured								
At 1 January 2023	3,813	92	1,666	225	638	516	6,117	833
Currency translation and other adjustments	-	-	(1)	1	21	20	20	21
Transfers from Stage 1 to Stage 2	(2,319)	(101)	2,319	101	-	-	-	-
Transfers from Stage 2 to Stage 1	1,917	270	(1,917)	(270)	-	-	-	-
Transfers to Stage 3	(49)	(2)	(274)	(109)	323	111	-	-
Transfers from Stage 3	6	2	19	8	(25)	(10)	-	-
Net re-measurement of ECL on stage transfer		(191)		278		42		129
Changes in risk parameters		(35)		12		69		46
Other changes in net exposure	879	91	(441)	(45)	(90)	(26)	348	20
Other (P&L only items)		-		-		21		21
Income statement (releases)/charges		(135)		245		106		216
Amounts written-off	-	-	-	-	(71)	(71)	(71)	(71)
Unwinding of discount		-		-		(26)		(26)
At 31 December 2023	4,247	126	1,371	201	796	625	6,414	952
Net carrying amount	4,121		1,170		171		5,462	
At 1 January 2022	3,636	43	1,574	242	510	438	5,720	723
2022 movements	177	49	92	(17)	128	78	397	110
At 31 December 2022	3,813	92	1,666	225	638	516	6,117	833
Net carrying amount	3,721		1,441		122		5,284	

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

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
Commercial & Institutional total								
At 1 January 2023	63,844	259	18,360	419	1,567	524	83,771	1,202
Currency translation and other adjustments	(348)	1	(172)	-	21	40	(499)	41
Inter-group transfers	-	-	-	-	-	-	-	-
Transfers from Stage 1 to Stage 2	(18,055)	(105)	18,055	105	-	-	-	-
Transfers from Stage 2 to Stage 1	18,525	256	(18,525)	(256)	-	-	-	-
Transfers to Stage 3	(91)	(2)	(1,244)	(73)	1,335	75	-	-
Transfers from Stage 3	131	18	199	23	(330)	(41)	-	-
Net re-measurement of ECL on stage transfer		(190)		216		111		137
Changes in risk parameters (model inputs)		(49)		(38)		103		16
Other changes in net exposure	7,891	74	(3,611)	(47)	(846)	(73)	3,434	(46)
Other (P&L only items)		(6)		4		(23)		(25)
Income statement (releases)/charges		(171)		135		118		82
Amounts written-off	-	-	-	-	(90)	(90)	(90)	(90)
Unwinding of discount		-		-		(39)		(39)
At 31 December 2023	71,897	262	13,062	349	1,657	610	86,616	1,221
Net carrying amount	71,635		12,713		1,047		85,395	
At 1 January 2022	61,223	96	15,055	588	1,422	486	77,700	1,170
2022 movements	2,621	163	3,305	(169)	145	38	6,071	32
At 31 December 2022	63,844	259	18,360	419	1,567	524	83,771	1,202
Net carrying amount	63,585		17,941		1,043		82,569	

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
	£m	£m	£m	£m	£m	£m	£m	£m
Commercial & Institutional - corporate								
At 1 January 2023	43,744	182	14,997	352	1,126	388	59,867	922
Currency translation and other adjustments	(328)	2	(143)	-	22	38	(449)	40
Inter-group transfers	83	-	(75)	-	(24)	-	(16)	-
Transfers from Stage 1 to Stage 2	(14,049)	(80)	14,049	80	-	-	-	-
Transfers from Stage 2 to Stage 1	14,232	199	(14,232)	(199)	-	-	-	-
Transfers to Stage 3	(82)	(2)	(958)	(58)	1,040	60	-	-
Transfers from Stage 3	95	15	162	18	(257)	(33)	-	-
Net re-measurement of ECL on stage transfer		(153)		164		91		102
Changes in risk parameters (model inputs)		(30)		(38)		101		33
Other changes in net exposure	6,250	52	(3,513)	(38)	(629)	(63)	2,108	(49)
Other (P&L only items)		(6)		6		(24)		(24)
Income statement (releases)/charges		(137)		94		105		62
Amounts written-off	-	-	-	-	(65)	(65)	(65)	(65)
Unwinding of discount		-		-		(33)		(33)
At 31 December 2023	49,945	185	10,287	281	1,213	484	61,445	950
Net carrying amount	49,760		10,006		729		60,495	

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

Credit risk – Banking activities continued

Flow statements (audited)

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
Commercial & Institutional – property								
At 1 January 2023	15,694	66	2,600	59	369	123	18,663	248
Currency translation and other adjustments	(3)	-	(3)	-	-	-	(6)	-
Inter-group transfers	(45)	-	7	-	2	-	(36)	-
Transfers from Stage 1 to Stage 2	(3,518)	(23)	3,518	23	-	-	-	-
Transfers from Stage 2 to Stage 1	3,063	49	(3,063)	(49)	-	-	-	-
Transfers to Stage 3	(10)	(1)	(280)	(14)	290	15	-	-
Transfers from Stage 3	34	3	36	5	(70)	(8)	-	-
Net re-measurement of ECL on stage transfer		(32)		47		20		35
Changes in risk parameters		(17)		1		4		(12)
Other changes in net exposure	1,452	21	(674)	(9)	(176)	(9)	602	3
Other (P&L only items)		-		-		-		-
Income statement (releases)/charges		(28)		39		15		26
Amounts written-off	-	-	-	-	(20)	(20)	(20)	(20)
Unwinding of discount		-		-		(6)		(6)
At 31 December 2023	16,667	66	2,141	63	395	119	19,203	248
Net carrying amount	16,601		2,078		276		18,955	

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

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m	Financial assets £m	ECL £m
Commercial & Institutional – other								
At 1 January 2023	4,406	11	763	8	72	13	5,241	32
Currency translation and other adjustments	(18)	-	(26)	1	-	1	(44)	2
Inter-group transfers	(37)	-	67	-	22	-	52	-
Transfers from Stage 1 to Stage 2	(488)	(2)	488	2	-	-	-	-
Transfers from Stage 2 to Stage 1	1,230	8	(1,230)	(8)	-	-	-	-
Transfers to Stage 3	-	-	(6)	-	6	-	-	-
Transfers from Stage 3	3	-	1	-	(4)	-	-	-
Net re-measurement of ECL on stage transfer		(6)		4		-		(2)
Changes in risk parameters		(1)		(1)		(2)		(4)
Other changes in net exposure	189	1	577	(1)	(42)	-	724	-
Other (P&L only items)		-		-		-		-
Income statement (releases)/charges		(6)		2		(2)		(6)
Amounts written-off	-	-	-	-	(5)	(5)	(5)	(5)
Unwinding of discount		-		-		-		-
At 31 December 2023	5,285	11	634	5	49	7	5,968	23
Net carrying amount	5,274		629		42		5,945	

- While there was some portfolio growth, ECL reduced due to improving economic variables and risk metrics along with some write-offs.
- Overall, there was a net impairment release as the effects of inflation, high interest rates and supply chain disruption have, to date, not led to a significant increase in defaults.

Credit risk – Banking activities continued

Stage 2 decomposition – arrears status and contributing factors

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

	UK mortgages		Credit cards		Other		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
2023								
Personal								
Currently >30 DPD	230	1	11	5	42	16	283	22
Currently ≤30 DPD	15,721	54	1,629	162	1,312	186	18,662	402
- PD deterioration	11,448	43	1,180	130	685	107	13,313	280
- PD persistence	2,115	5	390	25	306	28	2,811	58
- Other driver (adverse credit, forbearance etc)	2,158	6	59	7	321	51	2,538	64
Total Stage 2	15,951	55	1,640	167	1,354	202	18,945	424

2022								
Personal								
Currently >30 DPD	156	1	7	4	41	15	204	20
Currently ≤30 DPD	16,355	54	827	88	1,555	211	18,737	353
- PD deterioration	14,484	50	620	72	845	114	15,949	236
- PD persistence	767	2	160	11	150	13	1,077	26
- Other driver (adverse credit, forbearance etc)	1,104	2	47	5	560	84	1,711	91
Total Stage 2	16,511	55	834	92	1,596	226	18,941	373

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

	Property		Corporate		Other		Total	
	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m	Loans £m	ECL £m
2023								
Wholesale								
Currently >30 DPD	82	2	265	7	1	-	348	9
Currently ≤30 DPD	2,200	67	10,046	285	188	8	12,434	361
- PD deterioration	1,595	54	6,381	178	57	2	8,033	234
- PD persistence	181	3	688	12	9	-	878	15
- Other driver (forbearance, RoCL etc)	424	10	2,977	95	122	6	3,523	112
Total Stage 2	2,282	69	10,311	292	189	8	12,782	370

2022								
Wholesale								
Currently >30 DPD	135	2	366	9	2	-	503	11
Currently ≤30 DPD	2,501	67	14,620	353	651	9	17,772	429
- PD deterioration	1,604	45	11,898	286	581	6	14,083	337
- PD persistence	66	2	216	8	4	-	286	10
- Other driver (forbearance, RoCL etc)	831	20	2,506	59	66	3	3,403	82
Total Stage 2	2,636	69	14,986	362	653	9	18,275	440

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

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2023	UK mortgages		Credit cards		Other		Total	
	£m	%	£m	%	£m	%	£m	%
Personal trigger (1)								
PD movement	11,583	72.5	1,191	72.6	715	52.8	13,489	71.2
PD persistence	2,115	13.3	390	23.8	306	22.6	2,811	14.8
Adverse credit bureau recorded with credit reference agency	877	5.5	40	2.4	82	6.1	999	5.3
Forbearance support provided	110	0.7	-	-	9	0.7	119	0.6
Customers in collections	158	1.0	1	0.1	7	0.5	166	0.9
Collective SICR and other reasons (2)	1,017	6.4	18	1.1	228	16.8	1,263	6.7
Days past due >30	91	0.6	-	-	7	0.5	98	0.5
	15,951	100	1,640	100	1,354	100	18,945	100

2022								
Personal trigger (1)								
PD movement	14,598	88.4	626	75.1	873	54.7	16,097	85.0
PD persistence	767	4.6	161	19.3	150	9.4	1,078	5.7
Adverse credit bureau recorded with credit reference agency	725	4.4	39	4.7	79	4.9	843	4.5
Forbearance support provided	75	0.5	1	0.1	14	0.9	90	0.5
Customers in collections	133	0.8	1	0.1	3	0.2	137	0.7
Collective SICR and other reasons (2)	171	1.0	6	0.7	466	29.2	643	3.3
Days past due >30	42	0.3	-	-	11	0.7	53	0.3
	16,511	100	834	100	1,596	100	18,941	100

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

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

Credit risk – Banking activities continued

Stage 2 decomposition by a significant increase in credit risk trigger

2023	Property		Corporate		FI		Total	
	£m	%	£m	%	£m	%	£m	%
Wholesale trigger (1)								
PD movement	1,627	71.2	6,484	62.9	58	30.7	8,169	63.9
PD persistence	184	8.1	695	6.7	9	4.8	888	6.9
Risk of Credit Loss	293	12.8	2,218	21.5	118	62.4	2,629	20.6
Forbearance support provided	22	1.0	332	3.2	-	-	354	2.8
Customers in collections	6	0.3	18	0.2	-	-	24	0.2
Collective SICR and other reasons (2)	55	2.4	391	3.8	4	2.1	450	3.5
Days past due >30	95	4.2	173	1.7	-	-	268	2.1
	2,282	100	10,311	100	189	100	12,782	100

2022								
Wholesale trigger (1)								
PD movement	1,661	63.0	12,110	81.0	582	89.1	14,353	78.5
PD persistence	65	2.5	217	1.4	4	0.6	286	1.6
Risk of Credit Loss	327	12.4	1,414	9.4	29	4.4	1,770	9.7
Forbearance support provided	23	0.9	337	2.2	19	2.9	379	2.1
Customers in collections	9	0.3	32	0.2	-	-	41	0.2
Collective SICR and other reasons (2)	479	18.2	739	4.9	18	2.8	1,236	6.8
Days past due >30	72	2.7	137	0.9	1	0.2	210	1.1
	2,636	100	14,986	100	653	100	18,275	100

- (1) The table is prepared on a hierarchical basis from top to bottom, for example, accounts with PD deterioration may also trigger backstop(s) but are only reported under PD deterioration.
(2) Includes customers where a PD assessment cannot be undertaken due to missing PDs.

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

Capital, liquidity and funding risk

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

Definitions (audited)

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

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

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

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

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

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

Sources of risk (audited)

Capital

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

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

Minimum requirement for own funds and eligible liabilities (MREL)

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

Liquidity

Liquidity risk within NWB Plc is managed as part of the UK Domestic Liquidity Sub-Group (UK DoLSub), which is regulated by the PRA and comprises of NWH Group's three licensed deposit taking UK banks: National Westminster Bank Plc, The Royal Bank of Scotland plc and Coutts & Company.

NWH Group maintains a prudent approach to the definition of liquidity portfolio to ensure it is available when and where required, taking into account regulatory, legal and other constraints.

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

- Primary liquidity is LCR eligible assets and includes cash and balances at central banks, Treasury bills and high quality government securities.
- Secondary liquidity is assets eligible as collateral for local central bank liquidity facilities. These assets include own-issued securitisations or whole loans that are retained on balance sheet and pre-positioned with a central bank so that they may be converted into additional sources of liquidity at very short notice

Funding

Funding risk within NWB plc is managed as part of the UK DoLSub allowing regulatory metrics, net stable funding ratio (NSFR) and internally defined views to be met as a single consolidated group.

NWB Plc maintains a diversified set of funding sources, including customer deposits, wholesale deposits and term debt issuance. NWB Plc also retains access to central bank funding facilities.

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

Managing capital requirements: regulated entities

In line with paragraph 135 of IAS 1 'Presentation of Financial Statements', NWB Group manages capital having regard to regulatory requirements. Regulatory capital is monitored and reported on an individual regulated bank legal entity basis ('bank entities'), as relevant in the jurisdiction for large subsidiaries of NatWest Group. NatWest Group itself is monitored and reported on a consolidated basis.

Capital, liquidity and funding risk continued

Capital risk management

Capital management is the process by which the NWB Plc entities ensure that they have sufficient capital and other loss-absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board-approved risk appetite, maintaining credit ratings and supporting strategic goals.

Capital management is critical in supporting the bank entities' businesses and is also considered at NWB Plc level. It is enacted through a NatWest Group-wide end to end framework.

Capital planning is integrated into NWB Group's wider annual budgeting process and is assessed and updated at least monthly. This is summarised below. Other elements of capital management, including risk appetite and stress testing, are set out on pages 14 and 15.

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

Liquidity risk management

NWB Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses.

The size of the liquidity portfolio held in the UK DoLSub is determined by referencing NWB Group's liquidity risk appetite. NWB 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.

NWB Plc manages the majority of the UK DoLSub's liquidity portfolio under the responsibility of the NatWest Group Treasurer.

Funding risk management

NWB Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet.

The asset and liability types broadly match. Customer deposits provide more funding than customer loans utilise.

Produce capital plans	- Capital plans are produced for NWB Group, its key operating entities and its businesses over a five year planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. - Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital Adequacy	- Capital plans are developed to maintain capital of sufficient quantity and quality to support NWB Group's business, its subsidiaries and strategic plans over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. - Capital resources and capital requirements are assessed across a defined planning horizon. - Impact assessment captures input from across NWB Group including from businesses.
Inform capital actions	- Capital planning informs potential capital actions including buybacks, redemptions, dividends and new issuance. - Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions. - As part of capital planning, NatWest Group will monitor its portfolio of issued capital securities and assess the optimal blend and most cost effective means of financing.

Capital, liquidity and funding risk continued

Key points

CET1 ratio

11.6%

(2022 - 11.3%)

The CET1 ratio increased 30 basis points to 11.6% over the period due to a £1.4 billion increase in CET1 capital, partially offset by a £9.3 billion increase in RWAs.

The CET1 capital increase reflects the attributable profit in the period of £3.5 billion, partially offset by:

- Interim dividend paid of £0.8 billion;
- foreseeable dividend of £0.9 billion;
- increase in intangible assets deduction £0.2 billion and;
- other movements on reserves and regulatory adjustments of £0.2 billion.

RWAs

£121.7bn

(2022 - £112.4bn)

Total RWAs increased by £9.3 billion to £121.7 billion mainly reflecting:

- an increase in credit risk RWAs of £7.8 billion, driven by an increase in IRB Temporary Model Adjustment related to mortgages within Retail Banking, as well as increased exposures within Commercial & Institutional and Retail Banking;
- an increase in operational risk RWAs of £1.3 billion following the annual recalculation;
- an increase in counterparty credit risk RWAs of £0.2 billion, due to increased exposures.

UK leverage ratio

4.5%

(2022 - 4.4%)

The leverage ratio increased by 10 basis points to 4.5%. The increase was due to a £1.4 billion increase in Tier 1 capital partially offset by an £18.6 billion increase in leverage exposure. The key driver in the leverage exposure was an increase in other financial assets partially offset by a decrease in net central bank items.

Liquidity portfolio

£180.6bn

(2022 - £184.0bn)

The liquidity portfolio decreased by £3.4 billion to £180.6 billion, with primary liquidity decreasing by £14.2 billion to £105.9 billion. The decrease in primary liquidity is driven by increased lending and reduced deposits, offset by repayment of loans and advances provided to UBIDAC and increased certificates of deposit and commercial paper issuance. The growth in secondary liquidity is due to an increase in the pre-positioned collateral at the Bank of England.

LCR

138%

(2022 - 131%)

The UK DoLSub Liquidity Coverage Ratio (LCR) increased during the year to 138% driven by a decrease in net outflows and a lower than proportionate reduction in liquidity portfolio. The decrease in net outflows was due to a reduction in current and instant access accounts partially offset by an increase in fixed term accounts. The decrease in liquidity portfolio was driven by increased customer lending offset by increased wholesale funding and repayment of loans and advances provided to UBIDAC.

NSFR

126%

(2022 - 137%)

The UK DoLSub net stable funding ratio (NSFR) has decreased 11% during the year to 126% driven by reduced customer deposits and increased lending.

Capital, liquidity and funding risk continued

Minimum requirements

Capital adequacy ratios

The bank entities are subject to minimum capital requirements relative to RWAs. The table below summarises the minimum ratios of capital to RWAs that the UK bank entities are expected to have to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (1)	1.8%	1.8%	1.8%
Total (2)	8.8%	10.3%	12.3%

- (1) The Financial Policy Committee increased the UK CCyB rate from 1% to 2% effective from 5 July 2023. The Central Bank of Ireland increased CCyB on Irish exposures from 0% to 0.5% applicable 15 June 2023 and 1% from 24 November 2023. A further increase to 1.5% will be effective 7 June 2024.
- (2) The minimum requirements do not include any capital that the bank entities may be required to hold as a result of the Pillar 2 assessment.

Leverage ratio

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

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

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

Liquidity and funding ratios

The table below summarises the minimum requirements for key liquidity and funding metrics under the PRA framework. NWB Plc is a member of the UK DoLSUB which is presented below.

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

Measurement

Capital, RWAs and leverage

The table below sets out the key capital and leverage ratios on a PRA transitional basis.

	2023	2022
Capital adequacy ratios	%	%
CET1 (1)	11.6	11.3
Tier 1	13.4	13.3
Total	16.3	15.9
Capital	£m	£m
CET1 (1)	14,082	12,713
Tier 1	16,360	14,956
Total	19,798	17,877
Risk-weighted assets		
Credit risk	106,696	98,913
Counterparty credit risk	713	497
Market risk	12	26
Operational risk	14,319	12,992
Total RWAs	121,740	112,428
Leverage		
Tier 1 capital (£m)	16,360	14,956
Leverage exposure (£m) (2)	359,897	341,308
Leverage ratio (%) (1)	4.5	4.4

- (1) Includes an IFRS 9 transitional adjustment of £0.2 billion (2022 - £0.3 billion). Excluding this adjustment, the CET1 ratio would be 11.4% (2022 - 11.1%) and the leverage ratio would be 4.5% (2022 - 4.3%).
- (2) Leverage exposure is broadly aligned to the accounting value of on and off-balance sheet exposures albeit subject to specific adjustments for derivatives, securities financing positions and off-balance sheet exposures.

Capital, liquidity and funding risk continued

Liquidity key metrics

Liquidity within NWB Plc is managed and regulated as part of the UK DoLSUB. The table below sets out the key liquidity and related metrics for the UK DoLSUB.

2023	UK DoLSUB
Liquidity Coverage Ratio	138%
Stressed Outflow Coverage (1)	143%
Net Stable Funding Ratio	126%
2022	
Liquidity Coverage Ratio	131%
Stressed Outflow Coverage (1)	131%
Net Stable Funding Ratio	137%

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

Leverage exposure

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

	2023 £m	2022 £m
Leverage		
Cash and balances at central banks	48,238	73,062
Derivatives	3,213	4,430
Financial assets	351,948	316,584
Other assets	8,350	7,671
Total assets	411,749	401,747
Derivatives		
- netting and variation margin	(3,212)	(3,313)
- potential future exposures	1,537	1,692
Securities financing transactions gross up	383	2,391
Undrawn commitments	29,632	29,593
Regulatory deductions and other adjustments	(3,015)	(2,023)
Exclusion of core UK-group exposure	(26,753)	(22,080)
Claims on central banks	(47,297)	(62,228)
Exclusion of bounce back loans	(3,127)	(4,471)
Leverage exposure	359,897	341,308

Liquidity portfolio

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

	2023 UK DoLSUB £m	2022 (4) UK DoLSUB £m
Cash and balances at central banks	67,954	104,606
High quality government/MDB/PSE and GSE bonds (1)	26,510	11,714
Extremely high quality covered bonds	4,164	1,812
LCR Level 1 eligible assets	98,628	118,132
LCR Level 2 eligible assets (2)	7,320	2,032
Primary liquidity (HQLA) (3)	105,948	120,164
Secondary liquidity	74,683	63,849
Total liquidity value	180,631	184,013

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

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

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

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

Capital, liquidity and funding risk continued

Funding sources (audited)

	2023			2022		
	Short-term less than 1 year	Long-term more than 1 year	Total	Short-term less than 1 year	Long-term more than 1 year	Total
	£m	£m	£m	£m	£m	£m
Bank deposits						
Repos	2,632	-	2,632	595	-	595
Other bank deposits	3,420	12,000	15,420	3,465	12,000	15,465
	6,052	12,000	18,052	4,060	12,000	16,060
Customer deposits						
Repos	10,427	-	10,427	9,575	-	9,575
Personal	173,558	5,349	178,907	178,865	1,009	179,874
Corporate	107,046	22	107,068	114,157	16	114,173
Non-bank financial institutions	17,348	2	17,350	18,987	5	18,992
	308,379	5,373	313,752	321,584	1,030	322,614
Other financial liabilities (1)						
Debt securities in issue						
Commercial papers and certificates of deposit	6,009	-	6,009	1,664	-	1,664
Covered bonds	2,122	-	2,122	804	2,038	2,842
Securitisations	-	863	863	-	859	859
	8,131	863	8,994	2,468	2,897	5,365
Subordinated liabilities	2	120	122	74	123	197
Amounts due to holding company and fellow subsidiaries (2)						
Bank and customer deposits	36,789	-	36,789	29,333	-	29,333
MREL	1,240	5,308	6,548	221	6,118	6,339
Subordinated liabilities	618	3,018	3,636	714	2,227	2,941
	38,647	8,326	46,973	30,268	8,345	38,613
Total funding	361,211	26,682	387,893	358,454	24,395	382,849
<i>Of which: available in resolution (3)</i>			10,184			9,297

(1) Excludes settlement balances of £4 million (2022 – £2 million) and derivative cash collateral of £13 million (2022 – £17 million).

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £279 million (2022 – £156 million) and nil intercompany settlement balances (2022 – £2 million) have been excluded from the table.

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

Capital, liquidity and funding risk continued

Contractual maturity (audited)

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

	Banking activities										MFVTPL and HFT	Total
	Less than 1 month	1-3 months	3-6 months	6 months -1 year	Subtotal	1-3 years	3-5 years	More than 5 years	Total			
	£m	£m	£m	£m	£m	£m	£m	£m	£m			
2023												
Cash and balances at central banks	48,259	-	-	-	48,259	-	-	-	48,259	-	-	48,259
Derivatives	13	38	129	122	302	163	47	14	526	2,658	-	3,184
Loans to banks - amortised cost	1,844	58	1,178	11	3,091	15	249	-	3,355	-	-	3,355
Loans to customers - amortised cost (1)	27,862	15,587	10,111	14,654	68,214	45,787	35,433	171,826	321,260	-	-	321,260
Personal	3,897	2,009	2,776	5,332	14,014	20,375	19,003	152,879	206,271	-	-	206,271
Corporate	14,850	2,749	3,466	6,040	27,105	23,610	15,964	18,873	85,552	-	-	85,552
Non-bank financial institutions	9,115	10,829	3,869	3,282	27,095	1,802	466	74	29,437	-	-	29,437
Other financial assets	1,371	1,675	2,343	2,422	7,811	7,496	8,695	7,489	31,491	453	-	31,944
Total financial assets	79,349	17,358	13,761	17,209	127,677	53,461	44,424	179,329	404,891	3,111	-	408,002

2022												
Total financial assets	101,746	13,212	11,409	13,852	140,219	50,151	40,202	164,756	395,328	4,081	-	399,409

2023												
Bank deposits excluding repos	3,158	-	262	-	3,420	3,800	8,200	-	15,420	-	-	15,420
Bank repos	2,632	-	-	-	2,632	-	-	-	2,632	-	-	2,632
Customer repos	8,121	27	2,029	250	10,427	-	-	-	10,427	-	-	10,427
Customer deposits excluding repos	267,023	9,493	9,755	11,681	297,952	5,356	8	9	303,325	-	-	303,325
Personal	155,934	3,336	4,717	9,571	173,558	5,346	3	-	178,907	-	-	178,907
Corporate	94,873	5,449	4,790	1,934	107,046	10	3	9	107,068	-	-	107,068
Non-bank financial institutions	16,216	708	248	176	17,348	-	2	-	17,350	-	-	17,350
Derivatives	(1)	13	27	4	43	167	148	46	404	1,314	-	1,718
Other financial liabilities	1,736	1,812	3,621	966	8,135	297	377	189	8,998	13	-	9,011
CPs and CDs	685	1,812	2,546	966	6,009	-	-	-	6,009	-	-	6,009
Covered bonds	1,047	-	1,075	-	2,122	-	-	-	2,122	-	-	2,122
Securitisations	-	-	-	-	-	297	377	189	863	-	-	863
Bank deposits	-	-	-	-	-	-	-	-	-	6	-	6
Customer deposits	-	-	-	-	-	-	-	-	-	7	-	7
Settlement balances	4	-	-	-	4	-	-	-	4	-	-	4
Subordinated liabilities	-	-	2	-	2	-	-	120	122	-	-	122
Notes in circulation	806	-	-	-	806	-	-	-	806	-	-	806
Lease liabilities	12	13	18	34	77	119	66	251	513	-	-	513
Total financial liabilities	283,487	11,358	15,714	12,935	323,494	9,739	8,799	615	342,647	1,327	-	343,974

2022												
Total financial liabilities	313,634	8,054	4,612	2,886	329,186	7,404	8,779	835	346,204	1,849	-	348,053

(1) Loans to customers excludes £2,794 million (2022 - £2,510 million) of impairment provisions.

Capital, liquidity and funding risk continued

Encumbrance (audited)

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

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

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

Balance sheet encumbrance - third party

	Encumbered as a result of transactions with counterparties other than central banks			Pre-positioned & encumbered assets held at central banks	Collateral ring-fenced to meet regulatory requirement	Unencumbered assets not pre-positioned with central banks				Total third party (4)
	Covered bonds	SFT, Derivatives & other (1)	Total			Readily available	Other available (2)	Cannot be used (3)	Total	
2023	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	—	2.5	2.5	—	—	45.8	—	—	45.8	48.3
Derivatives	—	—	—	—	—	—	—	3.2	3.2	3.2
Loans to banks - amortised cost	—	0.1	0.1	—	—	2.7	—	0.6	3.3	3.4
Loans to customers - amortised cost (5)	9.8	0.3	10.1	104.0	—	78.1	83.1	43.2	204.4	318.5
Other financial assets (6)	—	7.7	7.7	—	1.9	20.9	0.1	1.3	22.3	31.9
Intangible assets	—	—	—	—	—	—	—	1.9	1.9	1.9
Other assets	—	—	—	—	—	—	2.5	3.5	6.0	6.0
Total assets	9.8	10.6	20.4	104.0	1.9	147.5	85.7	53.7	286.9	413.2
Amounts due from holding company and fellow subsidiaries										2.3
										415.5
2022										
Total assets	7.0	6.0	13.0	91.3	1.8	166.5	85.4	46.6	298.5	404.6
Amounts due from holding company and fellow subsidiaries										4.9
										409.5

- (1) Repos and other secured deposits, cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation are included here rather than within those positioned at the central bank as they are part of normal banking operations. Securities financing transactions (SFT) include collateral given to secure derivative liabilities.
- (2) Other assets that are capable of being encumbered are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be prepositioned with central banks but have not been subject to internal and external documentation review and diligence work.
- (3) Cannot be used includes:
 - a. Derivatives, reverse repurchase agreements and trading related settlement balances.
 - b. Non-financial assets such as intangibles, prepayments and deferred tax.
 - c. Loans that are not encumbered and cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.
 - d. Non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral.
- (4) In accordance with market practice, NWB Group employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos.
- (5) The pre-positioned and encumbered assets held at central banks of £104.0 billion includes the encumbered residential mortgages of £21.6 billion. £66.7 billion of residential UK mortgages are included in £78.1 billion readily available loans to customers.
- (6) Other financial assets under SFT, derivatives and other include £0.5 billion of debt securities under the continuing control of NWB Plc. This follows the agreement between NWB Plc and the Group Pension Fund to establish a bankruptcy remote reservoir trust to hold these assets. Refer to Note 5 for additional information.

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 NWB Group's non-traded market risk are interest rate risk, credit spread risk and foreign exchange risk.

Key developments in 2023

- In the UK, the Bank of England base rate rose from 3.50% at 31 December 2022 to 5.25% at 31 December 2023 as inflation pressures persisted in the short term. However, the five-year sterling overnight index interest rate swap rate rose from 4.10% at 31 December 2022 to a peak of 5.37% in the third quarter of 2023, but fell back to 3.38% at 31 December 2023. The corresponding ten-year rate rose from 3.75% at 31 December 2022 to a peak of 4.68% in the third quarter of 2023, but fell back to 3.29% at 31 December 2023.
- Overall, non-traded market risk VaR increased in 2023, on both an average and period-end basis. This was driven by an increase in credit spread VaR, notably in the second half of the year, reflecting increased holdings of bonds in the liquidity portfolio. Interest rate VaR fell slightly in H2 2023, driven by a reduction in the interest-rate-sensitive position, particularly in sterling.
- By the end of 2023, credit spread risk replaced interest rate risk as the main driver of non-traded market risk VaR.
- NWB Group's structural hedge notional fell to £156 billion at 31 December 2023 from £173 billion at 31 December 2022.
- Overall, the sensitivity of net interest earnings fell year on year. The main contributors to the reduced sensitivity were lower volumes of managed margin deposits and current accounts, which included the impact of migration to term savings accounts.

Measurement

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

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

VaR metrics are explained on page 68. Each of the key risk types are discussed in greater detail in their individual sub-sections following this table.

	2023				2022			
	Average £m	Maximum £m	Minimum £m	Period end £m	Average £m	Maximum £m	Minimum £m	Period end £m
Interest rate	39.6	66.5	26.7	26.7	28.7	57.5	11.8	32.1
Credit spread	27.8	45.9	17.8	45.9	31.2	73.1	17.2	17.7
Structural foreign exchange risk	24.6	26.0	22.1	22.1	19.4	24.6	16.4	24.6
Equity	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1
Pipeline risk (1)	3.1	6.5	1.6	6.5	1.5	4.8	0.5	2.6
Diversification (2)	(35.6)			(30.5)	(32.0)			(30.6)
Total	59.6	83.5	45.7	70.8	48.9	75.1	36.6	46.5

(1) Pipeline risk is the risk of loss arising from personal customers owning an option to draw down a loan – typically a mortgage – at a committed rate, where interest rate changes may result in greater or fewer customers than anticipated taking up the committed offer.

(2) NWB Group benefits from diversification across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.

- For VaR commentary, refer to key developments in 2023 above.

Governance (audited)

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

Risk positions are reported regularly to the NatWest Holdings Executive Risk Committee and the NatWest Holdings Board Risk Committee, as well as to the NatWest Holdings Asset & Liability Management Committee. Market risk policy statements set out the governance and risk management framework.

Risk appetite

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

Its quantitative appetite is expressed in terms of exposure limits. NWB Group's limit framework comprises value-at-risk (VaR), stressed value-at-risk (SVaR), sensitivities and earnings-at-risk limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments.

To ensure approved limits are not breached and that NWB Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed and implemented.

The risk appetite statements and associated measures are reviewed at least annually by the relevant legal entity board on the relevant board risk committee's recommendation to ensure they remain appropriate and aligned to strategy. For further information on risk appetite and risk controls, refer to pages 14 and 15.

Non-traded market risk continued

Interest rate risk

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

NTIRR comprises the following three primary risk types:

- **Gap risk** – arises from the timing of rate changes in non-trading book instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- **Basis risk** – captures the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices, or on the same interest rate indices but with different tenors.
- **Option risk** – arises from option derivative positions or from optional elements embedded in assets, liabilities and/or off-balance sheet items, where NWB Group or its customer can alter the level and timing of their cash flows. Option risk also includes pipeline risk.

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

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

Structural hedging

NWB Group has a significant pool of stable, non and low interest-bearing liabilities, principally comprising current accounts and savings, in addition to its equity and reserves. NatWest Group has a policy of hedging these balances, either by investing directly in longer-term fixed-rate assets (primarily fixed-rate mortgages) or by using interest rate swaps, in order to provide a consistent and predictable revenue stream from these balances.

At 31 December 2023, NWB Group's structural hedge had a notional of £156 billion (compared to £173 billion at 31 December 2022) with an average life of 2.5 to 3 years.

Interest rate risk measurement

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

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

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

Value-at-risk

VaR is a statistical estimate of the potential change in the market value of a portfolio (and, thus, the impact on the income statement) over a specified time horizon at a given confidence level. NWB Group's standard VaR metrics – which assume a time horizon of one trading day and a confidence level of 99% – are based on interest rate repricing gaps at the reporting date. Daily rate moves are modelled using observations from the last 500 business days. These incorporate customer products plus associated funding and hedging transactions as well as non-financial assets and liabilities. Behavioural assumptions are applied as appropriate.

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

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

Sensitivity of net interest earnings

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

Earnings sensitivity is derived from a market-implied forward rate curve, which will incorporate expected changes in central bank policy rates such as the Bank of England base rate. A simple scenario is shown that projects forward earnings over a 12-month period based on the 31 December 2023 balance sheet. An earnings projection is derived from the market-implied rate curve, which is then subject to interest rate shocks. The difference between the market-implied projection and the shock gives an indication of underlying sensitivity to interest rate movements.

Non-traded market risk continued

The sensitivity of net interest earnings table below shows the expected impact of an immediate upward or downward change of 25 basis points and 100 basis points to all interest rates.

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

	2023				2022			
	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points with no floor £m	+100 basis points £m	-100 basis points £m
Shifts in yield curve								
12-month interest earnings sensitivity	116	(118)	439	(491)	145	(160)	580	(654)

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

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

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

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

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

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

Note that the effectiveness of cash flow and fair value hedge relationships is monitored and regularly tested in accordance with IFRS requirements. Note also that valuation changes affecting the cash flow hedge reserve affect tangible net asset value, but would not be expected to affect CET1 capital. The movement in cash flow hedge reserves is shown in the statement of changes in equity on page 100.

	2023				2022			
	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m	+25 basis points £m	-25 basis points £m	+100 basis points £m	-100 basis points £m
Parallel shifts in yield curve								
FVOCI reserves	-	-	(4)	(6)	3	(3)	9	(17)
Cash flow hedge reserves	9	(9)	38	(32)	(11)	11	(42)	46
Total	9	(9)	34	(38)	(8)	8	(33)	29

Non-traded market risk continued

Credit spread risk

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

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

Credit spread risk is monitored daily through sensitivities and VaR measures. The dealing authorities in place for the bond portfolios further mitigate the risk by imposing constraints by duration, asset class and credit rating. Exposures and limit utilisations are reported to senior management on a regular basis.

Foreign exchange risk

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

- **Structural foreign exchange rate risk** – arises from the capital deployed in foreign subsidiaries, branches and joint arrangements and related currency funding where it differs from sterling.
- **Non-trading book foreign exchange rate risk** – arises from customer transactions and profits and losses that are in a currency other than the functional currency.
- **Forecast earnings or costs in foreign currencies** – NWB Group hedges forward some foreign currency forecast expenses.

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

The sensitivity of the NatWest Group ratio to exchange rates is monitored monthly and reported to the Asset & Liability Management Committee at least quarterly. NWB Plc also monitors the sensitivity of its CET1 ratio to exchange rate movements against a risk limit monthly.

Foreign exchange exposures arising from customer transactions are sold down by businesses on a regular basis in line with NatWest Group policy.

Foreign exchange risk

The table below shows structural foreign currency exposures.

	2023			2022		
	Net investments in foreign operations	Net investment hedges	Structural foreign currency exposures	Net investments in foreign operations	Net investment hedges	Structural foreign currency exposures
	£m	£m	£m	£m	£m	£m
Euro	737	(487)	250	738	(720)	18
Other non-sterling	417	(145)	272	456	(148)	308
Total	1,154	(632)	522	1,194	(868)	326

Pension risk

Definition

Pension risk is defined as the inability to meet contractual obligations and other liabilities to the established employee or related company pension scheme.

Sources of risk

NWB Group has exposure to pension risk through its defined benefit schemes worldwide. The Main section of The NatWest Group Pension Fund (the Main section) is the largest source of pension risk as NatWest Bank Plc is the principal employer to the Main section with £33.6 billion of assets and £26.5 billion of liabilities at 31 December 2023 (2022 – £34.0 billion of assets and £24.7 billion of liabilities). Refer to Note 5 to the financial statements for further details on NWB Group's pension obligations, including sensitivities to the main risk factors.

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation. Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. NWB Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, NWB Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

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

Key developments in 2023

- A new contractual agreement was reached with the Trustee of the Main section that assets to the value of the remaining contributions previously due to the Main section in 2023 under the Memorandum of Understanding signed with the Trustee in April 2018, would instead be paid to a Reservoir Trust. During the year, it was agreed with the Trustee to establish a bankruptcy remote Reservoir Trust to hold assets with a value equivalent to £471 million. For further details, refer to Note 5 to the financial statements.
- Notwithstanding the above development, NWB Group's exposure to pension risk remained generally stable over the year.

Governance

Chaired by the Chief Financial Officer, the NatWest Group Asset & Liability Management Committee is a key component of NatWest Group's approach to managing pension risk. It considers the pension impact of the capital plan for NatWest Group and reviews the performance of NatWest Group's material pension funds (including those sponsored by NWB Group) and other issues material to NatWest Group's pension strategy. It also considers investment strategy proposals from the Trustee of the Main section. The NatWest Group Board reviews and as appropriate approves any material pension strategy proposals.

For further information on governance, refer to page 12.

Risk appetite

NWB Group maintains an independent view of the risk inherent in its pension funds. NWB Group has a pension risk appetite statement incorporating defined metrics against which risk is measured that is reviewed at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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

Monitoring and measurement

Pension risk is monitored by the NWH Group Executive Risk Committee and the NatWest Group Board Risk Committee, whilst the NatWest Group Asset & Liability Management Committee receives updates on the performance of NatWest Group's material pension funds. Relevant pension risk matters are escalated to the Board as applicable.

NatWest Group also undertakes stress tests on its material defined benefit pension schemes each year. These tests are also used to satisfy the requests of regulatory bodies such as the Bank of England.

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

NatWest Bank Plc is the principal employer of the Main section and could be required to fund any deficit that arises.

Mitigation

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

The potential impact of climate change is one of the factors considered in managing the assets of the Main section. The Trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits. Further details regarding the Main section Trustee's approach to managing climate change risk can be found in its Responsible Ownership Policy, its net zero commitment and its climate disclosures produced on an annual basis, as required by The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Compliance and conduct risk

Definition

Compliance risk is the risk that NWB 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 NWB 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 NWB Group's relationships with its customers and arise from a variety of activities including product design, marketing and sales, complaint handling, staff training, and handling of confidential inside information.

As set out in Note 26 to the financial statements, members of NatWest Group are party to legal proceedings and are subject to investigation and other regulatory action in the UK, the US and other jurisdictions.

Key developments in 2023

- Further progress was made on the compliance agenda during 2023. Significant enhancements were made to the compliance and conduct framework with the introduction of numerous new tools to manage the risk profile. These include a compliance and conduct risk directory, new risk standards and toolkits which support NWB Group to measure and manage compliance accurately and efficiently, and a regulatory compliance operational policy framework to ensure key regulatory requirements are captured. These new tools align with the existing enterprise-wide risk management framework.
- From a conduct risk perspective, the NatWest Group-wide programme made significant progress on implementation of the Consumer Duty requirements by the first regulatory milestone of 31 July 2023. The focus is now on closed book products and services, which is expected to conclude before the end of July 2024.
- The focus on consumer protection and supporting customers with their financial needs continues, given the ongoing cost-of-living challenges and their impact on customers in vulnerable situations. For example, NatWest was the first high street bank to offer customers additional support through the Mortgage Charter from July 2023. Vulnerable customer outcomes are also an integral part of our enhanced 'Good Customer Outcome' reporting which was introduced through the Consumer Duty programme.

Governance

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

Risk appetite

The Risk appetite statement and associated measures for compliance and conduct risks are approved at least annually by the Board on the Board Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy. Risk appetite statements articulate the levels of risk that legal entities, businesses and functions work within when pursuing their strategic objectives and business plans.

A range of controls are operated to ensure the business delivers good customer outcomes and are conducted in accordance with legal and regulatory requirements. A suite of risk policies, risk standards and regulatory compliance operational policies addressing compliance and conduct risks set appropriate standards across NWB 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 risk reporting to NWB Group's senior risk committees and at Board level. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NWB Group's strategic planning cycle.

Mitigation

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

Financial crime risk

Definition

Financial crime risk is the risk that NWB Group's products, services, employees and/or third parties are intentionally or unintentionally used to facilitate financial crime in the form of money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, as well as external or internal fraud.

Sources of risk

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

Key developments in 2023

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

Governance

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

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

Risk appetite

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

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

Mitigation

Through the financial crime framework, relevant policies, systems, processes and controls are used to mitigate and manage financial crime risk. This includes the use of dedicated screening and monitoring systems and controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to NWB 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. NWB Group could be exposed to physical risks directly by the effects on its property portfolio and, indirectly, by the impacts on the wider economy as well as on the property and business interests of its customers.

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

Key developments in 2023

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

Climate risk continued

Governance

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

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

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

Risk appetite

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

Work continued in 2023 to mature NatWest Group's climate-related risk capabilities. Throughout 2023, the Board Risk Committee monitored Board approved quantitative climate risk appetite measures in line with the enterprise-wide risk management framework. These measures provided a heightened focus on balance sheet exposure to financed emissions.

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

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

Mitigation

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

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

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

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

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

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

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

Operational risk

Definition

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

Sources of risk

Operational risk may arise from a failure to manage operations, systems, processes, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Systems failure, theft of NWB 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.

Operational risk continued

Key developments in 2023

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

Governance

The risk governance arrangements in place for operational risk are aligned to the requirements set out in the NatWest 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 NWB Group's ambitions to serve its customers better. Improved management of operational risk against defined risk appetite is vital for stability and reputational integrity.

To support ongoing oversight of the management of the operational risk profile an Operational Risk Executive Steering Committee is in place. This forum ensures all material operational risks are monitored and managed within appetite. The NatWest Group Board Risk Committee and NatWest Group Board receives regular updates on the outputs of the Operational Risk Executive Steering Committee.

Risk appetite

Operational risk appetite supports effective management of all operational risks. It expresses the level and types of operational risk NatWest Group is willing to accept to achieve its strategic objectives and business plans. NatWest Group's operational risk appetite quantitative and qualitative statements encompass the full range of operational risks faced by its legal entities, businesses, and functions. The Risk appetite statement and associated measures for operational risk are approved at least annually by the relevant legal entity board on the relevant board risk committee's recommendation to ensure they remain appropriate and aligned to strategy.

Mitigation

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

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

The Control Environment Certification (CEC) process is a half-yearly self-assessment by the CEOs of NatWest Group's customer-facing business areas, as well as the heads of its support functions. NatWest Group uses this process as an effective means to provide a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

CEC covers material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting risk management frameworks. The CEC outcomes, including forward-looking assessments for the next two half-yearly cycles and progress on control environment improvements, are reported to the NatWest Group Audit Committee and NatWest Group Board Risk Committee. They are also shared with external auditors.

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

Monitoring and measurement

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

The process is designed to confirm that risks are effectively managed in line with risk appetite. Key controls are tested at the appropriate frequency to verify that they remain fit-for-purpose and operate effectively to reduce identified risks.

NWB Group uses the standardised approach to calculate its Pillar 1 operational risk capital requirement. This is based on multiplying three years' average historical gross income by coefficients set by the regulator based on business line.

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

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

Refer to the Capital, liquidity and funding risk section for operational risk capital requirement figures.

Operational resilience and security

NWB Group manages and monitors operational resilience through its enhanced risk and control self-assessment methodology. This is underpinned by setting and monitoring of forward-looking risk indicators and performance metrics for the operational resilience of important business services. Progress continues on meeting regulatory expectations for operational resilience, with involvement in a number of industry-wide operational resilience forums. This enables a cross-sector view of the operational resilience risk profile and the pace of ongoing innovation and change, both internally and externally.

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

Operational risk continued

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

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

Event and loss data management

The operational risk event and loss data management process ensures NWB Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of an early event escalation process. NWB Group has not experienced a cyber security breach or associated material loss in the last three years.

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

Model risk

Definition

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

Sources of risk

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

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

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

Key developments in 2023

- Following extensive model remediation work, NWH Group returned to model risk appetite in January 2023. Ongoing remediation work continues to be a key focus to further strengthen the model risk appetite position and is closely monitored.
- NWB Group's model risk management practices continued to evolve, supported by a dedicated model risk management enhancement programme, set up in response to the PRA's Supervisory Statement 1/23. An updated Group model risk policy was approved by the NatWest Group Board Risk Committee.
- Implementation of model risk procedures, aligned to the delivery and embedding of the enterprise-wide risk management framework, continued. This was supported by significant model inventory design enhancements and a bank-wide model risk data remediation exercise. This activity improved the quality and completeness of model risk data held within the model inventory system and enabled enhanced insights and reporting capabilities.

Governance

A governance framework is in place to ensure policies and processes relating to models are appropriate and effective. Two roles are key to this – model risk owners and model validation leads. Model risk owners are responsible for model approval and ongoing performance monitoring. Model validation leads, in the second line, are responsible for oversight, including ensuring that models are independently validated prior to use and on an ongoing basis aligned to the model's risk rating.

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

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

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWB Group is willing to accept in the course of its business activities. The model risk appetite statement and associated measures are approved by the relevant legal entity board on the relevant board risk committee's recommendation at least annually to ensure they remain appropriate and aligned to strategy. Business areas are responsible for monitoring performance against appetite and remediating models outside appetite.

Monitoring and measurement

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

Policies, toolkits and model standards related to the development, validation, approval, implementation, use and ongoing monitoring of models are in place to ensure adequate control across the lifecycle of an individual model.

Validation of material models is conducted by an independent risk function comprising of skilled, well-informed subject matter experts. This is completed for new models or material amendments to existing models and as part of an ongoing periodic programme to assess model performance. The frequency of periodic validation is aligned to the risk rating of the model. The independent validation focuses on a variety of model features, including modelling approach, the nature of the assumptions used, the model's predictive ability and complexity, the data used in the model, its implementation and its compliance with regulation.

Model risk continued

The level of risk relating to an individual model is assessed through a model risk rating. A quantitative approach is used to determine the risk rating of each model, based on the model's materiality and validation rating. This approach provides the basis for model risk appetite measures and enables model risk to be robustly monitored and managed across NWB Group.

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

Mitigation

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

Reputational risk

Definition

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

Sources of risk

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

Key developments in 2023

- Reputational risks were elevated in relation to the departure of Alison Rose as NatWest Group Chief Executive Officer and issues that had arisen in connection with account closure decisions that attracted significant public and media attention. Relevant updates to the Reputational Risk Framework are being implemented following an independent legal review of customer account closures and internal reviews.
- Reputational risk registers are in place across all relevant business areas.
- New environmental, social and ethical (ESE) risk acceptance criteria were created to support the management of human rights risk and will be implemented in 2024.
- All climate focused ESE risk acceptance criteria (mining and metals, power generation and oil and gas) underwent a review to ensure they reflect the current risk landscape.

Governance

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

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

Risk appetite

NWB 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 NatWest Group Board on the NatWest Group Risk Committee's recommendation to ensure they remain appropriate and aligned to strategy.

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

Monitoring and measurement

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

Additional principal risk indicators for material risks being monitored are also reported to the 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 NWB 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 NWB Group's top and emerging threats process (where sufficiently material) as well as through the NatWest Group and business level reputational risk registers.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2023.

Other information incorporated into this report by reference can be found at:

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Stakeholder engagement and s.172(1) statement	3
Board of directors and secretary	4
Financial review	7
Segmental analysis	Note 4
Share capital and reserves	Note 22
Post balance sheet events	Note 35

NWB Group structure

National Westminster Bank Plc ('NWB Plc') is a wholly-owned subsidiary of NatWest Holdings Limited ('NWH Ltd' or 'the intermediate holding company'). NatWest Bank Group ('NWB Group') comprises NWB Plc and its subsidiary and associated undertakings. NatWest Holdings Group ('NWH Group') comprises NWH Ltd 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. NatWest Group plc is incorporated in the United Kingdom and has its registered office at 36 St Andrew Square, Edinburgh, EH2 2YB.

Details of NWB Plc's principal subsidiary undertakings and their activities are shown in Note 14 on the accounts. A full list of NWB Plc's related undertakings is shown in Note 36 on the accounts.

The financial statements of NatWest Group plc can be obtained from Legal, Governance & Regulatory Affairs, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Activities

NWB Group is engaged principally in providing a wide range of banking and other financial services.

Results and dividends

The profit attributable to the ordinary shareholders of NWB Plc for the year ended 31 December 2023 was £3,368 million compared with a profit of £3,564 million for the year ended 31 December 2022, as set out in the consolidated income statement on page 99.

No ordinary shares were issued during 2023 or 2022.

In 2023, NWB Plc paid an ordinary dividend of £1.7 billion to NWH Ltd (2022 – £3.3 billion).

Employees

At 31 December 2023, NWB Group employed 56,600 people (excluding temporary staff). Details of related costs are included in Note 3 on the consolidated accounts. NWB Plc employs the majority of NWB Group UK customer-facing staff, with costs recharged. NWB Plc also provides the majority of shared services (including technology) and operational processes under Intra-Group Agreements.

References to 'colleagues' in this report mean all permanent employees and, in some instances, members of the wider workforce e.g. temporary employees and agency workers.

Corporate governance statement

For the financial year ended 31 December 2023 NWB Plc has again chosen to report against the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), published by the Financial Reporting Council (FRC) in December 2018 and available on the FRC website. The disclosures below explain how NWB Plc has applied the Wates Principles in the context of its corporate governance arrangements.

1. Purpose and leadership

The Board reviews and sets the strategic direction of the NWH Group and, as appropriate, the strategies for each of its businesses, within the parameters set by the NatWest Group plc Board. The Board also oversees the execution of NWH Group strategy and holds executive management to account for its delivery.

Further information on NatWest Group's progress against its strategy can be found in the NatWest Group plc 2023 Annual Report and Accounts.

In December 2021 the Board approved NatWest Group's refreshed values (Inclusive, Curious, Robust, Sustainable and Ambitious), ahead of their launch in February 2022. During 2023 the Board received regular updates on how our values are embedding within the organisation through Our View colleague opinion survey results and culture measurement reports.

Colleague sentiment towards the values was also observed via the Colleague Advisory Panel meetings, which are chaired by Roisin Donnelly who reports on each meeting to the Board.

Further information on NatWest Group's values can be found in the NatWest Group plc 2023 Annual Report and Accounts on page 37.

The Board assesses and monitors culture in several ways, as described below.

- Colleague Advisory Panel reports which provided feedback on discussions from meetings held in May and November. Topics included executive remuneration and the wider workforce, environmental, social and governance topics, Consumer Duty and human rights.
- Our View colleague survey results which provided insights from the colleague opinion surveys conducted in April and September. Colleagues responded to questions across the whole colleague experience including wellbeing, building capability and leadership. The key areas identified for focus related to leadership and ensuring consistency across NatWest Group.
- Culture measurement reports which used an integrated suite of qualitative, quantitative, internal and external data sources to support NatWest Group in assessing the effectiveness and impact of its culture journey.
- One Bank Culture updates. In October, the NatWest Group Sustainable Banking Committee (SBC) considered an update on progress of the One Bank Culture Plan, noting our One Bank Culture journey to date and plans to grow leadership capability, scale and build confidence in experimentation and sharpen our focus through the transformation of performance management.
- SBC considered how business ethics is monitored and reported through the NatWest Group Culture Measurement Framework.
- Board business insights packs which included metrics to demonstrate how NatWest Group is delivering for colleagues (including building capability, diversity and inclusion and learning).

The activities described above have supported the Board in meeting the Wates Principle 1 requirement to ensure that purpose, values, strategy and culture are aligned, within the wider NatWest Group governance structure.

2. Board composition

The Board has 13 directors comprising the Chairman, two executive directors and 10 independent non-executive directors, one of whom is the Senior Independent Director.

The names of the current directors and secretary are shown on page 4. Their biographies are available at natwestgroup.com (NatWest Holdings Limited section).

The role of the Chairman is to lead the Board and ensure its overall effectiveness. This is distinct and separate from that of the CEO who manages the business day-to-day.

The Board considers that the Chairman was independent on appointment and that all the non-executive directors are independent. Non-executive director independence and individual directors' continuing contribution to NWB Plc are considered at least annually.

Balance and diversity

The Board operates a boardroom inclusion policy which reflects NatWest Group's values, its inclusion principles and relevant legal or voluntary code requirements. The boardroom inclusion policy aims to promote diversity and inclusion in the composition of the Boards and Board Committees of NatWest Group plc, NWH Ltd, NWB Plc and RBS plc and in the nominations and appointments process. A copy of the policy is available at natwestgroup.com.

The boardroom inclusion policy's objectives ensure that the Board, and any committee to which it delegates nomination responsibilities, follows an inclusive process when making nomination decisions. That includes ensuring that the nomination process is based on the principles of fairness, respect and inclusion, that all nominations and appointments are made on the basis of individual competence, skills and expertise measured against identified objective criteria and that searches for Board candidates are conducted with due regard to the benefits of diversity and inclusion.

The policy includes targets which aspire to meet those set out in the UK Listing Rules along with the recommendations of the FTSE Women Leaders Review and the Parker Review.

As at 31 December 2023:

- NWB Plc exceeded the FTSE Women Leaders Review voluntary target of 40% women's representation on boards by the end of 2025, with 42% of the Board being women;
- with a woman as CFO, NWB Plc met the FTSE Women Leaders Review recommendation that companies should have at least one woman in the Chair or Senior Independent Director roles on the board and/or one woman in the Chief Executive Officer or Finance Director role by the end of 2025; and
- the company met the recommendation of the Parker Review with at least one member of the Board being from an ethnic minority background and it intends to continue to meet that recommendation.

Changes since 1 January 2024

Rick Haythornthwaite joined the Board as an independent non-executive director on 8 January 2024. This appointment to the Board means women's representation will be 38% between 8 January and 15 April 2024. Rick will succeed Howard Davies as Chair on 15 April 2024 (at which point Howard Davies will step down as a director). After Howard steps down, women's representation on the Board will revert to 42%, assuming no other changes to Board composition. In addition, Geeta Gopalan will join the NatWest group and NWH Sub Group Boards on 1 July 2024 as an independent non-executive director.

The boardroom inclusion policy also acknowledges NatWest Group's ambition to have gender balance in the global top three levels (CEO-3 and above) by 2030, and progress against this ambition is set out on pages 38 to 39 of the NatWest Group plc 2023 Annual Report and Accounts (Strategic report).

Size and structure

NWH Ltd is the holding company for NatWest Group's ring-fenced operations, which include the Retail and Private Banking businesses and certain aspects of the Commercial & Institutional businesses. A common board structure is operated such that directors of NWH Ltd are also directors of RBS plc and NWB Plc. Known collectively as the NWH Sub Group, the boards of these three entities meet concurrently.

An integral part of NatWest Group's governance arrangements is the appointment of three double independent non-executive directors (DINEDs) to the Boards and Board committees, of the NWH Sub Group. They are Francesca Barnes, Ian Cormack and Mark Rennison. On 31 August 2023, Graham Beale stood down as NWH Senior Independent Director and a DINED. On 1 September 2023 Ian Cormack assumed the SID role and Mark Rennison joined the NWH Sub Group boards as a DINED.

The DINEDs are independent in two respects: (i) independent of management as non-executives; and (ii) independent of the rest of NatWest Group by virtue of their NWH Sub Group only directorships. They attend NatWest Group plc Board and relevant Board committee meetings as observers. The DINEDs play a critical role in NatWest Group's ring-fencing governance structure, and are responsible for exercising appropriate oversight of the independence and effectiveness of the NWH Sub Group's governance arrangements, including the ability of each board to take decisions independently.

The DINEDs also have an enhanced role in managing any conflicts which may arise between the interests of NWB Plc and other members of NatWest Group.

The governance arrangements for the Boards and Board committees of NatWest Group plc and the NWH Sub Group have been designed to enable NatWest Group plc to exercise appropriate oversight and to ensure that, as far as is reasonably practicable, the NWH Sub Group is able to take decisions independently of the wider Group.

The Board is structured to ensure that the directors provide NWB Plc with the appropriate balance of skills, experience, knowledge and diversity, as well as independence. Given the nature of NWH Group's businesses, experience of banking and financial services is clearly of benefit, and the Board has a number of directors with substantial experience in those areas.

In December 2023 the Nominations Committee, in conjunction with the NatWest Group Nominations & Governance Committee, reviewed, and the Boards approved, an updated version of the NatWest Group plc and NWH Sub Group Board skills matrix. A summary view of the NatWest Group plc Board skills matrix is available on page 90 of the NatWest Group plc 2023 Annual Report and Accounts.

The Board skills matrix reflects directors' self-assessment of the skills and experience they bring to Board discussions, in line with pre-determined criteria aligned to current and future strategic priorities.

Board committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any one individual.

The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for other directors when necessary.

Along with the Chairman and executive directors, the non-executive directors are responsible for ensuring the Board fulfils its responsibilities under its terms of reference.

The independent non-executive directors combine broad business and commercial experience with independent and objective judgement. They provide constructive challenge, strategic guidance, and specialist advice to the executive directors and the executive management team and hold management to account. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across NWH Group's business activities and ensures no one individual or small group of individuals dominates the Board's decision-making.

The Board monitors the commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively. Any additional external appointments require prior Board approval.

Each new director receives a formal induction programme on joining the Board, which is co-ordinated by the Chief Governance Officer and Company Secretary and tailored to suit the requirements of the individual concerned. This includes visits to NatWest Group's major businesses and functions and meetings with directors and senior management. Meetings with external auditors, counsel and stakeholders are also arranged as appropriate.

Mark Rennison joined the Board on 1 September 2023 and the Chief Governance Officer and Company Secretary worked closely with Mr Rennison to devise a comprehensive induction programme which was tailored to his needs and flexible to respond to areas of focus which emerged as the programme progressed. Priorities included early engagement with key stakeholders, and developing an understanding of NatWest Group's structure and business operations, and its strategic priorities.

Stuart Lewis joined the Board on 1 April 2023 and Rick Haythornthwaite joined the Board on 8 January 2024. Further information on their inductions can be found in the NatWest Group plc accounts.

All new directors receive a copy of the non-executive director handbook. The handbook operates as a consolidated governance support manual for directors of NatWest Group plc and the NWH Sub Group, providing both new and current directors with a single source of information relevant to their role. It covers a range of topics including NatWest Group's corporate structure; the Board and Board committee operating model; Board policies and processes and a range of technical guidance on relevant matters including directors' duties, conflicts of interest, and the UK Senior Managers and Certification Regime. The handbook forms part of a wider library of reference materials available via an online resources portal.

The Board is supported in its succession planning activities, including the recruitment of non-executive directors, by the Nominations Committee, which is responsible for considering and making recommendations to the Board in respect of Board appointments.

The Nominations Committee reviews the structure, size and composition of the Board, and makes recommendations to the Board in relation to any necessary changes, having regard to the overall balance of skills, knowledge, experience and diversity on the Board, the length of service of the Board as a whole; and the requirement to keep membership regularly refreshed. The Nominations Committee considers Board composition and succession planning at least annually. The NatWest Group plc Group Nominations and Governance Committee also approves all appointments to the Board, reflecting NWH Plc's position as a subsidiary within NatWest Group.

Evaluation

A review of the effectiveness of the Board, including the Chairman, individual directors and Board committees, is usually conducted annually.

Progress following the 2022 evaluation

An internal evaluation was conducted in 2022 by the Chief Governance Officer and Company Secretary. A number of actions were progressed during 2023 in response to the findings of the 2022 external evaluation.

In December 2023 the directors reviewed the progress achieved against the actions agreed following the 2022 evaluation of the effectiveness of the Board and its committees. It was agreed that all actions had been successfully completed, with improvements including a refreshed format for the strategy session, enhanced focus of Board meetings and increased opportunities for engagement with the executive talent pipeline.

Deferral of 2023 evaluation

In September 2023, the Group Nominations & Governance Committee and the NWH Ltd Nominations Committee agreed that it would be appropriate to defer the internal evaluation of the NatWest Group and NWH Sub Group Boards and committees effectiveness due in Q4 2023 until 2024, given the July 2023 change in Group CEO and upcoming Chair succession. The Board confirmed its support for this approach. Accordingly, the next Board and committee evaluation will be conducted in 2024 by an external facilitator, in accordance with the Code requirement for an externally facilitated process every three years.

Year end reviews of the Chairman's and non-executive directors' performances were undertaken in Q4 2023, in line with our normal evaluation timetable.

Directors' training and development is co-ordinated by the Chief Governance Officer and Company Secretary. Directors have access to a wide range of briefing and training sessions and other professional development opportunities.

Internal training relevant to the business of NatWest Group is also provided and during 2023 the Board undertook a comprehensive programme of training sessions on a variety of topics. Some of these were determined at the start of the year and others arranged in response to events or Board discussions. Training was delivered by both members of management and external parties.

Topics covered included financial crime; recovery and resolution planning; digital assets; nature and biodiversity (delivered by Worldwide Fund for Nature); legal privilege; Consumer Duty (delivered by Oxera); capital management and deposits. The training sessions enabled the directors to deepen their understanding on these topics and informed their decision making. A number of directors also accepted an invitation to the full Board to join meetings of the Group Sustainable Banking Committee which covered areas of broader interest, including artificial intelligence.

The Board also held a training session to consider top and emerging threats. Discussions covered the current and potential geo-political landscape, macro-economic and regulatory trends and the impact of emerging technologies on the risk environment.

Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities.

The non-executive directors discuss their training and professional development with the Chairman at least annually.

3. Director responsibilities

Accountability

All directors receive guidance on their statutory duties under the Companies Act 2006 and are supported in the discharge of their duties by the Chief Governance Officer and Company Secretary.

Each director has a role profile which clearly articulates their responsibilities and accountabilities, and any additional regulatory responsibilities and accountabilities are set out in their statement of responsibilities.

NatWest Group also produces and maintains a document called 'Our Governance' which sets out the governance, systems and controls applicable to NatWest Group plc and the NWH Sub Group. Our Governance is made available to all directors and is reviewed and approved by the Board at least annually.

The directors' conflicts of interest policy sets out procedures to ensure that the Board's management of conflicts of interest and its powers for authorising certain conflicts are operating effectively. This includes the management of conflicts that may arise during Board decisions where the interests of NWB Plc conflict with the interests of other members of NatWest Group.

Each director is required to notify the Board of any actual or potential situational or transactional conflict of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts.

Situational conflicts can be authorised by the Board in accordance with the Companies Act 2006 and the company's Articles of Association.

The Board considers each request for authorisation on a case by case basis and has the power to impose conditions or limitations on any authorisation granted as part of the process.

Details of all directors' conflicts of interest are recorded in a register which is maintained by the Chief Governance Officer and Company Secretary and reviewed annually by the Board.

The Board

The Board is the main decision-making forum for NWB Plc. The Board is collectively responsible for the long-term success of NWB Plc and the delivery of sustainable value to its shareholders. The Board's role is to provide leadership of NWB Plc and NWH Group, with particular focus on customers and employees. It sets and oversees the strategic direction of the NWH Group. It reviews and approves the NWB Plc risk management framework (including NatWest Group's risk appetite framework as a component thereof ('Risk Appetite Framework')) and risk appetite for key risks in accordance with the Risk Appetite Framework; and it monitors performance against risk appetite for NWB Plc. It considers any material risks and approves, as appropriate, recommended actions escalated by the NatWest Holdings Board Risk Committee. It approves NWB Plc's key financial objectives and keeps the capital and liquidity positions of NWB Plc under review.

The Board's terms of reference include a formal schedule of matters specifically reserved for the Board's decision and are reviewed at least annually. An internal review confirmed the Board had fulfilled its remit as set out in its terms of reference during 2023.

There were eight scheduled Board meetings during 2023. As well as scheduled meetings, additional ad hoc meetings of the Board and some of its committees were held throughout the year to receive updates and deal with time-critical matters. There was also one strategy session with executive management in 2023.

When directors are unable to attend meetings convened at short notice, they receive the papers and have the opportunity to provide their feedback in advance.

At each scheduled Board meeting the directors receive reports from the Chairman, Board committee Chairs, CEO, CFO, Chief Risk Officer and other members of the executive management team, as appropriate. Business reviews from the CEOs of the Retail Banking, Private Banking and Commercial & Institutional businesses included updates on progress against strategy and spotlights on current topics including the cost of living, personalisation of services, business strategies and deposit plans.

In addition to the business CEOs, a number of other senior executives attended Board meetings throughout the year to present reports to the Board. This provided the Board with an opportunity to engage directly with management on key issues and supported succession planning.

The Board also welcomed external presenters and advisers to Board meetings, who provided useful insights and perspectives. The Board and Group Executive Committee (ExCo) operating rhythm continues to support a proactive and transparent agenda planning and paper preparation process. This process includes the following elements:

- A pre-Board meeting with the Chairman, CEO, CFO and Chief Governance Officer and Company Secretary to ensure the Board and executive management are aligned on Board agendas.
- A post-Board meeting with the Chairman, CEO and Chief Governance Officer and Company Secretary to discuss what went well or could be improved after each meeting.
- A look ahead paper at each ExCo and Board meeting setting out key items that will be discussed at the next meeting.

Board Committees

The Board has established a number of Board committees with particular responsibilities. The Audit, Risk, Performance & Remuneration, and Nominations Committees of NWH Ltd operate as committees of each of NWH Ltd, NWB Plc and RBS plc, with meetings running concurrently.

The Audit Committee comprises at least three independent non-executive directors, one of whom is the Board Risk Committee Chair and two of whom are DINEDs. The committee assists the Board in discharging its responsibilities in relation to the disclosure of financial affairs. It also reviews accounting and financial reporting, non-financial reporting and regulatory compliance practices of NWB Plc, NWB Plc's system of standards of internal controls, and monitors NWB Plc's processes for internal audit and external audit.

The Board Risk Committee comprises at least four independent non-executive directors, one of whom is the Chairman of the Audit Committee and two of whom are DINEDs. It provides oversight and advice to the Board in relation to current and potential future risk exposures, future risk profile, and the approval and effectiveness of NWB Plc's Risk Management Framework and (in conjunction with the Audit Committee) internal controls required to manage risk.

The Performance and Remuneration Committee (RemCo) comprises at least four independent non-executive directors, two of whom are DINEDs. It assists the NatWest Group plc Performance and Remuneration Committee with the oversight and implementation of NatWest Group's remuneration policy and also considers and makes recommendations on remuneration arrangements for senior executives of NWB Plc.

The Nominations Committee comprises the Chairman, Senior Independent Director and at least three further independent non-executive directors. It is responsible for assisting the Board in the formal selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board Committees.

Executive Committee

The Executive Committee comprises NWB Plc's most senior executives and supports the CEO to discharge his individual accountabilities including matters relating to strategy, financials, risk, customer and operational issues and culture and values.

Integrity of information

All directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Chief Governance Officer and Company Secretary. In addition, all directors are able, if necessary, to obtain independent professional advice at NWB Plc's expense.

4. Opportunity and risk

The role of the Board is to promote the long-term sustainable success of NWB Plc.

The Board held one strategy session with the executive management team in 2023. Within the context of a wider discussion at NatWest Group level, this provided an opportunity for the Board to assess opportunities and risks to the future success of the business, the sustainability of the business model and how its governance contributes to the delivery of its strategy.

The Board reviews the effectiveness of the risk management and internal control systems – including the nature and extent of the risks taken in pursuit of strategic objectives. The Board also reviews and approves risk appetite for NWB Plc's principal risks in accordance with the NatWest Group risk appetite framework; monitors performance against risk appetite for NWB Plc; and considers any material risks and approves, as appropriate, recommended actions escalated by the Board Risk Committee.

NWB Plc's risk strategy is informed and shaped by an understanding of the risk landscape including the principal risks it takes in carrying out business activities as well as the risks and uncertainties arising from the external economic, political and regulatory environments.

NWB Plc operates within NatWest Group's integrated enterprise-wide risk management framework. This is centred around the embedding of a strong risk culture and is designed to ensure the tools and capability are in place to facilitate sound risk management and decision-making. As part of the enterprise-wide framework NWB Plc complies with NatWest Group's risk appetite framework, which is approved annually by the NatWest Group plc Board. NatWest Group's risk appetite is set in line with overall strategy. NWB Plc also complies with the NatWest Group policy framework. The purpose of the policy framework is to ensure that NatWest Group establishes and maintains policies that adequately address the risks inherent in its business activities.

Further information on NatWest Group's integrated enterprise-wide risk management framework including risk culture, risk appetite, risk identification, risk measurement and risk mitigation, as well as NWB Plc risk governance, can be found in the risk and capital management section of this report (pages 10 to 77).

5. Remuneration

The NatWest Group remuneration policy provides a consistent policy across all NatWest Group companies and ensures compliance with regulatory requirements. The remuneration policy is aligned with the business strategy, objectives, values and long-term interests of NWB Plc. The policy supports a culture where individuals are rewarded for delivering sustained performance in line with risk appetite and for demonstrating the right conduct and behaviours.

The RemCo reviews remuneration for executives of NWB Plc and considers reports on the wider workforce including annual pay outcomes and diversity information. The RemCo helps to ensure that the remuneration policies, procedures and practices being applied are appropriate for NWB Plc.

Executive remuneration structures incentivise individuals to deliver sustainable performance based on strategic objectives for NatWest Group and the relevant business area. Performance is assessed against a balanced scorecard of financial and non-financial measures and variable pay is subject to deferral as well as malus and clawback provisions to ensure rewards are justified in the long-term.

The approach to performance management provides clarity for colleagues on how their contribution links to NatWest Group's purpose and colleagues are set goals across a balanced scorecard of measures. NatWest Group continues to pay colleagues fairly for the work they do, supported by simple and transparent pay structures in line with industry best practices. NatWest Group keeps policies and processes under review to ensure it does so.

This clarity and certainty on how pay is delivered helps to improve colleagues' financial wellbeing, which is a core priority in NatWest Group's wellbeing plans. Following on from the extensive support provided in 2022 to help our colleagues with the cost of living, NatWest Group continued targeted action in 2023 to help those colleagues most likely to be affected by the sudden spike in inflation. As a responsible employer we believe it

is important that what we pay our employees meets the true cost of living, and we are proud to be accredited as a Living Wage Employer in the UK since 2014. Our rates of pay continue to exceed the real living wage (RLW) rates as set by the Living Wage Foundation. In 2023, we extended this commitment to our global operations by achieving accreditation as a Regional Living Wage Employer by the Fair Wage Network, recognising that our rates of pay for our colleagues outside the UK are at or above the living wage threshold as defined by the Fair Wage Network.

NatWest Group helps colleagues to have an awareness of the financial and economic factors affecting its performance through quarterly 'Results Explained' communications and Workplace Live events with the Group CEO and Group CFO.

Further information on the remuneration policy, pay ratios and employee share plans can be found in the Directors' remuneration report of the NatWest Group plc 2023 Annual Report and Accounts. Gender and Ethnicity Pay Gap information can be found in the Strategic report section of the NatWest Group plc 2023 Annual Report and Accounts and at natwestgroup.com, along with the steps being taken to build an inclusive and engaged workforce.

6. Stakeholder relationships and engagement

In February 2023 the Board approved its annual objectives and confirmed the Board's key stakeholder groups –investors, customers, colleagues, regulators, communities and suppliers. The Board's agenda and engagement plans were structured to enhance the Board's understanding of these stakeholders' views and interests. This in turn has informed Board discussions and decision-making.

For further information on stakeholder engagement activities undertaken within NatWest Group which impacted NWH Group, refer to pages 24 to 29 and pages 101 to 102 of the NatWest Group plc 2023 Annual Report and Accounts, and below under Additional colleague-related disclosures (workforce engagement including the Colleague Advisory Panel).

Engagement with Colleagues, Suppliers, Customers and Others

For further details on the Board's engagement with colleagues, customers, suppliers and others, and how these stakeholders' interests have influenced Board discussions and principal decisions, refer to page 3 of the Strategic report which includes a section 172(1) statement and signposts to further information contained in the NatWest Group plc 2023 Annual Report and Accounts.

Additional colleague-related disclosures

Informing and consulting colleagues

NatWest Group listens to our colleagues and uses this insight to attract, engage and retain the best talent for the future. Our colleague listening strategy contributes to our deeper understanding of colleague sentiment and includes: our colleague opinion surveys including pulse surveys; a Colleague Advisory Panel (CAP) that connects colleagues directly with our Board; the Colleague Experience Squad, a group of colleagues who volunteer to provide feedback on colleague products and services; and Engage, our social media platform. We also track metrics and key performance indicators which we can benchmark with sector and high-performing comparisons.

Over 51,000 colleagues (84%) across all countries and levels participated in our September 2023 Our View survey. At 84%, this is our highest ever participation rate. Despite tough economic conditions and the events of the summer, our results remain strong showing an average +1 percentage point improvement across the survey compared to September 2022. While purposeful leadership fell marginally, our culture and purpose measures have improved, exceeding NatWest Group targets. Across all comparable categories, NatWest Group sits an average of eight percentage points above the Global Financial Services norm (GFSN) and three percentage points above the Global High Performing Norm (GHPN).

Regular interactions with employee representatives such as trade unions, elected employee bodies and works councils are a vital means of transparency and engagement for NatWest Group. These sessions are frequently used to discuss developments and updates on the progress of strategic priorities. NatWest Group is also committed to respecting employees' rights of freedom of association across all of its business.

In addition, through the CAP established in 2018, colleagues can engage directly with senior management and the Board on topics which are important to them, thereby strengthening the voice of colleagues in the Boardroom. The CAP is made up of 28 colleagues who are self-nominated and are representative of the bank's population e.g., business area, level, location, working pattern and employee-led networks. In April 2023 Roisin Donnelly succeeded Mike Rogers as CAP Chair when Mike Rogers stepped down as a director. New members received training on the role of the CAP and their responsibilities as members.

The CAP met with representatives from the Board twice in 2023, in May and November. Panel members and directors shared views on executive remuneration and the wider workforce, environmental social and governance topics, Consumer Duty and human rights. The Board discusses colleague feedback received from the CAP and the CAP Chair provides feedback on this discussion to the Panel to ensure a continuous feedback loop.

The CAP continues to be highly regarded by those who attend and has proven to be an effective way of establishing two-way dialogue between colleagues and Board members.

Disability Smart

NatWest Group makes workplace adjustments to support colleagues with a disability, health or mental health condition and/or a neurodivergence to succeed. If a colleague develops a disability, health or mental health condition and/or a neurodivergence NatWest Group will, wherever possible, make adjustments to support them in their existing job or re-deploy them to a more suitable alternative job.

The NatWest Group Careers site gives comprehensive insights into NatWest Group jobs, culture, locations and application processes. It also hosts a variety of blog content to portray stories of what it is like to work at NatWest Group. The company also makes sure that candidates can easily request reasonable adjustments to support at any stage of the recruitment process.

Internal control over financial reporting

The internal controls over financial reporting for NWB Group are consistent with those at NatWest Group level. NWB Group has designed and assessed the effectiveness of its internal control over financial reporting as of 31 December 2023 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 publication of 'Internal Control – Integrated Framework'. Any deficiencies identified are reported to NWB Plc's Audit Committee along with management's remediation plans.

NatWest Group's auditors have audited the effectiveness of NatWest Group's internal control over financial reporting and have given an unqualified opinion.

Directors' interests

Where directors of NWB Plc are also directors of NatWest Group plc, their interests in the shares of the ultimate holding company at 31 December 2023 are shown in the Corporate governance, Annual report on remuneration section of the NatWest Group plc 2023 Annual Report and Accounts. None of the directors held an interest in the loan capital of the ultimate holding company or in the shares or loan capital of NWB Plc or any of its subsidiaries, during the period from 1 January 2022 to 17 February 2023.

Directors' indemnities

In terms of section 236 of the Companies Act 2006 (the 'Companies Act'), Qualifying Third Party Indemnity Provisions have been issued by the ultimate holding company to its directors, members of NWB Plc's Executive Committee, individuals authorised by the PRA/FCA and certain directors and/or officers of NatWest Group's subsidiaries and trustees of NatWest Group's pension scheme.

Going concern

NWB Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed, and its capital are discussed in the Business review. NWB Group's regulatory capital resources and significant developments in 2023, and anticipated future developments are detailed in the Capital, liquidity and funding section on pages 59 to 66. This section also describes NWB Group's funding and liquidity profile, including changes in key metrics and the build-up of liquidity reserves.

The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved.

Political donations

During 2023, no political donations were made in the UK or EU, nor any political expenditure incurred in the UK or EU.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which NWB Plc's auditors are unaware; and

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors

Ernst & Young LLP (EY LLP) are NWB Plc's auditors and have indicated their willingness to continue in office. A resolution to re-appoint EY LLP as NWB Plc's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jan Cargill
Chief Governance Officer and Company Secretary
15 February 2024

National Westminster Bank Plc is registered in England No. 929027

Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on pages 87 to 98.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required to prepare Group financial statements, and as permitted by the Companies Act 2006 have elected to prepare company financial statements, for each financial year in accordance with UK adopted International Accounting Standards. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of NWB Group and NWB Plc. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company and Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of NWB Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of NWB Plc and NWB Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report and Directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with UK adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (incorporating the Financial review) includes a fair review of the development and performance of the business and the position of the Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Howard Davies
Chairman

John-Paul Thwaite
Chief Executive Officer

Katie Murray
Chief Financial Officer

15 February 2024

Board of directors

Chairman

Howard Davies

Executive directors

John-Paul Thwaite
Katie Murray

Non-executive directors

Francesca Barnes
Ian Cormack
Roisin Donnelly
Patrick Flynn
Rick Haythornthwaite
Yasmin Jetha
Stuart Lewis
Mark Rennison
Mark Seligman
Lena Wilson

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Independent auditors' report to the members of National Westminster Bank Plc

Opinion

In our opinion:

- the financial statements of National Westminster Bank Plc's (the Bank) and its subsidiaries (together the Group) give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards (IAS);
- the Bank financial statements have been properly prepared in accordance with UK adopted IAS as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (refer to the table below) of the Bank and the Group for the year ended 31 December 2023 which comprise:

Group	Bank
– Consolidated balance sheet as at 31 December 2023; – Consolidated income statement for the year then ended; – Consolidated statement of comprehensive income for the year then ended; – Consolidated statement of changes in equity for the year then ended; – Consolidated cash flow statement for the year then ended; – Accounting policies; – Related Notes 1 to 36 to the financial statements; and – Risk and capital management section of the Strategic report identified as 'audited'	– Balance sheet as at 31 December 2023; – Statement of changes in equity for the year then ended; – Cash flow statement for the year then ended; – Accounting policies; and – Related Notes 5, 7 – 30 and 33 to the financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted IAS, and as regards to the group financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and the Bank's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's going concern assessment process and engaged with management early to ensure all key factors were considered in their assessment;
- We evaluated management's going concern assessment which included assessing their evaluation of long-term business and strategic plans, capital adequacy, liquidity, and funding positions. Management also assessed these positions considering internal stress tests which included consideration of principal and emerging risks. The Group's risk profile and risk management practices were considered including credit risk, market risk, compliance and conduct risk, climate risk and operational risk;
- With the involvement of specialists, we evaluated management's assessment by considering the Group's ability to continue in operation and meets its liabilities under different scenarios including the impact of the Group's strategic plans, and the current uncertain geopolitical and economic outlook;
- Considered the results of the Group's stress testing; and
- We reviewed the Group's going concern disclosures included in the annual report for conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Bank's ability to continue as a going concern over the twelve months from the date when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and the Bank's ability to continue as a going concern.

An overview of the scope of the Bank and group audits

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the four reporting components of the Group, we selected three components based on size and risk, which represent the principal reporting legal entities within the Group.

The scoping for the current year is as follows:

Component	Scope	Key locations
Retail Banking	Full	United Kingdom
Commercial & Institutional	Full	United Kingdom
Private Banking	Specific	United Kingdom

The table below illustrates the coverage obtained from the work performed by our audit teams. We considered total assets, total equity and total income to verify we had appropriate overall coverage.

	Full scope (1)	Specific scope (2)	Other procedures (3)	Total
Total assets	87%	13%	0%	100%
Total equity	85%	15%	0%	100%
Total income	93%	7%	0%	100%

(1) Full scope: audit procedures on all significant accounts.

(2) Specific scope: audit procedures on selected accounts.

(3) Other procedures: considered in analytical procedures and specified procedures, as appropriate.

The audit scope of the specific scope component may not have included testing of all significant accounts within the component. However, the testing will have contributed to the total coverage of significant accounts tested for the overall Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit engagement team interacted regularly with the component audit teams where appropriate throughout the course of the audit, which included holding planning meetings, maintaining regular communications on the status of the audits, reviewing key working papers and taking responsibility for the scope and direction of the audit process. The primary audit team continued to follow a programme of oversight that has been designed to ensure that the Senior Statutory Auditor, or another Group audit partner, has ongoing interactions with all in scope and locations, including those outside the United Kingdom. The primary team interacted regularly with the component teams and maintained a continuous and open dialogue with component teams, as well as holding formal closing meetings quarterly, to ensure that the primary team were fully aware of their progress and results of their procedures. The primary team also reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on its operations will be from credit risk, operational risk and reputational risk. These are explained in the Climate Risk section within Risk and Capital Management in the Strategic Report, which forms part of the "Other information", rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the Accounting Policy note how they have reflected the impact of climate change in their financial statements, and the significant judgements and estimates relating to climate change. The Group notes that many of the impacts 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 under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating the Group's assessment of the impact of climate risk, their climate commitments and the significant judgements and estimates disclosed in the Accounting Policies, and whether these have been appropriately reflected in the asset values where these are impacted by future cash flows, and in the timing and nature of liabilities recognised following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change and economic specialists, to determine the risk of material misstatement in the financial statements from climate change which needed to be considered in our audit. We also evaluated the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work, whilst we have not identified the impact of climate change on the financial statements to be a standalone key audit matter, we have considered the impact within the key audit matter for Expected Credit Loss provisions and Recognition of deferred tax assets, impairment of goodwill and, in the Bank's accounts, investments in group undertakings. Details of our procedures and findings are included in our explanation of key audit matters below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Expected credit loss provisions At 31 December 2023 the Group reported total gross loans – amortised cost and FVOCI of £326.7 billion (2022 –£311.9 billion) and £2.9 billion of expected credit losses (ECL) (2022 – £2.6 billion). Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. These include the impacts of continuing uncertain geopolitical and economic outlook, higher for longer interest rate environment, a protracted period of inflation that is above the policy target, refinance risks, stresses on recoverable values, and potential impacts of climate change, which were all considered in our risk assessment. Aspects with increased complexity and judgements in respect of the timing and measurement of ECL include: – Staging – Timely allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9. – Models and model assumptions – Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL. There is also increasing complexity in assessing the adequacy of model performance in the protracted period of inflation and elevated interest rates, since the historic data used to build these models is not reflective of the economic environment in 2023. – Economic scenarios – Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios particularly those influenced by the continuing uncertain geopolitical and economic outlook, higher for longer interest rates and protracted peak of inflation, including any changes to scenarios required through 31 December 2023. – Post-model adjustments – Appropriateness, completeness and valuation of post-model adjustments which represent approximately 13% of total ECL (2022: 12%), including adjustments required to address the limitation of models to adequately incorporate the risks of inflation, elevated interest rates, and other geopolitical and economic uncertainties, and the identification of vulnerable customers with higher risks of defaults than currently reflected; and – Individual provisions – Measurement of individual provisions including the assessment of multiple scenarios and probability weights, the impact of the current uncertain geopolitical and economic outlook on exit or recovery strategies, collateral valuations, and time to collect.	Controls testing – We evaluated the design and operating effectiveness of controls over the ECL process, including those over management's judgements and estimates. These controls, among others, covered: – the staging of assets per the criteria, and management's monitoring of stage effectiveness – model governance including monitoring and model validation – data accuracy and completeness – credit monitoring – multiple economic scenarios – the governance and management review of post-model adjustments; and – individual provisions. In evaluating the governance process, we observed the executive finance and risk committee meetings where the inputs, assumptions, and adjustments to the ECL were discussed and approved, among other procedures. Overall assessment – We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the credit quality and composition of the Group's portfolios, risk profile, impact of the current uncertain geopolitical and economic outlook and climate change on the Group's customers. We performed peer benchmarking where available to assess overall staging and provision coverage levels. We also performed sensitivity analysis to assess the impact of changing selected key assumptions on the ECL provision. Staging – We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We recalculated the staging of the complete population of assets based on management's criteria, and performed sensitivity analysis to assess the impact of different criteria on the ECL and considered the impact of performing collective staging downgrades to industries, geographic regions and high risk population particularly impacted by recent economic conditions and climate change. To test credit monitoring which drives the probability of default estimates used in the staging calculation, we recalculated the risk ratings for a sample of performing loans and focused our testing on high-risk industries, such as commercial real estate, automotive, retail and leisure. Models and model assumptions – We selected a sample of models based on a both quantitative and qualitative factors. We involved EY modelling specialists to test the assumptions, inputs, methodology and model build. This included a combination of assessing model design and formulae, alternative modelling techniques, recalculating the PD, LGD and EAD, and implementation of new models during the year. We also considered the results of the Group's internal model monitoring and validation results. We performed an assessment of the extent to which model methodologies developed using historic experience were able to respond to the current economic conditions, and where we identified model limitations, we tested the extent to which these effects have been appropriately captured in Post Model Adjustments. To evaluate data quality, we agreed a sample of data points to source systems, including data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures. Economic scenarios – We involved EY economic specialists to assist us in evaluating the base case and alternative economic scenarios, including evaluating probability weights. This assessment included the impacts of the current geopolitical and economic environment, as well as the impacts of climate change on the economic variables. We assessed whether forecasted macroeconomic variables such as GDP, unemployment rate, Consumer Price Index, UK Stock Price Index, Bank of England base rates and the House Price Index were appropriate. With the support of our credit modelling specialists, we evaluated the correlation and translation of the macroeconomic factors, including the impacts of alternative paths or weights to ECL.

Risk	Our response to the risk
Expected credit loss provisions continued	Post-Model Adjustments - We have evaluated and tested the appropriateness, adequacy and completeness of the Post Model Adjustments (PMAs) held at year end. This included challenging management's identification of retail customers vulnerable to price and rate increases, commercial sub-sectors susceptible to inflation and liquidity challenges, loss given default assumptions, and time to collect. We have also challenged the appropriateness of PMAs remaining from previous years related to matters such as COVID-19, by checking the latest default trends in those cohorts. We also assessed all the PMAs against the risk of double counting of either certain portfolios/customers or identified risks. With our modelling and economic specialists, we assessed the risk of bias and the completeness of these adjustments by considering the data, judgements, methodology, sensitivities, and governance of these adjustments as well as considering model shortcomings. Individual provisions - We recalculated and challenged the scenarios, assumptions, and cash flows for a sample of individual provisions including the alternative scenarios and evaluating probability weights assigned, involving EY valuation specialists where appropriate. The samples considered higher risk sectors identified with reference to external sources, such as commercial real estate, manufacturing, automotive, health, retail, and leisure. We considered the impact of the current geopolitical and economic outlook and climate change had on collateral valuations and time to collect as well as whether planned exit strategies remained viable.
Key observations communicated to the NatWest Holdings (NWH) Group Audit Committee ⁽¹⁾	
We are satisfied that provisions for the impairment of loans were reasonable and recognised in accordance with IFRS 9. We highlighted the following matters to the Group Audit Committee that contributed to our overall conclusion:	
- Effectiveness of the overall control environment, including the compensating controls identified by management, where deficiencies were identified. - Results of our testing of models and model assumptions, including the reasonableness of the macroeconomic variables used. - The accuracy of staging, including considering management override, and our independent sensitivity analysis on the staging criteria to assess appropriateness. - Reasonableness and adequacy of the post-model adjustments recorded to reflect risk in the portfolios. - For individually assessed impairments, the overall reasonableness of the provisions, including assumptions applied.	
Relevant references in the Annual Report and Accounts	
Credit Risk section of the Risk and capital management section Accounting policies Note 13 to the financial statements	

(1) NWH Audit Committee covers the ring-fenced bank legal entities of NatWest Group, including the Group.

Risk	Our response to the risk
Provisions for customer redress, litigation and other regulatory matters At 31 December 2023, the Group has reported £0.5 billion (2022 - £0.6 billion) of provisions for liabilities and charges, including £0.2 billion (2022 - £0.3 billion) for customer redress, litigation and other regulatory matters as detailed in Note 21 of the financial statements. The Group operates in an industry where it is subject to regulatory scrutiny and investigations, litigation and customer remediation. Significant management judgement is required when accounting for provisions and contingent liabilities, including: – Determining whether a present obligation exists and therefore whether a provision should be recorded and subsequently measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as at 31 December 2023. – Estimating the probability and amount of any outflow of resources embodying economic benefits, including through the selection and use of assumptions in the provision. – Assessing the adequacy of disclosures.	
Key observations communicated to the NWH Group Audit Committee Based on the procedures performed and evidence obtained, we are satisfied that provisions for liabilities and charges were reasonable and recognised in accordance with IFRS. We highlighted the following matters to the Group Audit Committee that contributed to our overall conclusion: – Effectiveness of the overall control environment over the Group's process for concluding whether a provision or disclosure should be recorded and how such matters are measured. – Reasonableness of the methodologies, judgements and assumptions used by management to conclude upon the recognition of the related balances. – The fact that we did not identify any material unrecorded provisions or disclosures.	
Relevant references in the Annual Report and Accounts	
Accounting policies	
Note 21 and 26 to the financial statements	

Controls testing: We tested the design and operating effectiveness of the Group's controls over the identification, completeness, estimation and monitoring of provisions and disclosures. Our procedures included testing management's controls to determine whether a provision is required and the completeness and accuracy of data used in the process.

Provision assessment: We assessed the risks facing the Group, including the status of any investigations and implications of these on the Group's provisions. We tested management's assessment of the potential outcomes, including the evaluation of assumptions and completeness of the data considered in making these assessments. Where no provision was booked by management, we critically challenged this conclusion with reference to the requirements of IAS 37. Where relevant we undertook this assessment with the input of our specialists, including conduct specialists.

Inquiry of legal counsel: We conducted inquiries with internal legal counsel and where relevant, obtained, and reviewed reports from external counsel to evaluate the existence of the obligation and / or management's estimate of the outflow at year-end.

Examination of regulatory and legal correspondence: We examined the relevant regulatory and legal correspondence to assess factual developments. We also considered regulatory developments to identify actual or possible non-compliance with laws and regulations that might have a material effect on the financial statements.

Disclosure: We evaluated whether the disclosures provided in the financial statements fairly reflect the facts and key sources of uncertainty.

Risk	Our response to the risk
Impairment of investments in group undertakings and recognition of deferred tax assets in the Bank's financial statements	
At 31 December 2023, the Group has reported net deferred tax assets of £0.9 billion (2022 - £1.1 billion) and investments in group undertakings of £2.6 billion (2022 - £2.0 billion). Management have assessed whether sufficient taxable profits will be generated in future years to recover any deferred tax assets recognised and concluded that net deferred tax assets recognised on the balance sheet are recoverable. Management reviewed investments in subsidiaries of the Bank, as at 31 December 2023, for indicators of impairment or that impairment charges recognised in prior periods should be reversed in accordance with IAS 36. Where indicators have been identified, management assess any asset impairment based upon value in use. As a result of the assessment management concluded that in the Bank's accounts the carrying amount investments in group undertakings is recoverable. These estimates are based on the five-year revenue and cost forecasts, which are more susceptible to management override due to the following inherent uncertainties involved determining the forecast: – Profitability estimates, including costs, ECL and the impact of climate within business planning. – Macro-economic assumptions; and – Capital forecasts.	Controls testing: We evaluated the design and operating effectiveness of controls over the key judgemental inputs (macro-economic assumptions including interest rates, business forecasts and capital). In addition, we have assessed the controls over the methodology, models and methods utilised in the value in use and deferred tax assets assessment. We have also performed test of details to evaluate the recoverability of DTA and Investments in group undertakings through: Assumption and model testing: - Tested mathematical accuracy of the models and calculations utilised in the value in use and DTA processes. - Challenged the reasonableness and achievability of management forecasts from a combination of historical performance, benchmarking with external data and evaluating underlying business strategies. - Engaged specialists to evaluate the appropriateness of significant assumptions (macroeconomic and modelling assumptions). - Engaged taxation specialists to assess the deferred tax model including an assessment of the time horizon used for the recoverability of losses and other temporary differences. Disclosure: - We challenged and verified the adequacy of the information disclosed in the consolidated (and for investment in subsidiaries, in the Bank's annual accounts in accordance with applicable standards and regulations).
Key observations communicated to the NWH Group Audit Committee	
We are satisfied that the carrying value of deferred tax assets and, in the Bank's accounts, investments in group undertakings, were reasonable and recognised in accordance with IFRS. We highlighted the following matters to the NWH Group Audit Committee that contributed to our overall conclusion: – Effectiveness of the overall control environment, including management's identification of compensating controls where deficiencies were identified; – Reasonableness of the methodologies, judgments and assumptions used by management to conclude upon the recognition of the related balances; – Management's approach to estimating the recoverable amounts for the subsidiaries of the Group is reasonable; and – Appropriateness of the disclosures in relation deferred tax assets and in the Bank's accounts, investments in group undertakings.	
Relevant references in the Annual Report and Accounts	
Accounting policies Note 7 and Note 14 to the financial statements	

Risk	Our response to the risk
Pension valuation and net pension balance The Group operates a number of defined benefit schemes which in aggregate are significant in the context of the overall balance sheet. At 31 December 2023, the Group reported a net pension liability of £32 million (2022 - £28 million) comprising £5 million of schemes in surplus and £37 million of schemes in deficit (2022 - £7 million and £35 million respectively). The net pension balance is sensitive to changes in the key judgements and estimates, including the effects of the current uncertain geopolitical and economic outlook and associated market volatility, which include: – Assumptions - Actuarial assumptions and inputs including discount rate, inflation, pension payment and longevity to determine the valuation of retirement benefit liabilities; – Valuations - Pricing inputs and calibrations for illiquid or complex model-dependent valuations of certain investments held by the schemes; – Funding - the pension schemes have adequate liquidity to cover for any shortfall in derivative asset prices as a result of current economic conditions; and – Augmentation cap - Quantification of trustees' rights to unilaterally augment benefits (Augmentation cap) to determine the recognition of surplus.	Controls testing - We evaluated the design and operating effectiveness of controls over the defined benefit obligation process including the setting of actuarial assumptions, the data inputs used in the actuarial calculation and the measurement of the fair value of the schemes' assets. Assumptions - We involved our actuarial specialists to evaluate the actuarial assumptions used to calculate the defined benefit obligation by comparing them to ranges independently developed from third party sources and market practice. We assessed the impact on pension liabilities due to changes in financial, demographic and longevity assumptions over the year, and whether these were supported by objective external evidence and rationales, including the effects of current uncertain geopolitical and economic outlook, including market volatility. Valuations - We tested the fair value of scheme assets by independently calculating the fair value for a sample of the assets held. Our sample included cash, equity and debt instruments, derivative financial instruments, and illiquid assets. We involved our valuation specialists to assess the appropriateness of management's valuation methodology including the judgements made in determining significant assumptions used in the valuation of complex and illiquid pension assets, including the effects of current uncertain geopolitical and economic outlook, including market volatility. We independently re-priced illiquid and complex assets that had been valued using unobservable market inputs, using alternative pricing sources where available, to evaluate management's valuations. Funding - We assessed whether the pension schemes have adequate funding to cover for any shortfall in derivative asset prices given the current economic conditions. Augmentation cap and equalisation adjustments - We involved our actuarial specialists to assess the estimation of the Augmentation cap including the inputs used in the calculation. We also assessed the methodology and judgements made in calculating these estimates and the associated accounting treatment in accordance with IAS 19 and IFRIC 14. Disclosure - We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions, sensitivities and disclosures over investment strategy and risk management.
Key observations communicated to the NWH Group Audit Committee	
We are satisfied that the valuation and disclosure of the net pension balance are reasonable and in accordance with IFRS. We highlighted the following matters to the Group Audit Committee:	
– Our benchmarking of key actuarial assumptions including the discount rate, inflation, longevity and pension payments concluded that assumptions were within a reasonable range. – No material differences were identified through our independent valuation testing for a sample of pension assets; and – Management's estimate of the impact of the augmentation cap was reasonable and the methodology consistent with IAS 19 and IFRIC 14	
Relevant references in the Annual Report and Accounts	
Accounting policies Note 5 to the financial statements	

Risk	Our response to the risk
IT access management	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily, with extensive reliance on automated controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the growing dependency on third parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data. The Group has implemented user access management controls across IT applications, databases and operating systems. We have identified user access-related deficiencies in the past and similar thematic issues have been noted in the current year, and thus the risk of inappropriate access remains.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. We tested user access by assessing the controls in place for in-scope applications, in particular testing the addition and periodic recertification of users' access. We continue to focus on key controls enforced by the Group's user access management tools, including ensuring the completeness of user data, automated identification of movers and leavers and the adequacy of the overall control environment in addressing access-related IT risks to financial reporting. There have been no significant changes in the suite of access management controls operated by the Group in the current year. For systems outsourced to third party service providers, we tested IT general controls through evaluating the relevant Service Organisation Controls ("SOC") reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they addressed relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available, we identified and reviewed compensating business controls to address risks to financial reporting. Several systems have been migrated to a cloud-hosted infrastructure model, however access management processes and controls remained in-house, and they formed part of our testing. Where control deficiencies were identified, we tested remediation activities performed by management and/or compensating controls in place and assessed the impact, of any residual risk over financial statement reporting. We also performed a further aggregation analysis of access management deficiencies identified by EY, management, and Internal Audit to consider the pervasiveness of findings identified, and the impact on our overall approach to access management testing. We noted that no further changes to our approach were required.
Key observations communicated to the NWH Group Audit Committee	
Based on our testing procedures, including validating management's remediation activities, and testing of compensating controls, we are satisfied that reliance can be placed upon IT controls impacting material financial reporting systems. The following matters were reported to the NWH Group Audit Committee: - IT control deficiencies were identified in relation to privileged access management. These deficiencies in the audit period resulted in an increased risk in relation to data, reports and automated system functionality within the impacted systems. - However, overall, in combination with compensating controls, we are satisfied that the Group's overall IT control environment appropriately supports the financial reporting process. - While improvements have been made to further standardise IT access management processes and controls, there are still IT applications relevant to financial reporting which make use of bespoke tools and/or processes to perform access-related controls. Control deficiencies continued to be observed in these areas, which led to an increase in the overall number of reported IT control deficiencies requiring remediation by management.	

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £246 million (2022 -£267 million), which is 5% (2022 - 5%) of profit before tax of the Group of £4,789 million (2022 - £5,114 million) adjusted for non-recurring conduct and litigation costs. We believe removing these non-recurring charges reflects the most useful measure for users of the financial statements and is consistent with the prior year. The 5% basis used for Group materiality is consistent with the wider industry and is the standard for listed and regulated entities.

We determined materiality for the Bank to be £181 million (2022 - £182 million) which is 0.8% (2022 - 1%) of equity of the Bank. We believe this reflects the most useful measure for users of the financial statements as the Bank's primary purpose is to act as a holding company with investments in the Group's subsidiaries, not to generate operating profits and therefore a profit-based measure is not relevant.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022 -75%) of our planning materiality, namely £185 million (2022 -£200 million).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £102 million to £162 million (2022 -£46 million to £133 million).

Reporting threshold

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

We agreed with the NWH Group Audit Committee that we would report to them all uncorrected audit differences in excess of £12 million (2022 - £13 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts, including the Strategic report, Report of the directors, Statement of directors' responsibilities, Risk Factors, and Forward-looking statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA); and Companies Act 2006.
- We understood how the Group is complying with those frameworks by making inquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and banking regulatory bodies in relevant jurisdictions; reviewed minutes of the Board and Risk Committees; and gained an understanding of the Group's governance framework.
- Conducted a review of correspondence with and reports from the banking regulators in relevant jurisdictions, including the PRA and the FCA.
- Carried out an assessment of matters reported on the group's whistleblowing programmes where these related to the financial statements.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls established to address risks identified to prevent or detect fraud. We also assessed the risks of fraud in our key audit matters. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgments made in determining these estimates.
- We designed our audit procedures to identify non-compliance with laws and regulations. Our procedures involved inquiries of legal counsel, executive management, internal audit and reading reports of reviews performed by external legal counsel. We also tested controls and performed procedures to respond to any financial statement impacts of non-compliance with laws and regulations through our work in response to the Provisions for customer redress, litigation and other regulatory matters, key audit matter. These procedures were performed by both the primary team and component teams with oversight from the primary team.
- Identified and tested journal entries, including those posted with certain descriptions or unusual characteristics, backdated journals or posted by infrequent and unexpected users.
- The Group operates in the banking industry which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, involving specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the NWH Group Audit Committee we were appointed by the Group at its annual general meeting on 4 May 2016 to audit the financial statements of the Group for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering periods from our appointment through 31 December 2023.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Bank and we remain independent of the Group and the Bank in conducting the audit.
- The audit opinion is consistent with the additional report to the NWH Group Audit Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Micha Missakian (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
15 February 2024

Consolidated income statement

For the year ended 31 December 2023

	Note	2023 £m	2022 £m
Interest receivable		14,764	9,159
Interest payable		(6,741)	(1,627)
Net interest income	1	8,023	7,532
Fees and commissions receivable		2,177	2,119
Fees and commissions payable		(508)	(493)
Other operating income		2,394	2,585
Non-interest income	2	4,063	4,211
Total income		12,086	11,743
Staff costs		(3,109)	(2,896)
Premises and equipment		(1,039)	(994)
Other administrative expenses		(1,768)	(1,630)
Depreciation and amortisation		(877)	(768)
Operating expenses	3	(6,793)	(6,288)
Profit before impairment losses		5,293	5,455
Impairment losses	13	(504)	(341)
Operating profit before tax		4,789	5,114
Tax charge	7	(1,280)	(1,425)
Profit for the year		3,509	3,689
Attributable to:			
Ordinary shareholders		3,368	3,564
Paid-in equity holders		142	120
Non-controlling interests		(1)	5
		3,509	3,689

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	2023 £m	2022 £m
Profit for the year	3,509	3,689
Items that do not qualify for reclassification		
Remeasurement of retirement benefit schemes	(147)	(556)
Tax	40	146
	(107)	(410)
Items that do qualify for reclassification		
FVOCI financial assets	43	(392)
Cash flow hedges (1)	(290)	(542)
Currency translation	(17)	(2)
Tax	73	276
	(191)	(660)
Other comprehensive loss after tax	(298)	(1,070)
Total comprehensive income for the year	3,211	2,619
Attributable to:		
Ordinary shareholders	3,070	2,494
Paid-in equity holders	142	120
Non-controlling interests	(1)	5
	3,211	2,619

(1) Refer to footnotes 2 and 3 of the statement in changes in equity.

The accompanying notes on pages 110 to 172, the accounting policies on pages 104 to 109 and the audited sections of the Financial review and Risk and capital management on pages 7 to 77 form an integral part of these financial statements.

Balance sheet

As at 31 December 2023

		NWB Group		NWB Plc	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
Assets					
Cash and balances at central banks	9	48,259	73,065	48,238	73,062
Derivatives	12	3,184	4,407	3,213	4,430
Loans to banks - amortised cost	9	3,355	3,197	3,043	2,870
Loans to customers - amortised cost	9	318,466	301,684	284,314	267,401
Amounts due from holding companies and fellow subsidiaries	9	2,311	4,903	33,499	32,133
Securities subject to repurchase agreements		6,469	2,140	6,469	2,140
Other financial assets excluding securities subject to repurchase agreements		25,475	12,406	24,623	12,040
Other financial assets	15	31,944	14,546	31,092	14,180
Investment in group undertakings	14	-	-	2,615	2,030
Other assets	16	7,949	7,667	5,735	5,641
Total assets		415,468	409,469	411,749	401,747
Liabilities					
Bank deposits	9	18,052	16,060	18,052	16,059
Customer deposits	9	313,752	322,614	276,202	281,558
Amounts due to holding companies and fellow subsidiaries	9	47,252	38,771	84,174	75,037
Derivatives	12	1,718	2,088	2,014	2,582
Other financial liabilities	19	9,011	5,384	8,147	4,525
Subordinated liabilities	20	122	197	119	191
Notes in circulation		806	809	806	809
Other liabilities	21	3,325	3,470	2,534	2,743
Total liabilities		394,038	389,393	392,048	383,504
Owners' equity	22	21,395	20,066	19,701	18,243
Non-controlling interests		35	10	-	-
Total equity		21,430	20,076	19,701	18,243
Total liabilities and equity		415,468	409,469	411,749	401,747

Owners' equity of NWB Plc as at 31 December 2023 includes the profit for the year of £3,625 million (2022- £3,457 million).

The accompanying notes on pages 110 to 172, the accounting policies on pages 104 to 109 and the audited sections of the Financial review and Risk and capital management on pages 7 to 77 form an integral part of these financial statements.

The accounts were approved by the Board of directors on 15 February 2024 and signed on its behalf by:

Howard Davies
Chairman

John-Paul Thwaite
Chief Executive Officer

Katie Murray
Chief Financial Officer

National Westminster Bank Plc
Registration No. 929027

Statement of changes in equity

For the year ended 31 December 2023

	Note	NWB Group		NWB Plc	
		2023 £m	2022 £m	2023 £m	2022 £m
Called-up share capital - at 1 January and 31 December	22	1,678	1,678	1,678	1,678
Paid-in equity - at 1 January		2,518	2,377	2,518	2,377
Redeemed		-	(359)	-	(359)
Issued		-	500	-	500
At 31 December	22	2,518	2,518	2,518	2,518
Share premium account - at 1 January and 31 December		2,225	2,225	2,225	2,225
Merger reserve - at 1 January		77	14	(2)	(89)
Additions		-	24	-	-
Amortisation		(49)	39	2	87
At 31 December		28	77	-	(2)
FVOCI reserve - at 1 January		(76)	192	(76)	193
Unrealised losses		-	(485)	(11)	(486)
Realised losses		43	93	43	93
Tax		(8)	124	(8)	124
At 31 December		(41)	(76)	(52)	(76)
Cash flow hedging reserve - at 1 January		(391)	(1)	(393)	(2)
Amount recognised in equity (2)		(180)	(283)	(180)	(288)
Amount transferred from equity to earnings (3)		(110)	(259)	(109)	(255)
Tax		81	152	81	152
At 31 December		(600)	(391)	(601)	(393)
Foreign exchange reserve - at 1 January		(87)	(85)	(18)	(16)
Retranslation of net assets		(31)	29	(12)	31
Foreign currency gains/(losses) on hedges of net assets		14	(31)	12	(33)
At 31 December		(104)	(87)	(18)	(18)
Capital redemption reserve - at 1 January and 31 December		820	820	820	820
Retained earnings - at 1 January		13,302	13,507	11,491	11,980
Profit attributable to ordinary shareholders and other equity owners		3,510	3,684	3,625	3,457
Paid-in equity dividends paid		(142)	(120)	(142)	(120)
Ordinary dividends paid		(1,738)	(3,293)	(1,738)	(3,293)
Redemption/reclassification of paid-in equity		-	-	-	-
- gross		-	(29)	-	(29)
- tax		-	(6)	-	(6)
Remeasurement of the retirement benefit schemes		-	-	-	-
- gross		(147)	(556)	(139)	(565)
- tax		40	146	39	146
Share-based payments		-	-	-	-
- gross		10	6	10	6
- tax		(13)	2	(13)	2
Amortisation of merger reserve		49	(39)	(2)	(87)
At 31 December		14,871	13,302	13,131	11,491

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

Statement of changes in equity for the year ended 31 December 2023 continued

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Owners' equity at 31 December	21,395	20,066	19,701	18,243
Non-controlling interests - at 1 January	10	10	-	-
(Loss)/profit attributable to non-controlling interests	(1)	5	-	-
Dividends paid	(5)	(5)	-	-
Acquisition of subsidiary	31	-	-	-
At 31 December	35	10	-	-
Total equity at 31 December	21,430	20,076	19,701	18,243
Attributable to:				
Ordinary shareholders	18,877	17,548	17,183	15,725
Paid-in equity holders	2,518	2,518	2,518	2,518
Non-controlling interests	35	10	-	-
	21,430	20,076	19,701	18,243

- (1) The total distributable reserves for NWB Plc is £12,460 million (2022 – £11,002 million). Refer to Note 22 for additional information.
- (2) The change in the cash flow hedging reserve is driven by realised accrued interest transferred into the income statement and a decrease in swap rates compared to previous periods.
- (3) The portfolio of hedging instruments is predominantly pay fixed swaps.
- (4) As referred to in Note 12, the amount transferred from equity to the income statement is mostly recorded within net interest income mainly on loans to customers – amortised cost, balances at central banks and loans to banks – amortised cost, and customer deposits as referred to in Note 1.

The accompanying notes on pages 110 to 172, the accounting policies on pages 104 to 109 and the audited sections of the Financial review and Risk and capital management on pages 7 to 77 form an integral part of these financial statements.

Cash flow statement

For the year ended 31 December 2023

	Note	NWB Group		NWB Plc	
		2023 £m	2022 £m	2023 £m	2022 £m
Cash flows from operating activities					
Operating profit before tax		4,789	5,114	4,705	4,687
Adjustments for:					
Non-cash and other items	28	1,329	1,574	396	756
Changes in operating assets and liabilities	28	(10,132)	(45,270)	(8,999)	(45,374)
Income taxes paid		(780)	(1,161)	(484)	(998)
Net cash flows from operating activities (1,2)		(4,794)	(39,743)	(4,382)	(40,929)
Cash flows from investing activities					
Sale and maturity of other financial assets		18,254	25,721	17,887	25,339
Purchase of other financial assets		(35,090)	(13,388)	(34,249)	(13,022)
Income received on other financial assets		450	371	435	371
Net movement in business interests and intangible assets	27	(724)	(992)	(1,188)	(719)
Dividends received from subsidiaries		-	-	617	1,010
Sale of property, plant and equipment		92	138	34	82
Purchase of property, plant and equipment		(787)	(618)	(544)	(316)
Net cash flows from investing activities		(17,805)	11,232	(17,008)	12,745
Cash flows from financing activities					
Issue of paid-in equity		-	500	-	500
Redemption of paid-in equity		-	(388)	-	(388)
Issue of subordinated liabilities		1,263	-	1,263	-
Redemption of subordinated liabilities		(539)	(55)	(539)	(55)
Interest paid on subordinated liabilities		(145)	(145)	(120)	(144)
Issue of MREs		441	750	441	700
Maturity and redemption of MREs		(157)	-	(107)	-
Interest paid on MREs		(293)	(202)	(261)	(191)
Dividends paid		(1,885)	(3,418)	(1,880)	(3,413)
Net cash flows from financing activities	29	(1,315)	(2,958)	(1,203)	(2,991)
Effects of exchange rate changes on cash and cash equivalents		(403)	1,142	(397)	1,101
Net decrease in cash and cash equivalents		(24,317)	(30,327)	(22,990)	(30,074)
Cash and cash equivalents at 1 January		76,318	106,645	75,472	105,546
Cash and cash equivalents at 31 December	30	52,001	76,318	52,482	75,472

(1) NWB Group includes interest received of £14,320 million (2022 - £9,167 million) and interest paid of £6,043 million (2022 - £1,412 million), and NWB Plc includes interest received of £13,338 million (2022 - £8,421 million) and interest paid of £6,259 million (2022 - £1,623 million).

(2) The total cash outflow for leases for NWB Group was £100 million (2022 - £130 million) and for NWB Plc £89 million (2022 - £119 million). This included payment of principal for NWB Group of £84 million (2022 - £111 million) and NWB Plc of £76 million (2022 - £99 million). These amounts are included in the operating activities in cash flow statement.

The accompanying notes on pages 110 to 172, the accounting policies on pages 104 to 109 and the audited sections of the Financial review and Risk and capital management on pages 7 to 77 form an integral part of these financial statements.

Accounting policies

1. Presentation of financial statements

National Westminster Bank Plc (NWB Plc) is incorporated in the UK and registered in England and Wales. The financial statements are presented in the functional currency, pounds sterling.

The audited financial statements include audited sections of the Risk and capital management section. The directors have prepared the financial statements on a going concern basis after assessing the principal risks, forecasts, projections and other relevant evidence over the twelve months from the date the financial statements are approved (refer to the Report of the directors) and in accordance with UK adopted International Accounting Standards (IAS), and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 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 and investment properties which are stated at fair value.

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

We have applied the exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12 Income taxes in respect of Pillar Two income taxes. Accordingly, we have not recognised or disclosed information about deferred tax assets and liabilities related to Pillar Two income taxes.

Our consolidated financial statements incorporate the results of NWB Plc and the entities it controls. Control arises when we have the power to direct the activities of an entity so as to affect the return from the entity. 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.

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

We apply accounting for associates and joint arrangements to entities where we have significant influence, but not control, over the operating and financial policies. We assess significant influence by reference to a presumption of voting rights of more than 20%, but less than 50%, supplemented by a qualitative assessment of substantive rights which include representation at the Board of Directors, significant exchange of managerial personnel or technology amongst others.

Investments in associates and joint ventures are recorded upon initial recognition at cost, increased or decreased each period by the share of the subsequent levels of profit or loss, and other changes in equity are considered in line with their nature.

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.

- Our Climate transition plan includes an assessment of:
 - changes in products, services and business operations to support customer transition towards net zero;
 - financial impacts of supporting customer transition, including investment required. The linkage between our financial plan and our Climate transition plan will continue to be developed and refreshed annually as part of the financial planning cycle;
 - the climate impact of policies, using the UK Climate Change Committee (UK CCC) Balanced Net Zero (BNZ) pathway scenario, aligned with the UK's Sixth Carbon Budget. In addition, we have used the credibility ratings for sectoral policies provided by the UK CCC 2023 Progress Report, published in June, to the Parliament to develop a BNZ adjusted pathway to reflect estimated time delays of these policies.
- There remains considerable uncertainty regarding this policy response, including the effect of wider geo-political uncertainty on governmental ambitions regarding climate transition and the effect of decarbonisation on wider economic growth, technology development and customer behaviours.

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.

Effect of climate change in the estimation of expected credit loss

We are monitoring the effect of the physical and transition consequences of climate change on our experience of loan loss. We use available information regarding the effect of climate transition policy largely driven by carbon prices as an adjustment to macroeconomic factors that are used as inputs to the models that generate PD and LGD outcomes, which are key inputs to the ECL calculation. The determination of whether specific loss drivers and climate events generate specific losses is ongoing and is necessary to determine how sensitive changes in ECL could be to climate inputs.

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 stewardship and credit risk appetite that stem from climate considerations, such as oil and gas, will directly affect our positions.

2. 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, 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 inherent uncertainties).	Note 7
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 10
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 13
Provisions for liabilities and charges	Determination of whether a present obligation exists in respect of customer redress, litigation and other regulatory, property and other provisions. Legal proceedings often require a high degree of judgement and these are likely to change as the matter progresses.	Provisions remain sensitive to the assumptions used in the estimate. We consider a wide range of possible outcomes. It is often not practical to meaningfully quantify ranges of possible outcomes, given the uncertainties involved.	Note 21
Investment in Group undertakings (parent company only)		Our estimates are based on the five-year revenue and cost forecasts (which include inherent uncertainties). Long term growth rate and discount rate are subject to uncertain factors.	Note 14

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

2.1. 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 and the expectation of long term economic growth beyond this period. The five-year forecast takes account of management's current expectations on competitiveness and profitability. The long term growth rate reflects external indicators which will include market expectations on climate risk. We do not consider any additional adjustments to this indicator.

2.2. 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.

2.3. 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.

2. Critical accounting policies continued

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 policies 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.

The typical time frames from initial impairment to write-off for our collectively assessed portfolios are:

- **Retail mortgages** - write-off usually occurs within five years, or earlier, when an account is closed, but can be longer where the customer engages constructively,
- **Credit cards** - the irrecoverable amount is typically written off after twelve arrears cycles or at four years post default any remaining amounts outstanding are written off,

- **Overdrafts and other unsecured loans** - write-off occurs within six years,
- **Commercial loans** - write-offs are determined in the light of individual circumstances; and Business loans are generally written off within five years.

2.4. 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 either by starting to implement the plan or by announcing its main features.

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.

2.5. Investment in Group undertakings

Our investments in Group undertakings (subsidiaries) are stated at cost less any impairment.

3. Material accounting policies

3.1. 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. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment on the lease.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income. Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

3.2. 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 NatWest 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.

Variable compensation that is settled in cash or debt instruments is charged to the income statement on a straight-line basis over the period during which services are provided, taking account of forfeiture and clawback criteria. The value of employee services received in exchange for NatWest Group plc shares and share options is recognised as an expense over the vesting period, subject to deferral, clawback, cancellation and forfeiture criteria with a corresponding increase in equity.

3. Material accounting policies continued

The fair value of shares granted is the market price adjusted for the expected effect of dividends as employees are not entitled to dividends until shares are vested.

The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These consider the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors such as the dividend yield.

Defined contribution pension scheme

A scheme where we pay fixed contributions and; there is no legal or constructive obligation to pay further contributions or benefits. Contributions are recognised in the income statement as employee service costs accrue.

Defined benefit pension scheme

A scheme that defines the benefit an employee will receive on retirement and is dependent on one or more factors such as age, salary, and years of service. The net of the recognisable scheme assets and obligations is reported on the balance sheet in other assets or other liabilities. The defined benefit obligation is measured on an actuarial basis. The charge to the income statement for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) due to changes in actuarial measurement assumptions are recognised in other comprehensive income in full in the period in which they arise and not subject to recycling to the income statement.

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

We will recognise a liability where a minimum funding requirement exists for any of our defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined as described above. When estimating the liability for minimum funding requirements we only include contributions that are substantively or contractually agreed and do not include contingent and discretionary features, including dividend-linked contributions or contributions subject to contingent events requiring future verification.

We will recognise a net defined benefit asset when the net defined benefit surplus can generate a benefit in the form of a refund or reduction in future contributions to the plan. The net benefit pension asset is recognised at the present value of the benefits that will be available to us excluding interest and the effect of the asset ceiling (if any, excluding interest). Changes in the present value of the net benefit pension asset are recognised immediately in other comprehensive income.

In instances where Trustees have the ability to declare augmented benefits to participants, we do not recognise a defined benefit pension asset and write-off the surplus immediately in other comprehensive income.

3.3. Intangible assets

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

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

Direct costs relating to the development of internal-use computer software are reported on the balance sheet after technical feasibility and economic viability have been established. These direct costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software can operate as intended.

During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate.

Costs incurred prior to the establishment of technical feasibility and economic viability are expensed to the income statement as incurred, as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond three years are also reported on the balance sheet.

3.4. Impairment of non-financial assets

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired

At each balance sheet date, we assess whether there is any indication that other intangible assets or property, plant and equipment are impaired. If any such indication exists, we estimate the recoverable amount of the asset and compare it to its balance sheet value to calculate if an impairment loss should be recognised in the income statement. A reversal of an impairment loss on other intangible assets or property, plant and equipment is recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets, is determined as part of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

3.5. Property, plant and equipment & investment property

Items of property, plant and equipment except investment property are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

3. Material accounting policies continued

The estimated useful lives of our property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds – unexpired period of lease	
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. Investment property is not depreciated but is stated at fair value. Fair value is based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is recognised on a straight-line basis over the term of the lease in Other operating income. Lease incentives granted are recognised as an integral part of the total rental income.

3.6. 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 and hedges of net investments in foreign operations.

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 sterling 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.

3.7. 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.

3.8. 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).

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.

3. Material accounting policies continued

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.

3.9. 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.

3.10. 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.

3.11. Derivatives and hedging

Derivatives are reported on the balance sheet at fair value. We use derivatives 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 the derivatives reported in the income statement).

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

Hedge accounting

Hedge accounting relationships are designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and Measurement. The documentation identifies the hedged item, the hedging instrument 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.

We enter into three types of hedge accounting relationships.

Fair value hedge – the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

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.

Hedge of net investment in a foreign operation – in the hedge of a net investment in a foreign operation, the effective portion of the designated hedge relationship is recognised in other comprehensive income. Any ineffective portion is recognised in profit or loss. Non-derivative financial liabilities as well as derivatives may be designated as a hedging instrument in a net investment hedge.

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 fair value hedging any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedge item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement.

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.

For net investment hedging on disposal or partial disposal of a foreign operation, the amount accumulated in equity is reclassified from equity to the income statement.

4. 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 financial statements

1 Net interest income

	2023 £m	2022 £m
Balances at central banks and loans to banks - amortised cost	1,272	981
Loans to customers - amortised cost	12,394	7,883
Amounts due from holding companies and fellow subsidiaries	133	41
Other financial assets	965	254
Interest receivable	14,764	9,159
Bank deposits	849	267
Customer deposits	3,042	335
Amounts due to holding companies and fellow subsidiaries	2,262	777
Other financial liabilities	576	189
Subordinated liabilities	12	59
Interest payable	6,741	1,627
Net interest income	8,023	7,532

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. Included in interest receivable is finance lease income of £480 million (2022 - £310 million) which is recognised at a constant periodic rate of return before tax on the net investment.

For accounting policy information refer Accounting policy 3.1.

2 Non-interest income

	2023 £m	2022 £m
Net fees and commissions (1)	1,669	1,626
Other operating income		
Gain on redemption of own debt	234	-
Operating leases and other rental income	237	233
Changes in fair value of other financial assets held at mandatory fair value through profit or loss (2)	1	(12)
Hedge ineffectiveness	23	20
Net income from economic hedging (3)	468	777
Gain/(loss) on disposal of amortised cost assets	7	(17)
Loss on disposal of fair value through other comprehensive income assets	(43)	(92)
Loss on sale of property, plant and equipment	(50)	(5)
Share of loss of associated entities	(3)	(6)
Legal entity recharges (4)	1,542	1,616
Other income	(22)	71
	2,394	2,585
Non-interest income	4,063	4,211

(1) Refer to Note 4 for further analysis.

(2) Includes instruments that have failed solely payment of principal and interest testing under IFRS 9.

(3) Includes fair value changes on derivatives which have not been designated in a hedge accounting relationship and gains and losses from the management of the NWB Group's funding requirements involving the use of derivatives including foreign exchange derivatives. These are aimed at managing the interest rate and foreign exchange risk that NWB Group is exposed to.

(4) Income from recharging shared services to other NatWest Group subsidiaries.

For accounting policy information refer to Accounting policies 3.1 and 3.6.

3 Operating expenses

	2023	2022
	£m	£m
Wages, salaries and other staff costs	2,407	2,138
Temporary and contract costs	163	207
Social security costs	289	263
Pension costs	250	288
- defined benefit schemes (Note 5)	89	154
- defined contribution schemes	161	134
Staff costs	3,109	2,896
Premises and equipment	1,039	994
Depreciation and amortisation	877	768
Other administrative expenses (1)	1,768	1,630
Administrative expenses	3,684	3,392
	6,793	6,288

(1) Includes redress and litigation costs. Further details are provided in Note 21.

NWB Group provides shared services to NatWest Group. Costs incurred are recovered through legal entity recharging, recorded in Other operating income.

For accounting policy information refer to Accounting policies 3.2, 3.3, 3.4 and 3.5.

The average number of persons employed during the year, rounded to the nearest hundred and excluding temporary staff, was 55,900 (2022 – 53,600). The number of persons employed, rounded to the nearest hundred and excluding temporary staff, at 31 December 2023, was as follows:

	2023	2022 (1)
Retail Banking	13,400	14,000
Commercial & Institutional	8,800	8,800
Private Banking	2,400	2,300
Central items & other	32,000	30,100
Total	56,600	55,200
UK	37,800	37,600
India	16,900	15,700
Poland	1,500	1,500
Rest of the World	400	400
Total	56,600	55,200

(1) Comparatives have been re-presented to reflect the movement of headcount across segments due to segment reorganisation.

3 Operating expenses continued

Share-based payments

NWB Group grants share-based awards to employees principally on the following bases:

Award plan	Eligible employees	Nature of award	Vesting conditions (1)	Settlement
Sharesave	UK, Channel Islands, Gibraltar, Isle of Man, Poland and India.	Option to buy shares under employee savings plan	Continuing employment or leavers in certain circumstances	2024 to 2028
Deferred performance awards	All	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances	2024 to 2031
Long-term incentives (2,3)	Senior employees	Awards of ordinary shares and conditional shares	Continuing employment or leavers in certain circumstances and/or satisfaction of the pre-vest assessment and underpins	2024 to 2030

(1) All awards have vesting conditions which may not be met.

(2) Long-term incentives include buy-out awards offered to compensate certain new hires for the loss of forfeited awards from their previous employment. All awards are granted under the Employee Share Plan.

(3) Existing Long-term incentive scheme has been closed to new awards and members as at 31 December 2022. The scheme will be replaced by a new Restricted share plan scheme with similar granting and vesting conditions.

The fair value of Sharesave options granted in 2023 was determined using a pricing model that included: expected volatility of shares determined at the grant date based on historical volatility over a period of up to five years; expected option lives that equal the vesting period; estimated dividend yield on equity shares; and risk-free interest rates determined from UK gilts with terms matching the expected lives of the options.

The exercise price of options and the fair value on granting awards of fully paid shares is the average market price over the five trading days (three trading days for Sharesave) preceding grant date. When estimating the fair value of the award, the number of shares granted, and the prevailing share price (as defined in the NatWest Group ARA on page 148) are used. The fair value of the award is recognised as services are provided over the vesting period.

Bonus awards

The following tables analyse NWB Group's bonus awards.

	2023 £m	2022 £m	Change
Non-deferred cash awards (1)	38	36	6%
Deferred cash awards	181	182	(1%)
Deferred share awards	26	30	(13%)
Total deferred bonus awards	207	212	(2%)
Total bonus awards (2)	245	248	(1%)

Reconciliation of bonus awards to income statement charge

	2023 £m	2022 £m
Bonus awarded	245	248
Less: deferral of charge for amounts awarded in current year	(74)	(80)
Income statement charge for amounts awarded in current year	171	168
Add: current year charge for amounts deferred from prior years	76	56
Less: forfeiture of amounts deferred from prior years	(2)	-
Income statement charge for amounts deferred from prior years	74	56
Income statement charge for bonus awards (2)	245	224

(1) Non-deferred cash awards are limited to £2,000 for all employees.

(2) Excludes other performance-related compensation.

4 Segmental analysis

Reportable operating segments

NWB Plc is organised into the following reportable segments: Retail Banking, Private Banking, Commercial & Institutional and Central items & other.

Retail Banking serves personal customers in the UK and includes Ulster Bank customers in Northern Ireland.

Private Banking serves UK-connected high-net-worth individuals and their business interests.

Commercial & Institutional consists of customer businesses reported under Business Banking, Commercial Mid-market and Corporate & Institutions, supporting our customers across the full non-personal customer lifecycle, both domestically and internationally.

Central items & other includes corporate functions such as treasury, finance, risk management, compliance, legal, communications and human resources. NWB Plc is the main service provider of shared services and treasury activities for NatWest Group. The services are mainly provided to NWH Group, however, in certain instances where permitted, services are also provided to the wider NatWest Group including the non ring-fenced business.

	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
2023					
Net interest income	4,595	709	2,955	(236)	8,023
Net fees and commissions	327	245	1,096	1	1,669
Other operating income	109	31	314	1,940	2,394
Total income	5,031	985	4,365	1,705	12,086
Depreciation and amortisation	-	-	(124)	(753)	(877)
Other operating expenses	(2,311)	(615)	(2,191)	(799)	(5,916)
Impairment (losses)/releases	(410)	(13)	(82)	1	(504)
Operating profit	2,310	357	1,968	154	4,789
2022					
Net interest income	4,494	754	2,740	(456)	7,532
Net fees and commissions	334	243	1,038	11	1,626
Other operating income	65	28	248	2,244	2,585
Total income	4,893	1,025	4,026	1,799	11,743
Depreciation and amortisation	-	-	(135)	(633)	(768)
Other operating expenses	(2,115)	(596)	(1,804)	(1,005)	(5,520)
Impairment (losses)/releases	(218)	2	(126)	1	(341)
Operating profit	2,560	431	1,961	162	5,114

Total revenue ⁽¹⁾

	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
2023					
External	6,565	1,156	6,440	5,174	19,335
Inter-segment ⁽²⁾	(187)	998	(1,558)	747	-
Total	6,378	2,154	4,882	5,921	19,335
2022					
External	5,039	856	4,072	3,896	13,863
Inter-segment ⁽²⁾	29	416	(294)	(151)	-
Total	5,068	1,272	3,778	3,745	13,863

Total income

	Retail Banking £m	Private Banking £m	Commercial & Institutional £m	Central items & other £m	Total £m
2023					
External	4,172	324	4,652	2,938	12,086
Inter-segment ⁽²⁾	859	661	(287)	(1,233)	-
Total	5,031	985	4,365	1,705	12,086
2022					
External	4,439	719	3,625	2,960	11,743
Inter-segment ⁽²⁾	454	306	401	(1,161)	-
Total	4,893	1,025	4,026	1,799	11,743

For the notes to this table refer to page 115.

4 Segmental analysis continued

Analysis of net fees and commissions

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Total
	£m	£m	£m	£m	£m
2023					
Fees and commissions receivable					
- Payment services	263	32	518	-	813
- Credit and debit card fees	323	13	197	-	533
- Lending and financing	12	5	489	-	506
- Brokerage	27	6	-	-	33
- Investment management, trustee and fiduciary services	2	205	-	-	207
- Underwriting fees	-	-	1	-	1
- Other	4	5	60	15	84
Total	631	266	1,265	15	2,177
Fees and commissions payable	(304)	(21)	(169)	(14)	(508)
Net fees and commissions	327	245	1,096	1	1,669

2022					
Fees and commissions receivable					
- Payment services	254	25	489	-	768
- Credit and debit card fees	323	14	170	-	507
- Lending and financing	15	8	446	-	469
- Brokerage	34	6	-	-	40
- Investment management, trustee and fiduciary services	4	213	-	-	217
- Underwriting fees	-	-	3	-	3
- Other	-	3	113	(1)	115
Total	630	269	1,221	(1)	2,119
Fees and commissions payable	(296)	(26)	(183)	12	(493)
Net fees and commissions	334	243	1,038	11	1,626

	Retail Banking	Private Banking	Commercial & Institutional	Central items & other	Total
	£m	£m	£m	£m	£m
2023					
Assets	194,488	19,284	89,783	111,913	415,468
Liabilities	154,083	37,816	123,084	79,055	394,038

2022					
Assets	184,140	19,734	86,406	119,189	409,469
Liabilities	153,304	41,489	127,301	67,299	389,393

4 Segmental analysis continued

Geographical segments

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

	UK	RoW	Total
	£m	£m	£m
2023			
Total revenue (1)	18,591	744	19,335
Interest receivable	14,725	39	14,764
Interest payable	(6,717)	(24)	(6,741)
Net fees and commissions	1,668	1	1,669
Other operating income	1,689	705	2,394
Total income	11,365	721	12,086
Operating profit before tax	4,668	121	4,789
Total assets	407,211	8,257	415,468
Total liabilities	392,940	1,098	394,038
Contingent liabilities and commitments	79,206	322	79,528
Cost to acquire property, plant and equipment and intangible assets	1,527	92	1,619
2022			
Total revenue (1)	13,134	729	13,863
Interest receivable	9,104	55	9,159
Interest payable	(1,567)	(60)	(1,627)
Net fees and commissions	1,610	16	1,626
Other operating income	1,955	630	2,585
Total income	11,102	641	11,743
Operating profit before tax	5,017	97	5,114
Total assets	394,504	14,965	409,469
Total liabilities	388,996	397	389,393
Contingent liabilities and commitments	89,931	215	90,146
Cost to acquire property, plant and equipment and intangible assets	1,254	158	1,412

(1) Total revenue comprises interest receivable, fees and commissions receivable and other operating income.

(2) Revenue and income from transactions between segments of the group are now reported as inter-segment in both the current and comparative information.

5 Pensions

Defined contribution schemes

NWB Group sponsors a number of defined contribution pension schemes in different territories, which new employees are offered the opportunity to join.

Defined benefit schemes

NWB Group sponsors a number of pension schemes in the UK and overseas, including the Main section of the NatWest Group Pension Fund (the "Main section") which operates under UK trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and UK legislation.

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

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

The Main section corporate trustee is NatWest Pension Trustee Limited (the Trustee), a wholly owned subsidiary of NWB Plc, Principal Employer of the Main section. The Board of the Trustee includes member trustee directors selected from eligible active staff, deferred and pensioner members who apply and trustee directors appointed by NatWest Group. Under UK legislation, a defined benefit pension scheme is required to meet the statutory funding objective of having sufficient and appropriate assets to cover its liabilities (the pensions that have been promised to members). Similar governance principles apply to NWB Group's other pension schemes.

For accounting policy information refer to Accounting policy Note 3.2.

Investment strategy

The assets of the Main section, which is typical of other group schemes, represent 97% of all plan assets at 31 December 2023 (2022 - 97%) and are invested as shown below.

The Main section employs physical, derivative and non-derivatives instruments to achieve a desired asset class exposure and to reduce the section's interest rate, inflation and currency risk. This means that the net funding position is considerably less sensitive to changes in market conditions than the value of the assets or liabilities in isolation. In particular, movements in interest rates and inflation are substantially hedged by the Trustee.

Major classes of plan assets as a percentage of total plan assets of the Main section	2023			2022		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	%	%	%	%	%	%
Equities	0.1	6.7	6.8	0.1	7.7	7.8
Index linked bonds	36.7	-	36.7	37.7	-	37.7
Government bonds	13.3	-	13.3	18.4	-	18.4
Corporate and other bonds	19.2	6.4	25.6	15.3	6.7	22.0
Real estate	-	4.5	4.5	-	6.0	6.0
Derivatives	-	2.7	2.7	-	8.2	8.2
Cash and other assets	-	10.4	10.4	-	(0.1)	(0.1)
	69.3	30.7	100.0	71.5	28.5	100.0

The Main section's holdings of derivative instruments are summarised in the table below:

	2023			2022		
	Notional amounts	Fair value		Notional amounts	Fair value	
	£bn	Assets £m	Liabilities £m	£bn	Assets £m	Liabilities £m
Inflation rate swaps	29	1,929	940	21	1,873	990
Interest rate swaps	52	3,121	3,394	103	14,317	12,546
Currency forwards	13	235	34	12	310	113
Equity and bond put options	-	-	4	-	2	70
Other	1	8	20	1	14	19

Swaps have been executed at prevailing market rates and within standard market bid/offer spreads with a number of counterparties, including NWB Plc.

At 31 December 2023, the gross notional value of the swaps was £81 billion (2022 - £124 billion) and had a net positive fair value of £714 million (2022 - £2,642 million) against which the counterparties had posted approximately 128% collateral.

The schemes do not invest directly in NWB Group but may have exposure to NWB Group through indirect holdings. The trustees of the respective UK schemes are responsible for ensuring that indirect investments in NWB Group do not exceed the regulatory limit of 5% of plan assets.

5 Pensions continued

	NWB Group				NWB Plc			
	Fair value of plan assets	Present value of defined benefit obligation (1)	Asset ceiling / minimum funding (2)	Net pension asset/ (liability)	Fair value of plan assets	Present value of defined benefit obligation (1)	Asset ceiling/ minimum funding (2)	Net pension asset/ (liability)
	£m	£m	£m	£m	£m	£m	£m	£m
Changes in value of net pension asset/(liability)								
At 1 January 2022	53,531	(43,326)	(10,246)	(41)	53,381	(43,147)	(10,246)	(12)
Currency translation and other adjustments	8	(8)	-	-	-	-	-	-
Income statement - operating expenses	960	(930)	(184)	(154)	956	(904)	(184)	(132)
Recognised in other comprehensive income	(18,757)	17,238	963	(556)	(18,736)	17,208	963	(565)
Contributions by employer	723	-	-	723	700	-	-	700
Contributions by plan participants and other scheme members	19	(19)	-	-	26	(26)	-	-
Benefits paid	(1,527)	1,527	-	-	(1,512)	1,512	-	-
At 1 January 2023	34,957	(25,518)	(9,467)	(28)	34,815	(25,357)	(9,467)	(9)
Currency translation and other adjustments	-	1	-	1	-	-	-	-
Income statement - other expenses								
Net interest expense	1,721	(1,250)	(472)	(1)	1,716	(1,239)	(472)	5
Current service cost	-	(89)	-	(89)	-	(80)	-	(80)
Loss on curtailments or settlements	-	-	-	-	-	(4)	-	(4)
Less, direct contributions from other scheme members	-	6	-	6	-	17	-	17
Past service cost	-	(5)	-	(5)	-	(2)	-	(2)
	1,721	(1,338)	(472)	(89)	1,716	(1,308)	(472)	(64)
Other comprehensive income								
Return on plan assets excluding recognised interest income (3)	(1,111)	-	-	(1,111)	(1,107)	-	-	(1,107)
Experience gains and losses	-	(1,563)	-	(1,563)	-	(1,559)	-	(1,559)
Effect of changes in actuarial financial assumptions	-	(599)	-	(599)	-	(599)	-	(599)
Effect of changes in actuarial demographic assumptions	-	386	-	386	-	386	-	386
Asset ceiling adjustments	-	-	2,740	2,740	-	-	2,740	2,740
	(1,111)	(1,777)	2,740	(147)	(1,107)	(1,772)	2,740	(139)
Contributions by employer (3)	228	3	-	231	203	-	-	203
Contributions by plan participants and other scheme members	18	(18)	-	-	25	(25)	-	-
Benefits paid	(1,272)	1,272	-	-	(1,262)	1,262	-	-
At 31 December 2023 (4)	34,541	(27,375)	(7,199)	(32)	34,390	(27,200)	(7,199)	(9)

(1) Defined benefit obligations are subject to annual valuation by independent actuaries.

(2) NWB Group recognises the net pension scheme surplus or deficit as a net asset or liability. In doing so, the funded status is adjusted to reflect any schemes with a surplus that NWB Group may not be able to access, as well as any minimum funding requirement to pay in additional contributions. This is most relevant to the Main section, where the current surplus is not recognised as the trustees may have control over the use of the surplus. Other NWB Group schemes that this applies to include the Ulster Bank Pension Scheme (NI).

(3) NWB Group expects to make contributions to the Main section of £207 million in 2024.

(4) On 16 June 2023 the High Court issued a ruling in respect of Virgin Media v NTL Pension Trustees II Limited (and others), which has the potential to affect the defined benefit obligation (DBO) values. Reasonable due diligence has concluded that the DBO values above require no adjustment for the impact of this case. Further details included in the Risk and capital management, pension risk section of this report.

5 Pensions continued

	All schemes	
	2023	2022
	£m	£m
Amounts recognised on the balance sheet		
Fund asset at fair value	34,541	34,957
Present value of fund liabilities	(27,374)	(25,518)
Funded status	7,167	9,439
Assets ceiling/minimum funding	(7,199)	(9,467)
	(32)	(28)

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Net pension asset/(liability) comprises				
Net assets of schemes in surplus (Note 16)	5	7	-	-
Net liabilities of schemes in deficit (Note 21)	(37)	(35)	(9)	(9)
	(32)	(28)	(9)	(9)

Funding and contributions by NWB Group

In the UK, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the sponsor, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities and to determine future contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme. Similar arrangements apply in the other territories where NWB Group sponsors defined benefit pension schemes.

A full triennial funding valuation of the Main section, effective 31 December 2020, was completed during financial year 2021.

This triennial funding valuation determined the funding level to be 104%, pension liabilities to be £49 billion and the surplus to be £2 billion, all assessed on the agreed funding basis. The average cost of the future service of current members is 49% of salary before contributions from those members. In addition, the sponsor has agreed to meet administrative expenses. Following the ring-fencing agreement with the Trustee reached in 2018, additional contributions of up to £500 million p.a. are payable to the Main section should the Group make distributions to shareholders of an equal amount. These contributions were capped at £1.5 billion in total, of which £1.0 billion was paid over 2021 and 2022.

During 2023, NatWest Bank entered a new contractual agreement with the Trustee, such that assets to the value of the remaining contributions falling due under the previous agreement would instead be paid to a Reservoir Trust. These assets have been restricted and are reserved to ensure they are available should they be needed by the Trustee in the future, according to agreed criteria. They are included in the encumbered balance sheet in the Risk section of this report. The assets under this arrangement will be available to the Group in future, to the extent that they are not needed under the defined trigger events.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest swap and gilt yields plus 0.64% per annum, and mortality assumptions, which result in life expectancies of 27.7/29.4 years for males/females who are currently age 60 and 28.9/30.7 years from age 60 for males/females who are currently aged 40.

The 2020 triennial valuation of the Group Pension Fund included an allowance for the estimated impact of guaranteed minimum pension equalisation, which is reflected in the IAS 19 valuation at 31 December 2023.

Accounting Assumptions

Placing a value on NWB Group's defined benefit pension schemes' liabilities requires NWB Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations depends upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

5 Pensions continued

The most significant assumptions used for the Main section are shown below:

	Principal IAS 19 actuarial assumptions (1)	
	2023	2022
	%	%
Discount rate	4.8	5.0
Inflation assumption (RPI)	3.1	3.2
Rate of increase in salaries	1.8	1.8
Rate of increase in deferred pensions	3.2	3.2
Rate of increase in pensions in payment	2.4	2.5
Lump sum conversion rate at retirement	18	18
Longevity at age 60:	years	years
Current pensioners		
Males	26.8	27.3
Females	28.6	29.1
Future pensioners, currently aged 40		
Males	27.7	28.3
Females	29.5	30.1

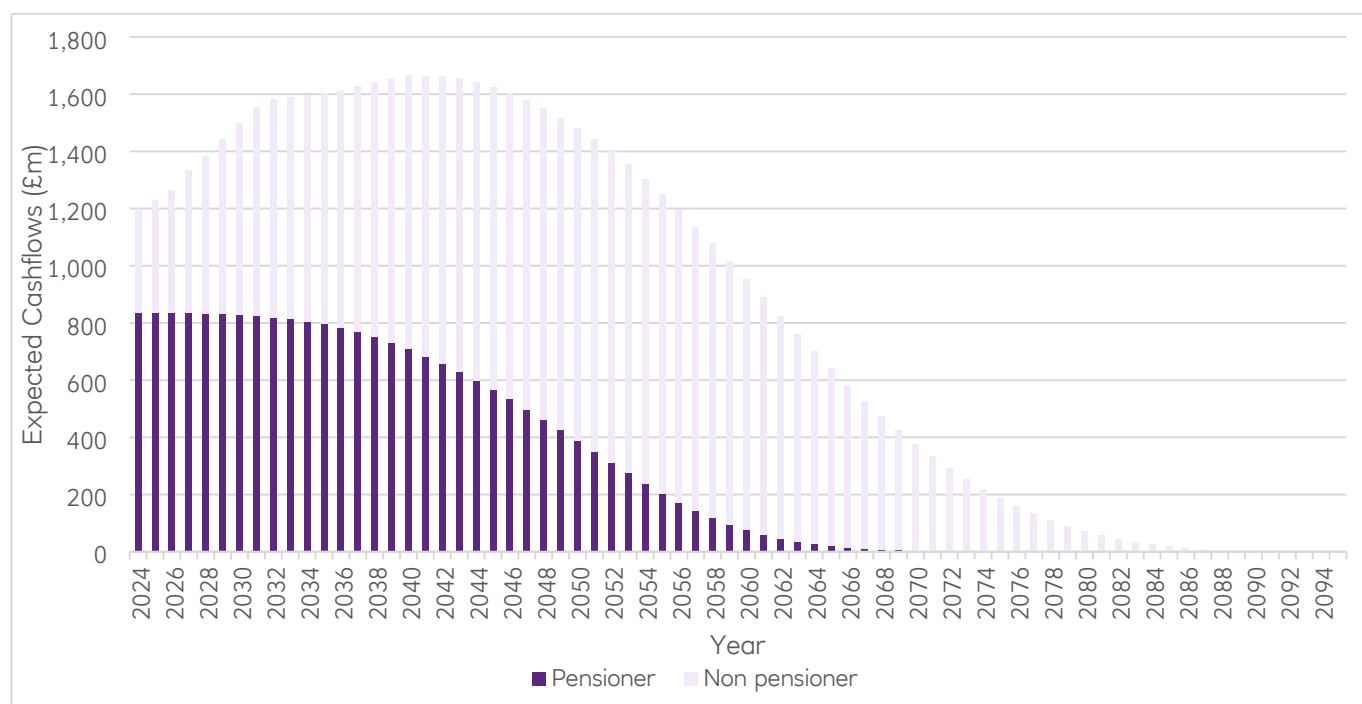
(1) The above financial assumptions are long-term assumptions set with reference to the period over which the obligations are expected to be settled.

Discount rate

The IAS 19 valuation uses a single discount rate set by reference to the yield on a basket of 'high quality' sterling corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations. The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed. Sensitivity to the main assumptions is presented below.

The weighted average duration of the Main section's defined benefit obligation at 31 December 2023 is 14 years (2022 – 15.3 years).

The chart below shows the projected benefit payment pattern for the Main section in nominal terms. These cashflows are based on the most recent formal actuarial valuation, effective 31 December 2020.



5 Pensions continued

The table below shows how the net pension asset of the Main section would change if the key assumptions used were changed independently. In practice the variables have a degree of correlation and do not move completely in isolation.

	(Decrease)/ increase in value of assets £m	(Decrease)/ increase in value of liabilities £m	Increase in net pension (obligations)/assets £m
2023			
0.5% increase in interest rates/discount rate	(2,292)	(1,746)	(546)
0.25% increase in inflation	811	578	233
0.5% increase in credit spreads	(12)	(1,746)	1,734
Longevity increase of one year	na	902	(902)
0.25% additional rate of increase in pensions in payment	na	706	(706)
Increase in equity values of 10% (1)	229	na	229
2022			
0.5% increase in interest rates/discount rate	(2,689)	(1,766)	(923)
0.25% increase in inflation	963	632	331
0.5% increase in credit spreads	(6)	(1,766)	1,760
Longevity increase of one year	na	767	(767)
0.25% additional rate of increase in pensions in payment	na	679	(679)
Increase in equity values of 10% (1)	267	na	267

(1) Includes both quoted and private equity.

The table below shows the combined change in defined benefit obligation from larger movements in these assumptions, assuming no changes in other assumptions

		Change in life expectancies				
		- 2 years £bn	- 1 year £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
2023						
Change in credit spreads	+50 bps	(3.5)	(2.6)	(1.7)	(0.9)	(0.1)
	No change	(1.9)	(0.9)	-	0.9	1.8
	-50 bps	-	1.0	2.0	2.9	3.9
		Change in life expectancies				
		- 2 years £bn	- 1 year £bn	No change £bn	+ 1 year £bn	+ 2 years £bn
2022						
Change in credit spreads	+50 bps	(3.7)	(2.8)	(1.8)	(0.8)	0.2
	No change	(2.1)	(1.1)	-	1.1	2.1
	-50 bps	(0.3)	0.9	2.0	3.2	4.3

The defined benefit obligation of the Main section is attributable to the different classes of scheme members in the following proportions:

	2023 %	2022 %
Membership category		
Active members	7.5	8.4
Deferred members	41.9	41.0
Pensioners and dependants	50.6	50.6
	100.0	100.0

The experience history of NWB Group schemes is shown below:

	NWB Group					NWB Plc				
	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
History of defined benefit schemes										
Fair value of plan assets	34,541	34,957	53,531	52,819	47,953	34,390	34,815	53,381	51,323	46,555
Present value of defined benefit obligations	(27,374)	(25,518)	(43,326)	(45,214)	(40,822)	(27,200)	(25,357)	(43,147)	(43,883)	(39,683)
Net surplus	7,167	9,439	10,205	7,605	7,131	7,190	9,458	10,234	7,440	6,872
Experience (losses)/gains on plan liabilities	(1,563)	(2,042)	244	431	264	(1,559)	(2,041)	245	427	275
Experience (losses)/gains on plan assets	(1,111)	(18,757)	857	5,586	3,156	(1,107)	(18,736)	852	5,486	3,021
Actual return on plan assets	610	(17,797)	1,592	6,549	4,437	609	(17,780)	1,579	6,422	4,266
Actual return on plan assets %	1.7%	(33.2%)	3.0%	13.7%	9.8%	1.7%	(33.3%)	3.1%	13.8%	9.7%

6 Auditor's remuneration

Amounts payable to NWB Group's auditor for statutory audit and other services are set out below:

	2023	2022
	£m	£m
Fees payable for:		
- the audit of NWB Group's annual accounts	11.4	12.4
- the audit of NWB Plc's subsidiaries	2.8	3.1
- audit-related assurance services	0.8	-
Total audit and audit-related assurance service fees	15.0	15.5
Corporate finance services	0.1	-

Fees payable to the auditor for non-audit services are disclosed in the consolidated financial statements of NatWest Group plc.

7 Tax

	2023	2022
	£m	£m
Current tax		
Charge for the year	(1,108)	(1,187)
(Under)/over provision in respect of prior years	(63)	63
	(1,171)	(1,124)
Deferred tax		
Charge for the year	(220)	(151)
UK tax rate change impact	-	(82)
Increase/(decrease) in the carrying value of deferred tax assets in respect of UK losses	137	(6)
Under provision in respect of prior years	(26)	(62)
Tax charge for the year	(1,280)	(1,425)

Current tax for the year ended 31 December 2023 is based on blended rates of 23.5% for the standard rate of UK corporation tax and 4.25% for the UK banking surcharge.

The actual tax charge differs from the expected tax charge, computed by applying the standard rate of UK corporation tax of 23.5% (2022 – 19%), as follows:

	2023	2022
	£m	£m
Expected tax charge	(1,125)	(972)
Losses and temporary differences in period where no deferred tax asset recognised	(1)	-
Foreign profits taxed at other rates	(8)	(8)
Items not allowed for tax:		
- losses on disposals and write-downs	-	(8)
- UK bank levy	(19)	(12)
- regulatory and legal actions	-	6
- other disallowable items	(32)	(13)
Non-taxable items	15	18
Taxable foreign exchange movements	(1)	2
Increase/(decrease) in the carrying value of deferred tax assets in respect of:		
- UK losses (2)	137	(6)
Banking surcharge	(190)	(373)
Tax on paid in equity dividends	33	22
UK tax rate change impact	-	(82)
Adjustments in respect of prior years (1) (2)	(89)	1
Actual tax charge	(1,280)	(1,425)

(1) Prior year tax adjustments incorporate refinements to tax computations made on submission and agreement with the tax authorities and adjustments to provisions in respect of uncertain tax positions.

(2) Includes a net £69 million benefit from UK group relief and loss relief claims at higher tax rates (refer to the Deferred Tax section below for details of the recent changes in UK tax rates).

On 11 July 2023 the government of the UK, where the parent company is incorporated, enacted the Pillar 2 income taxes legislation effective for the Group's financial year beginning 1 January 2024. Under the legislation, NatWest Group plc will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar 2 effective tax rate of less than 15%. This legislation is expected to have no material impact for NWB Group.

7 Tax continued

Judgement: Tax contingencies

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

For accounting policy information refer to Accounting policy 2.1.

Deferred tax

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Deferred tax liability	89	130	-	-
Deferred tax asset	(981)	(1,117)	(966)	(1,104)
Net deferred tax asset	(892)	(987)	(966)	(1,104)

Net deferred tax asset comprised:

	NWB Group						Total
	Pension	Accelerated capital allowances	Expense provisions	Financial instruments (1)	Tax losses carried forward	Other	
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	(106)	(272)	(61)	25	(608)	(37)	(1,059)
Charge to income statement	-	100	4	23	163	11	301
Charge/(credit) to other comprehensive income	39	-	1	(275)	-	(3)	(238)
Currency translation and other adjustments	-	10	-	-	-	(1)	9
At 31 December 2022	(67)	(162)	(56)	(227)	(445)	(30)	(987)
(Credit)/charge to income statement	(1)	29	7	6	83	(15)	109
Charge/(credit) to other comprehensive income	31	-	-	(73)	-	13	(29)
Currency translation and other adjustments	(1)	16	-	-	-	-	15
At 31 December 2023	(38)	(117)	(49)	(294)	(362)	(32)	(892)

	NWB Plc						Total
	Pension	Accelerated capital allowances	Expense provisions	Financial instruments (1)	Tax losses carried forward	Other	
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2022	(103)	(469)	(53)	27	(608)	(38)	(1,244)
Charge to income statement	-	186	2	18	163	11	380
Charge/(credit) to other comprehensive income	38	-	1	(276)	-	(3)	(240)
At 31 December 2022	(65)	(283)	(50)	(231)	(445)	(30)	(1,104)
Charge/(credit) to income statement	-	70	3	10	83	(15)	151
Charge/(credit) to other comprehensive income	32	-	-	(73)	-	13	(28)
Currency translation and other adjustments	(1)	16	-	-	-	-	15
At 31 December 2023	(34)	(197)	(47)	(294)	(362)	(32)	(966)

(1) The in-year movement predominantly relates to cash flow hedges.

Deferred tax assets in respect of unused tax losses are recognised if the losses 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 are analysed further below.

	2023	2022
	£m	£m
UK tax losses carried forward		
- NWB Plc	362	445
	362	445

7 Tax continued

Critical accounting policy: Deferred tax

The deferred tax assets of £981 million as at 31 December 2023 (2022 - £1,117 million) principally comprises losses which arose in the UK, and temporary differences. These deferred tax assets are recognised to the extent that it is probable that there will be future taxable profits to recover them.

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

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

Estimate - These estimates are based on forecast performance for management's detailed plans. They have regard to inherent uncertainties.

UK tax losses

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

National Westminster Bank Plc - A deferred tax asset of £362 million (2022 - £445 million) has been recognised in respect of losses of £1,448 million of total losses of £2,308 million carried forward at 31 December 2023. The losses arose principally as a result of significant impairment and conduct charges between 2009 and 2012 during challenging economic conditions in the UK banking sector. NWB Plc returned to tax profitability during 2015, and based on a 5 year recovery period, expects the deferred tax asset to be utilised against future taxable profits by the end of 2028.

Unrecognised deferred tax - Deferred tax assets of £220 million (2022 - £223 million) have not been recognised in respect of tax losses and other deductible temporary differences carried forward of £881 million (2022 - £892 million) in jurisdictions where doubt exists over the availability of future taxable profits. The tax losses and other deductible temporary differences carried forward have no expiry date.

Deferred tax liabilities of £104 million (2022 - £105 million) on aggregate underlying temporary differences of £463 million (2022 - £468 million) have not been recognised in respect of retained earnings of overseas subsidiaries and held-over gains on the incorporation of certain overseas branches. Retained earnings of overseas subsidiaries are expected to be reinvested indefinitely or remitted to the UK free from further taxation. No taxation is expected to arise in the foreseeable future in respect of held-over gains on which deferred tax is not recognised. Changes to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009.

8 Profit/(loss) dealt with in the accounts of the NWB Plc

As permitted by section 408(3) of the Companies Act 2006, no income statement for the Bank has been presented as a primary financial statement.

9 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.

We originate loans that include features that change the contractual cash flows based on the borrower meeting certain contractually specified environmental, social and governance (ESG) targets. These are known as ESG-linked (or sustainability-linked) loans. As part of the terms of these loans, the contractual interest rate is reduced or increased if the borrower meets (or fails to meet) specific targets linked to the activity of the borrower for example reducing carbon emissions, increase the level of diversity at Board level, or achieving a sustainable supply chain. ESG features are first assessed to ascertain whether the adjustment to the contractual cash flows results in a de minimis exposure to risks or volatility in those contractual cash flows. If this is the case the classification of the loan is not affected. If the effect of the ESG feature is assessed as being more than de minimis, we apply judgement to ensure that the ESG features do not generate compensation for risks that are not in line with a basic lending arrangement. This includes amongst other aspects a review of the consistency of the ESG targets with the asset or activity of the borrower, and consideration of the targets within our risk appetite. Some of these loans are an integral part of NatWest Group's climate and sustainable funding and financing target.

For accounting policy information refer to Accounting policies 3.8, 3.9 and 3.11.

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

	NWB Group				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			48,259		48,259
Derivatives (1)	3,184				3,184
Loans to banks - amortised cost (2)			3,355		3,355
Loans to customers - amortised cost (3)			318,466		318,466
Amounts due from holding companies and fellow subsidiaries	-	-	1,808	503	2,311
Other financial assets	453	23,495	7,996		31,944
Other assets				7,949	7,949
31 December 2023	3,637	23,495	379,884	8,452	415,468
Cash and balances at central banks			73,065		73,065
Derivatives (1)	4,407				4,407
Loans to banks - amortised cost (2)			3,197		3,197
Loans to customers - amortised cost (3)			301,684		301,684
Amounts due from holding companies and fellow subsidiaries	5	-	4,173	725	4,903
Other financial assets	417	9,713	4,416		14,546
Other assets				7,667	7,667
31 December 2022	4,829	9,713	386,535	8,392	409,469

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

9 Financial instruments – classification continued

	Held-for-trading £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities				
Bank deposits		18,052		18,052
Customer deposits		313,752		313,752
Amounts due to holding companies and fellow subsidiaries	17	46,956	279	47,252
Derivatives (1)	1,718			1,718
Other financial liabilities	13	8,998		9,011
Subordinated liabilities		122		122
Notes in circulation		806		806
Other liabilities (4)		569	2,756	3,325
31 December 2023	1,748	389,255	3,035	394,038
Bank deposits		16,060		16,060
Customer deposits		322,614		322,614
Amounts due to holding companies and fellow subsidiaries	104	38,511	156	38,771
Derivatives (1)	2,088			2,088
Other financial liabilities	17	5,367		5,384
Subordinated liabilities		197		197
Notes in circulation		809		809
Other liabilities (4)		960	2,510	3,470
31 December 2022	2,209	384,518	2,666	389,393

(1) Includes net hedging derivative assets of £526 million (2022 – £741 million) and net hedging derivative liabilities of £405 million (2022 – £258 million).

(2) Includes items in the course of collection from other banks of £26 million (2022 – £2 million).

(3) Includes finance lease receivables of £8,664 million (2022 – £8,324 million).

(4) Includes lease liabilities of £513 million (2022 – £901 million), held at amortised cost.

Additional information on finance lease receivables

The following table shows the reconciliation of undiscounted finance lease receivables to net investment in finance leases which are presented under Loans to customers-amortised cost on the balance sheet.

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Amount receivable under finance leases				
Within 1 year	3,332	3,212	36	137
1 to 2 years	2,351	2,247	5	55
2 to 3 years	1,617	1,381	4	21
3 to 4 years	892	825	4	20
4 to 5 years	382	404	4	15
After 5 years	1,042	1,089	37	38
Total lease payments	9,616	9,158	90	286
Unguaranteed residual values	169	171	-	-
Future drawdowns	(12)	(13)	-	-
Unearned income	(1,017)	(879)	(9)	(8)
Present value of lease payments	8,756	8,437	81	278
Impairments	(92)	(113)	(1)	(11)
Net investment in finance leases	8,664	8,324	80	267

9 Financial instruments - classification continued

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

	NWB Plc				
	MFVTPL £m	FVOCI £m	Amortised cost £m	Other assets £m	Total £m
Assets					
Cash and balances at central banks			48,238		48,238
Derivatives (1)	3,213				3,213
Loans to banks - amortised cost (2)			3,043		3,043
Loans to customers - amortised cost (3)			284,314		284,314
Amounts due from holding companies and fellow subsidiaries	559	-	32,158	782	33,499
Other financial assets	453	23,013	7,626		31,092
Investment in group undertakings				2,615	2,615
Other assets				5,735	5,735
31 December 2023	4,225	23,013	375,379	9,132	411,749

Cash and balances at central banks			73,062		73,062
Derivatives (1)	4,430				4,430
Loans to banks - amortised cost (2)			2,870		2,870
Loans to customers - amortised cost (3)			267,401		267,401
Amounts due from holding companies and fellow subsidiaries	608	-	30,585	940	32,133
Other financial assets	417	9,713	4,050		14,180
Investment in group undertakings				2,030	2,030
Other assets				5,641	5,641
31 December 2022	5,455	9,713	377,968	8,611	401,747

	NWB Plc				
	Held-for- trading £m	DFV £m	Amortised cost £m	Other liabilities £m	Total £m
Liabilities					
Bank deposits			18,052		18,052
Customer deposits			276,202		276,202
Amounts due to holding companies and fellow subsidiaries	17	268	83,524	365	84,174
Derivatives (1)	2,014				2,014
Other financial liabilities	13	-	8,134		8,147
Subordinated liabilities			119		119
Notes in circulation			806		806
Other liabilities (4)			480	2,054	2,534
31 December 2023	2,044	268	387,317	2,419	392,048

Bank deposits			16,059		16,059
Customer deposits			281,558		281,558
Amounts due to holding companies and fellow subsidiaries	104	248	74,502	183	75,037
Derivatives (1)	2,582				2,582
Other financial liabilities	17	-	4,508		4,525
Subordinated liabilities			191		191
Notes in circulation			809		809
Other liabilities (4)			858	1,885	2,743
31 December 2022	2,703	248	378,485	2,068	383,504

(1) Includes net hedging derivative assets of £523 million (2022 - £738 million) and net hedging derivative liabilities of £398 million (2022 - £251 million).

(2) Includes items in the course of collection from other banks of £26 million (2022 - £2 million).

(3) Includes finance lease receivables of £80 million (2022 - £267 million).

(4) Includes lease liabilities of £427 million (2022 - £802 million), held at amortised cost.

9 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 on the balance sheet under IFRS or subject to enforceable master netting agreements together with financial collateral received or given.

	NWB Group									
	Instruments which can be offset			Potential for offset not recognised by IFRS						
	Gross	IFRS offset	Balance sheet	Effect of master netting and similar agreements	Cash collateral	Securities collateral	Net amount after effect of netting agreements and related collateral	Instruments outside netting agreements	Balance sheet total	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets	18,535	(15,355)	3,180	(1,405)	(13)	(324)	1,438	4	3,184	
Derivative liabilities	20,325	(18,627)	1,698	(1,405)	(198)	-	95	20	1,718	
Net position (1)	(1,790)	3,272	1,482	-	185	(324)	1,343	(16)	1,466	
Non trading reverse repos	34,682	(8,570)	26,112	-	-	(26,112)	-	-	26,112	
Non trading repos	21,629	(8,570)	13,059	-	-	(13,059)	-	-	13,059	
Net position	13,053	-	13,053	-	-	(13,053)	-	-	13,053	

2022										
Derivative assets	20,617	(16,221)	4,396	(1,523)	(116)	(361)	2,396	11	4,407	
Derivative liabilities	21,652	(19,602)	2,050	(1,523)	(280)	-	247	38	2,088	
Net position (1)	(1,035)	3,381	2,346	-	164	(361)	2,149	(27)	2,319	
Non trading reverse repos	23,255	(4,090)	19,165	-	-	(19,165)	-	-	19,165	
Non trading repos	14,260	(4,090)	10,170	-	-	(10,170)	-	-	10,170	
Net position	8,995	-	8,995	-	-	(8,995)	-	-	8,995	

	NWB Plc									
	Instruments which can be offset			Potential for offset not recognised by IFRS						
	Gross	IFRS offset	Balance sheet	Effect of master netting and similar agreements	Cash collateral	Securities collateral	Net amount after effect of netting agreements and related collateral	Instruments outside netting agreements	Balance sheet total	
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Derivative assets	18,551	(15,355)	3,196	(1,407)	(13)	(324)	1,452	17	3,213	
Derivative liabilities	20,348	(18,627)	1,721	(1,407)	(198)	-	116	293	2,014	
Net position (1)	(1,797)	3,272	1,475	-	185	(324)	1,336	(276)	1,199	
Non trading reverse repos	34,682	(8,570)	26,112	-	-	(26,112)	-	-	26,112	
Non trading repos	21,629	(8,570)	13,059	-	-	(13,059)	-	-	13,059	
Net position	13,053	-	13,053	-	-	(13,053)	-	-	13,053	

2022										
Derivative assets	20,632	(16,221)	4,411	(1,526)	(116)	(361)	2,408	19	4,430	
Derivative liabilities	21,688	(19,602)	2,086	(1,526)	(280)	-	280	496	2,582	
Net position (1)	(1,056)	3,381	2,325	-	164	(361)	2,128	(477)	1,848	
Non trading reverse repos	23,255	(4,090)	19,165	-	-	(19,165)	-	-	19,165	
Non trading repos	14,260	(4,090)	10,170	-	-	(10,170)	-	-	10,170	
Net position	8,995	-	8,995	-	-	(8,995)	-	-	8,995	

(1) Within NWB Group and NWB Plc, the net IFRS offset balance of £3,272 million (2022 - £3,381 million) relates to variation margin netting reflected on other balance sheet lines.

10 Financial instruments – valuation

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(D) = Descriptive; (T) = Table

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.

NWB 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 2.2, 3.8 and 3.11.

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.

Valuation techniques

NWB 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.

10 Financial instruments – valuation continued

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 guarantee swaps).

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

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

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

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the 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 benchmark interest rates. Benchmark rates include 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, the value of the underlying collateral, or inferred from observable credit spreads.

Valuation control

NWB 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.

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.

10 Financial instruments – valuation continued

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The 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 NWB 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.

The table below shows the assets and liabilities held by NWB Group split by fair value hierarchy level. Level 1 are considered the most liquid instruments, and level 3 the most illiquid, valued using expert judgement and so carrying 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								
Derivatives								
Interest rate	-	3,098	3	3,101	-	4,229	20	4,249
Foreign exchange	-	83	-	83	-	158	-	158
Amounts due from holding companies and fellow subsidiaries	-	-	-	-	-	5	-	5
Other financial assets								
Securities	14,159	9,334	2	23,495	5,105	4,606	2	9,713
Loans	-	278	175	453	-	369	48	417
Total financial assets held at fair value	14,159	12,793	180	27,132	5,105	9,367	70	14,542
As % of total fair value assets	52%	47%	1%		35%	65%	-	
Liabilities								
Derivatives								
Interest rate	-	1,460	9	1,469	-	1,665	7	1,672
Foreign exchange	-	249	-	249	-	416	-	416
Amounts due to holding companies and fellow subsidiaries	-	17	-	17	-	104	-	104
Other financial liabilities								
Deposits	-	13	-	13	-	17	-	17
Total financial liabilities held at fair value	-	1,739	9	1,748	-	2,202	7	2,209
As % of total fair value liabilities	-	99%	1%		-	100%	-	

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

10 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	122	166
Bid-offer	14	22
Total	136	188

Funding valuation adjustments decreased during the year, primarily driven by changes in GBP interest rates and funding spreads tightening. The decrease in bid-offer was driven by contraction in spreads.

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. The 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 NWB Group holds collateral against counterparty exposures, CVA is held to the extent that residual risk remains.

L3 additional information

For liquid 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 or inputs and input range.

Financial instrument	Valuation technique	Unobservable inputs	Units	2023		2022	
				Low	High	Low	High
Other financial assets							
Loans	Discount cash flow	Discount margin	bps	174	228	174	222
Derivative assets and liabilities							
Interest rate & FX derivatives	Discount cash flow	Conditional prepayment risk	%	3	5	2	4

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

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

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 bid-offer approach is based on current market 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 NWB 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.

10 Financial instruments: valuation continued

L3 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 and FVA 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.

As such, the fair value levelling of the derivative portfolios is not determined by CVA or FVA 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						
Derivatives						
Interest rate	3	-	-	20	-	-
Other financial assets						
Securities	2	-	-	2	-	-
Loans	175	-	(10)	48	-	-
Total	180	-	(10)	70	-	-
Liabilities						
Derivatives						
Interest rate	9	-	-	7	-	-
Total	9	-	-	7	-	-

10 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.

	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
2023								
At 1 January	20	-	50	70	7	-	-	7
Amounts recorded in the income statement (1)	(8)	-	(19)	(27)	3	-	-	3
Level 3 transfers in	-	-	23	23	-	-	-	-
Purchases/originations	-	-	122	122	-	-	-	-
Settlements/other decreases	(8)	-	-	(8)	(2)	-	-	(2)
Foreign exchange and other	(1)	-	1	-	1	-	-	1
At 31 December	3	-	177	180	9	-	-	9
Amounts recorded in the income statement in respect of balances held at period end - unrealised	(10)	-	(19)	(29)	2	-	-	2
2022								
At 1 January	1	-	52	53	139	-	-	139
Amounts recorded in the income statement (1)	19	-	(2)	17	(127)	-	-	(127)
Level 3 transfers in	-	-	-	-	-	-	-	-
Purchases/originations	-	-	-	-	-	-	-	-
Settlements/other decreases	-	-	-	-	(5)	-	-	(5)
Foreign exchange and other	-	-	-	-	-	-	-	-
At 31 December	20	-	50	70	7	-	-	7
Amounts recorded in the income statement in respect of balances held at period end - unrealised	19	-	(4)	15	(132)	-	-	(132)

(1) Net losses on trading assets and liabilities of £11 million (2022 – net gains £146 million) were 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.

10 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.

	NWB Group					Items where fair value approximates carrying value
	Carrying value	Fair value	Fair value hierarchy level			
			Level 1	Level 2	Level 3	
2023	£bn	£bn	£bn	£bn	£bn	£bn
Financial assets						
Cash and balances at central banks	48.3	48.3	-	-	-	48.3
Loans to banks	3.4	3.4	-	1.7	0.3	1.4
Loans to customers	318.5	310.7	-	25.9	284.8	-
Amounts due from holding companies and fellow subsidiaries	1.8	1.8	-	-	1.8	-
Other financial assets						
Securities	8.0	8.0	1.9	5.7	0.4	-

2022						
Financial assets						
Cash and balances at central banks	73.1	73.1	-	-	-	73.1
Loans to banks	3.2	3.2	-	2.7	0.5	-
Loans to customers	301.7	290.8	-	19.4	271.4	-
Amounts due from holding companies and fellow subsidiaries	4.2	4.1	-	-	4.1	-
Other financial assets						
Securities	4.4	4.3	0.8	3.1	0.4	-

2023						
Financial liabilities						
Bank deposits	18.1	18.2	-	14.9	0.3	3.0
Customer deposits	313.8	313.4	-	26.8	27.1	259.5
Amounts due to holding companies and fellow subsidiaries	47.0	47.0	-	29.8	12.6	4.6
Other financial liabilities						
Debt securities in issue	9.0	9.0	-	2.1	6.9	-
Subordinated liabilities	0.1	0.2	-	0.2	-	-
Notes in circulation	0.8	0.8	-	-	-	0.8

2022						
Financial liabilities						
Bank deposits	16.1	15.7	-	12.3	-	3.4
Customer deposits	322.6	322.6	-	11.9	15.8	294.9
Amounts due to holding companies and fellow subsidiaries	38.5	38.0	-	8.9	28.3	0.8
Other financial liabilities						
Debt securities in issue	5.4	5.4	-	2.9	2.5	-
Subordinated liabilities	0.2	0.2	-	0.2	-	-
Notes in circulation	0.8	0.8	-	-	-	0.8

10 Financial instruments: valuation continued

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

	NWB Plc					
	Carrying value	Fair value	Fair value hierarchy level			Items where fair value approximates carrying value
	£bn	£bn	Level 1 £bn	Level 2 £bn	Level 3 £bn	£bn
2023						
Financial assets						
Cash and balances at central banks	48.2	48.2	-	-	-	48.2
Loans to banks	3.0	3.0	-	1.7	-	1.3
Loans to customers	284.3	277.8	-	25.8	252.0	-
Amounts due from holding companies and fellow subsidiaries	32.2	31.8	-	24.1	7.7	-
Other financial assets						
Securities	7.6	7.6	1.9	5.7	-	-
2022						
Financial assets						
Cash and balances at central banks	73.1	73.1	-	-	-	73.1
Loans to banks	2.9	2.9	-	2.8	0.1	-
Loans to customers	267.4	257.2	-	19.3	237.9	-
Amounts due from holding companies and fellow subsidiaries	30.6	29.4	-	19.0	10.4	-
Other financial assets						
Securities	4.1	3.9	0.8	3.1	-	-
2023						
Financial liabilities						
Bank deposits	18.1	18.2	-	14.9	0.3	3.0
Customer deposits	276.2	275.8	-	26.8	15.6	233.4
Amounts due to holding companies and fellow subsidiaries	83.5	83.1	-	44.0	38.0	1.1
Other financial liabilities						
Debt securities in issue	8.1	8.1	-	2.1	6.0	-
Subordinated liabilities	0.1	0.2	-	0.2	-	-
Notes in circulation	0.8	0.8	-	-	-	0.8
2022						
Financial liabilities						
Bank deposits	16.1	15.7	-	12.3	-	3.4
Customer deposits	281.6	281.6	-	11.9	8.0	261.7
Amounts due to holding companies and fellow subsidiaries	74.5	73.0	-	25.8	45.3	1.9
Other financial liabilities						
Debt securities in issue	4.5	4.5	-	2.9	1.6	-
Subordinated liabilities	0.2	0.2	-	0.2	-	-
Notes in circulation	0.8	0.8	-	-	-	0.8

10 Financial instruments: valuation continued

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

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: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, 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, NWB Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

- (a) Contractual cash flows 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. This method is used for portfolios where counterparties have external ratings.
- (b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. The current methodology caps all loan values at par rather than modelling clients' option to repay loans early. This approach is adopted for lending portfolios in Retail Banking, Commercial & Institutional (SME loans) and Private Banking in order to reflect the homogeneous nature of these portfolios.

Debt securities and subordinated liabilities

Most debt securities are valued using quoted prices in active markets or from quoted prices of similar financial instruments in active markets. Fair values of the remaining population are determined using market standard valuation techniques, such as discounted cash flows, adjusting for own credit spreads where appropriate.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques. Where required, methodologies can be revised as additional information and valuation inputs become available.

11 Financial instruments - maturity analysis

Remaining maturity

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

	NWB Group					
	2023			2022		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	48,259	-	48,259	73,065	-	73,065
Derivatives	312	2,872	3,184	307	4,100	4,407
Loans to banks - amortised cost	3,091	264	3,355	2,947	250	3,197
Loans to customers - amortised cost	65,410	253,056	318,466	60,712	240,972	301,684
Amounts due from holding companies and fellow subsidiaries (1)	1,406	402	1,808	4,159	19	4,178
Other financial assets	8,458	23,486	31,944	1,161	13,385	14,546
Liabilities						
Bank deposits	6,052	12,000	18,052	4,060	12,000	16,060
Customer deposits	308,379	5,373	313,752	321,584	1,030	322,614
Derivatives	370	1,348	1,718	521	1,567	2,088
Amounts due to holding companies and fellow subsidiaries (2)	38,646	8,327	46,973	30,271	8,344	38,615
Other financial liabilities	8,148	863	9,011	2,486	2,898	5,384
Subordinated liabilities	2	120	122	74	123	197
Notes in circulation	806	-	806	809	-	809
Lease liabilities	77	436	513	112	789	901

	NWB Plc					
	2023			2022		
	Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	48,238	-	48,238	73,062	-	73,062
Derivatives	313	2,900	3,213	308	4,122	4,430
Loans to banks - amortised cost	2,793	250	3,043	2,620	250	2,870
Loans to customers - amortised cost	53,079	231,235	284,314	48,498	218,903	267,401
Amounts due from holding companies and fellow subsidiaries (1)	9,480	23,237	32,717	14,046	17,147	31,193
Other financial assets	7,607	23,485	31,092	1,161	13,019	14,180
Liabilities						
Bank deposits	6,052	12,000	18,052	4,059	12,000	16,059
Customer deposits	270,947	5,255	276,202	280,778	780	281,558
Amounts due to holding companies and fellow subsidiaries (2)	54,371	29,438	83,809	48,016	26,838	74,854
Derivatives	440	1,574	2,014	521	2,061	2,582
Other financial liabilities	8,147	-	8,147	2,486	2,039	4,525
Subordinated liabilities	2	117	119	74	117	191
Notes in circulation	806	-	806	809	-	809
Lease liabilities	66	361	427	100	702	802

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of £503 million (2022 - £725 million) for NWB Group and £782 million (2022 - £940 million) for NWB Plc have been excluded from the tables.

(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of £279 million (2022 - £156 million) for NWB Group and £365 million (2022 - £183 million) for NWB Plc have been excluded from the tables.

11 Financial instruments - maturity analysis continued

Liabilities by contractual cash flows up to 20 years

The tables below show the timing of cash outflows to settle financial liabilities, prepared on the following basis:

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays then 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 year end.

The settlement date of debt securities issued by certain securitisation vehicles consolidated by the NWB Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date.

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.

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

Held-for-trading liabilities amounting to £1.3 billion (2022 - £2.0 billion) for the NWB Group and £1.6 billion (2022 - £2.5 billion) for the NWB Plc have been excluded from the tables.

	NWB Group					
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	10-20 years
	£m	£m	£m	£m	£m	£m
2023						
Liabilities by contractual maturity up to 20 years						
Bank deposits	5,965	738	4,833	8,307	-	-
Customer deposits	284,733	23,882	5,361	10	9	-
Amounts due to holding companies and fellow subsidiaries (1)	32,260	6,846	3,279	4,740	1,840	-
Derivatives held for hedging	71	149	308	149	86	11
Other financial liabilities	3,618	4,635	297	378	110	79
Subordinated liabilities	-	10	21	21	55	104
Notes in circulation	806	-	-	-	-	-
Lease liabilities	23	61	134	76	126	102
	327,476	36,321	14,233	13,681	2,226	296
Guarantees and commitments notional amount						
Guarantees (2)	1,387	-	-	-	-	-
Commitments (3)	75,891	-	-	-	-	-
	77,278	-	-	-	-	-
2022						
Liabilities by contractual maturity up to 20 years						
Bank deposits	4,165	311	5,019	8,503	-	-
Customer deposits	314,550	7,106	1,028	1	12	-
Amounts due to holding companies and fellow subsidiaries (1)	26,150	4,328	2,855	3,778	3,526	-
Derivatives held for hedging	36	131	357	96	79	11
Other financial liabilities	2,312	175	2,461	375	109	79
Subordinated liabilities	76	10	21	21	59	104
Notes in circulation	809	-	-	-	-	-
Lease liabilities	34	91	211	167	254	206
	348,132	12,152	11,952	12,941	4,039	400
Guarantees and commitments notional amount						
Guarantees (2)	1,728	-	-	-	-	-
Commitments (3)	86,022	-	-	-	-	-
	87,750	-	-	-	-	-

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

11 Financial instruments - maturity analysis continued

2023	NWB Plc					
	0-3 months £m	3-12 months £m	1-3 years £m	3-5 years £m	5-10 years £m	10-20 years £m
Liabilities by contractual maturity up to 20 years						
Bank deposits	5,965	738	4,833	8,307	-	-
Customer deposits	251,691	19,361	5,248	1	9	-
Amounts due to holding companies and fellow subsidiaries (1)	41,705	13,625	11,048	18,227	2,613	-
Derivatives held for hedging	70	149	306	147	83	11
Other financial liabilities	3,619	4,635	-	-	-	-
Subordinated liabilities	-	10	21	21	52	104
Notes in circulation	806	-	-	-	-	-
Lease liabilities	18	53	124	71	118	86
	303,874	38,571	21,580	26,774	2,875	201
Guarantees and commitments notional amount						
Guarantees (2)	1,331	-	-	-	-	-
Commitments (3)	72,101	-	-	-	-	-
	73,432	-	-	-	-	-
2022						
Liabilities by contractual maturity up to 20 years						
Bank deposits	4,165	311	5,019	8,503	-	-
Customer deposits	276,773	4,035	770	1	12	-
Amounts due to holding companies and fellow subsidiaries (1)	39,068	9,478	14,078	11,004	4,139	-
Derivatives held for hedging	33	130	355	94	76	11
Other financial liabilities	2,312	175	2,165	-	-	-
Subordinated liabilities	76	10	21	21	52	104
Notes in circulation	809	-	-	-	-	-
Lease liabilities	29	84	196	160	245	188
	323,265	14,223	22,604	19,783	4,524	303
Guarantees and commitments notional amount						
Guarantees (2)	1,664	-	-	-	-	-
Commitments (3)	82,135	-	-	-	-	-
	83,799	-	-	-	-	-

(1) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments have been excluded from the tables.

(2) NWB Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. NWB Group expects most guarantees it provides to expire unused.

(3) NWB 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. NWB does not expect all facilities to be drawn, and some may lapse before drawdown.

12 Derivatives

NWB Group uses derivatives to manage its own risk such as interest rate, foreign exchange, or credit risk or in certain customer transactions.

	NWB Group					
	2023			2022		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	19.7	83	249	33.5	158	416
Interest rate contracts	669.6	3,101	1,469	490.2	4,249	1,672
Total	689.3	3,184	1,718	523.7	4,407	2,088

	NWB Plc					
	2023			2022		
	Notional £bn	Assets £m	Liabilities £m	Notional £bn	Assets £m	Liabilities £m
Exchange rate contracts	20.9	83	271	34.7	159	434
Interest rate contracts	683.5	3,130	1,743	498.4	4,271	2,148
Total	704.4	3,213	2,014	533.1	4,430	2,582

Hedge accounting using derivatives

For accounting policy information refer to Accounting policies 3.8 and 3.12.

Refer to Note 33 for amounts due from/to fellow NatWest Group subsidiaries.

NWB 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.

NWB Group's interest rate hedging relates to the management of NWB Group's non-trading structural interest rate risk, caused by the mismatch between fixed interest rates and floating interest rates on its financial instruments. NWB 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 SOFR, EURIBOR, SONIA and the Bank of England Official Bank Rate. The variability in cash flows due to movements in the relevant interest rate is hedged; this risk component is identified using the risk management systems of NWB 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, EURIBOR and SONIA. These risk components are identified using the risk management systems of NWB Group and encompass the majority of the hedged item's fair value risk.

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

NWB 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 NWB 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, NWB 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.

NWB 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.

12 Derivatives continued

Derivatives in hedge accounting relationships

Included in the tables above are derivatives held for hedging purposes as follows.

	NWB Group				2022			
	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 (2)	34.1	620	1,159	(167)	23.7	981	1,022	1,563
Cash flow hedging								
Interest rate contracts	97.0	1,994	3,056	(305)	117.9	3,045	3,491	(552)
Exchange rate contracts	2.6	2	3	(3)	0.2	4	3	(5)
Net investment hedging								
Exchange rate contracts	0.1	-	7	(2)	0.1	-	4	1
	133.8	2,616	4,225	(477)	141.9	4,030	4,520	1,007
IFRS netting and clearing house settlements		(2,090)	(3,820)			(3,289)	(4,262)	
		526	405			741	258	

	NWB Plc				2022			
	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 (2)	33.9	619	1,125	(183)	23.4	980	968	1,595
Cash flow hedging								
Interest rate contracts	97.0	1,994	3,056	(305)	117.9	3,045	3,491	(552)
Exchange rate contracts	2.6	-	3	(2)	0.1	2	3	(5)
	133.5	2,613	4,184	(490)	141.4	4,027	4,462	1,038
IFRS netting and clearing house settlements		(2,090)	(3,786)			(3,289)	(4,211)	
		523	398			738	251	

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

(2) The hedged risk includes inflation risk.

Hedge ineffectiveness

Hedge ineffectiveness recognised in other operating income comprised.

	NWB Group	
	2023 £m	2022 £m
Fair value hedging		
Gain/(loss) on hedged items attributable to the hedged risk	194	(1,548)
(Loss)/gain on the hedging instruments	(167)	1,563
Fair value hedging ineffectiveness	27	15
Cash flow hedging		
Interest rate risk	(4)	5
Cash flow hedging ineffectiveness	(4)	5
Total	23	20

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; and
- Upfront present values on the hedging derivatives where hedge accounting relationships have been designated after the trade date.

12 Derivatives continued

Maturity of notional hedging contracts

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

	NWB Group						Total £bn
	0-3 months £bn	3-12 months £bn	1-3 years £bn	3-5 years £bn	5-10 years £bn	Over 10 years £bn	
2023							
Fair value hedging							
Interest rate risk (1)							
Hedging assets	0.1	1.6	5.4	7.2	4.2	2.9	21.4
Hedging liabilities	2.2	1.7	2.7	4.3	1.8	-	12.7
2022							
Fair value hedging							
Interest rate risk (1)							
Hedging assets	0.2	0.2	3.0	3.5	3.2	2.1	12.2
Hedging liabilities	-	0.2	4.5	3.4	3.4	-	11.5
2023							
Cash flow hedging							
Interest rate risk							
Hedging assets	1.5	2.1	22.9	12.2	5.3	-	44.0
Hedging liabilities	0.5	4.8	31.2	15.5	1.0	-	53.0
Exchange rate risk							
Hedging assets	0.3	0.7	0.5	-	-	-	1.5
Hedging liabilities	0.8	0.2	0.1	-	-	-	1.1
2022							
Cash flow hedging							
Interest rate risk							
Hedging assets	4.7	6.7	24.8	11.7	5.0	-	52.9
Hedging liabilities	8.5	21.5	19.1	8.0	7.9	-	65.0
Exchange rate risk							
Hedging assets	-	-	-	-	-	-	-
Hedging liabilities	-	0.2	-	-	-	-	0.2

(1) The hedged risk includes inflation risk.

12 Derivatives continued

Maturity of notional hedging contracts continued

	NWB Plc						
	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	Over 10 years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
2023							
Fair value hedging							
Interest rate risk (1)							
Hedging assets	0.1	1.6	5.4	7.2	4.1	3.1	21.5
Hedging liabilities	2.2	1.7	2.7	4.3	1.5	-	12.4
2022							
Fair value hedging							
Interest rate risk (1)							
Hedging assets	0.2	0.2	3.0	3.4	3.1	2.0	11.9
Hedging liabilities	-	0.2	4.5	3.4	3.4	-	11.5
2023							
Cash flow hedging							
Interest rate risk							
Hedging assets	1.5	2.1	22.9	12.2	5.3	-	44.0
Hedging liabilities	0.5	4.8	31.2	15.5	1.0	-	53.0
Exchange rate risk							
Hedging assets	0.3	0.7	0.5	-	-	-	1.5
Hedging liabilities	0.8	0.2	0.1	-	-	-	1.1
2022							
Cash flow hedging							
Interest rate risk							
Hedging assets	4.7	6.7	24.8	11.7	5.0	-	52.9
Hedging liabilities	8.5	21.5	19.1	8.0	7.9	-	65.0
Exchange rate risk							
Hedging assets	-	-	-	-	-	-	-
Hedging liabilities	0.1	-	-	-	-	-	0.1

(1) The hedged risk includes inflation risk.

Average fixed interest rates

Average fixed rate for cash flow hedges, interest rate risk, for NWB Group and NWB Plc.

	0-3 months	3-12 months	1-3 years	3-5 years	5-10 years	Over 10 years	Total
	%	%	%	%	%	%	%
2023							
Average fixed interest rate							
Hedging assets	0.87	2.84	1.29	4.04	1.28	-	2.11
Hedging liabilities	0.71	1.37	3.95	2.96	1.92	-	3.36
2022							
Average fixed interest rate							
Hedging assets	1.47	1.39	1.51	2.64	0.69	-	1.67
Hedging liabilities	0.10	0.70	2.47	1.63	2.54	-	1.48

Average foreign exchange rates

For cash flow hedging of exchange rate risk, the average foreign exchange rates applicable across the relationships for NWB Group and NWB Plc were as below for the main currencies hedged.

	2023	2022
USD/GBP	1.26	-
INR/GBP	105.03	100.54
CHF/GBP	1.08	1.15

12 Derivatives continued

Analysis of hedged items and related hedging instruments

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

	NWB Group		
	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
2023			
Fair value hedging - interest rate (2)			
Loans to banks and customers - amortised cost	2,857	(378)	79
Other financial assets - securities	18,451	265	509
Total (3)	21,308	(113)	588
Other financial liabilities - debt securities in issue	8,670	(418)	(297)
Subordinated liabilities	3,636	(115)	(97)
Total	12,306	(533)	(394)
2022			
Fair value hedging - interest rate (2)			
Loans to banks and customers - amortised cost	2,347	(490)	(592)
Other financial assets - securities	8,600	(666)	(2,008)
Total (3)	10,947	(1,156)	(2,600)
Other financial liabilities - debt securities in issue	8,430	(696)	835
Subordinated liabilities	2,241	(261)	217
Total	10,671	(957)	1,052
2023			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (4)	43,693		(1,529)
Other financial assets - securities	354		(13)
Total	44,047		(1,542)
Bank and customer deposits	52,964		1,843
Other financial liabilities - debt securities in issue	-		-
Total	52,964		1,843
Cash flow hedging - exchange rate			
Loans to banks and customers - amortised cost (4)	583		-
Other financial assets - securities	1,839		-
Total	2,422		-
Other	201		3
2022			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (4)	52,540		2,593
Other financial assets - securities	261		12
Total	52,801		2,605
Bank and customer deposits	65,034		(2,046)
Other financial liabilities - debt securities in issue	80		(2)
Total	65,114		(2,048)
Cash flow hedging - exchange rate			
Loans to banks and customer - amortised cost	-		-
Other financial assets - securities	-		-
Total	-		-
Other	204		5

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

(2) The hedged risk includes inflation risk.

(3) Carrying values include £25 million (2022 - £24 million) adjustment for discontinued fair value hedges.

(4) Includes cash and balances at central banks.

12 Derivatives continued

Analysis of hedged items and related hedging instruments - continued

	NWB Plc		
	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
2023			
Fair value hedging - interest rate (2)			
Loans to banks and customers - amortised cost	2,776	(381)	77
Other financial assets - securities	18,451	265	509
Total (3)	21,227	(116)	586
Other financial liabilities - debt securities in issue	8,399	(384)	(280)
Subordinated liabilities	3,636	(115)	(97)
Total	12,035	(499)	(377)
2022			
Fair value hedging - interest rate (2)			
Loans to banks and customers - amortised cost	2,274	(491)	(579)
Other financial assets - securities	8,600	(666)	(2,008)
Total (3)	10,874	(1,157)	(2,587)
Other financial liabilities - debt securities in issue	8,172	(644)	790
Subordinated liabilities	2,241	(261)	217
Total	10,413	(905)	1,007
2023			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (4)	43,693		(1,529)
Other financial assets - securities	354		(13)
Total	44,047		(1,542)
Bank and customer deposits	52,964		1,843
Other financial liabilities - debt securities in issue	-		-
Total	52,964		1,843
Cash flow hedging - exchange rate			
Loans to banks and customers - amortised cost (4)	583		-
Other financial assets - securities	1,839		-
Total	2,422		-
Other	143		2
2022			
Cash flow hedging - interest rate			
Loans to banks and customers - amortised cost (4)	52,540		2,593
Other financial assets - securities	261		12
Total	52,801		2,605
Bank and customer deposits	65,034		(2,046)
Other financial liabilities - debt securities in issue	80		(2)
Total	65,114		(2,048)
Cash flow hedging - exchange rate			
Other	149		6

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

(2) The hedged risk includes inflation risk.

(3) Carrying values include nil (2022 - £2 million) adjustment for discontinued fair value hedges.

(4) Includes cash and balances at central banks.

12 Derivatives continued

Analysis of cash flow and foreign exchange hedge reserve

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

	NWB Group			
	2023		2022	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(812)	-	(544)	-
Foreign exchange risk	(1)	(6)	2	(16)
De-designated				
Interest rate risk	(20)	-	(1)	-
Foreign exchange risk	-	16	-	13
Total	(833)	10	(543)	(3)

	NWB Plc			
	2023		2022	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Continuing				
Interest rate risk	(812)	-	(544)	-
Foreign exchange risk	(3)	1	(1)	(15)
De-designated				
Interest rate risk	(20)	-	(1)	-
Foreign exchange risk	-	(4)	-	-
Total	(835)	(3)	(546)	(15)

12 Derivatives continued

Analysis of cash flow and foreign exchange hedge reserve continued

	NWB Group			
	2023		2022	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	(218)	-	(288)	-
Foreign exchange risk	38	14	5	(31)
Total	(180)	14	(283)	(31)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	(61)	-	(258)	-
Interest rate risk to non interest income (1)	(8)	-	16	-
Interest rate risk to operating expenses	-	-	(14)	-
Foreign exchange risk to net interest income	(43)	-	-	-
Foreign exchange risk to operating expenses	2	-	(3)	-
Total	(110)	-	(259)	-

	NWB Plc			
	2023		2022	
	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m	Cash flow hedge reserve £m	Foreign exchange hedge reserve £m
Amount recognised in equity				
Interest rate risk	(218)	-	(288)	-
Foreign exchange risk	38	12	-	(33)
Total	(180)	12	(288)	(33)
Amount transferred from equity to earnings				
Interest rate risk to net interest income	(61)	-	(257)	-
Interest rate risk to non interest income (1)	(8)	-	16	-
Foreign exchange risk to net interest income	(44)	-	(14)	-
Foreign exchange risk to operating expenses	4	-	-	-
Total	(109)	-	(255)	-

(1) There was £8 million (2022 - £16 million) reclassified with the cash flow reserve to earnings due to forecasted cash flows that are no longer expected to occur in NWB Plc and NWB Group.

13 Loan impairment provisions

Loan exposure and impairment metrics

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

	NWB Group		NWB Plc	
	31 December 2023 £m	31 December 2022 £m	31 December 2023 £m	31 December 2022 £m
Loans - amortised cost				
Stage 1	288,772	266,722	258,188	236,809
Stage 2	31,727	37,216	28,008	32,765
Stage 3	4,405	3,783	4,003	3,383
Inter-group (1)	1,809	4,220	32,200	30,633
Total	326,713	311,941	322,400	303,590
ECL provisions (2)				
Stage 1	566	506	521	459
Stage 2	794	813	746	765
Stage 3	1,512	1,262	1,416	1,170
Inter-group	1	4	41	48
	2,873	2,585	2,724	2,442
ECL provision coverage (3)				
Stage 1 (%)	0.2	0.19	0.2	0.19
Stage 2 (%)	2.5	2.18	2.7	2.33
Stage 3 (%)	34.3	33.36	35.4	34.58
Inter-group (%)	0.1	0.09	0.1	0.16
	0.88	0.84	0.92	0.88
Impairment (releases)/losses				
ECL (release)/charge (4)				
Stage 1	(319)	(243)	(302)	(256)
Stage 2	529	348	516	373
Stage 3	297	233	276	234
Third party	507	338	490	351
Inter-group	(3)	3	(7)	40
	504	341	483	391
Amounts written-off	235	321	218	272

(1) NWB Group's intercompany assets are classified in Stage 1.

(2) Includes £8 million (2022 – £2 million) related to assets classified as FVOCI.

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

(4) Includes a £10 million charge (2022 – nil) related to other financial assets, of which a £6 million charge (2022 – £1 million release) related to assets classified as FVOCI, and includes a £2 million release (2022 – nil) related to contingent liabilities.

(5) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to 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 totaling £47.8 billion (2022 – £72.5 billion) and debt securities of £31.5 billion (2022 – £14.1 billion).

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 Note 2.3 sets out how the expected loss approach is applied. At 31 December 2023, customer loan impairment provisions amounted to £2,873 million (2022 – £2,585 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.

14 Investments in Group undertakings

Critical accounting policy: Investments in Group undertakings

At each reporting date, NatWest Bank Plc assesses whether there is any indication that its investment in its Group undertakings is impaired. If any such indication exists, NatWest Bank Plc undertakes an impairment test by comparing the carrying value of the investment in its Group undertakings with its estimated recoverable amount. The key judgement is in determining the recoverable amount. The recoverable amount of an investment in its Group undertakings is the higher of its fair value less cost to sell and its value in use, being an assessment of the discounted future cash flows of the entity. Impairment testing inherently involves a number of judgements: the five-year cash flow forecast, the choice of appropriate discount and growth rates, and the estimation of fair value. For accounting policy information refer to Accounting policy Note 2.5.

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

	NWB Plc	
	2023	2022
	£m	£m
At 1 January	2,030	2,319
Currency translation and other adjustments	(3)	(2)
Additional investments in Group undertakings	621	276
Disposals of investments in Group undertakings	(35)	(227)
Net reversal/(impairment) of impairment of investments	2	(336)
At 31 December	2,615	2,030

The recoverable amount of investments in Group undertakings is the higher of net asset value as a proxy for fair value less cost to sell or value in use. Where recoverable value is based on net asset value, the fair value measurement is categorised as Level 3 of the fair value hierarchy. The carrying value of Investments in Group undertakings at 31 December 2023 is supported by the respective recoverable values of the entities.

2023 additional investments relate primarily to the investments of £471 million in NatWest RT Holdings Limited and of £140 million in NatWest Nominee 1 Limited. Disposals relate to Coutts & Company's AT1 redemption of £35 million. The additions and disposals in 2022 were related to Coutts & Company AT1 issuance and redemption.

In 2023, net reversal of impairment of investments comprises a £47 million reversal of NatWest Bank Plc's investment in Strand European Holdings AB following the annual assessment of its recoverable amount and a £42 million impairment of NatWest Bank Plc's investment in Ulster Bank Limited due to a decline in its recoverable amount. The impairment in 2022 was primarily related to the investment in Ulster Bank Limited.

The annual assessment of recoverable amount as at 31 December 2023 did not indicate the need for an impairment of the investment in Coutts & Company. Reasonably possible adverse changes to the more significant variables of the value in use calculation for Coutts & Company would not lead to a reduction in the recoverable amount below its carrying value.

The principal subsidiary undertakings of NatWest Bank Plc are shown below and are wholly-owned directly or indirectly through intermediate holding companies. Their capital consists of ordinary shares and additional Tier 1 notes which are unlisted. All subsidiary undertakings are included in NWB Group's consolidated financial statements and have an accounting reference date of 31 December.

	Nature of business	Country of incorporation and principal area of operations
Coutts & Company ⁽¹⁾	Private banking	Great Britain
Lombard North Central PLC	Leasing	Great Britain

(1) Coutts & Company is incorporated with unlimited liability.

For accounting policy information refer to Accounting policy Note 2.5.

For full information on all related undertakings refer to Note 36.

15 Other financial assets

	NWB Group								
	Debt securities					Equity shares	Loans	Settlement balances	Total
	Central and local government			Other debt	Total				
	UK	US	Other						
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	-	-	-	-	-	-	453	-	453
Fair value through other comprehensive income	5,949	3,045	5,165	9,334	23,493	2	-	-	23,495
Amortised cost	1,728	-	-	6,264	7,992	-	-	4	7,996
Total	7,677	3,045	5,165	15,598	31,485	2	453	4	31,944

2022	UK £m	US £m	Other £m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	-	-	-	-	-	-	417	-	417
Fair value through other comprehensive income	681	3,171	431	5,428	9,711	2	-	-	9,713
Amortised cost	888	-	-	3,522	4,410	-	-	6	4,416
Total	1,569	3,171	431	8,950	14,121	2	417	6	14,546

	NWB Plc								
	Debt securities								
	Central and local government								
	UK	US	Other	Other debt	Total	Equity shares	Loans	Settlement balances	Total
2023	£m	£m	£m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	-	-	-	-	-	-	453	-	453
Fair value through other comprehensive income	5,467	3,045	5,165	9,334	23,011	2	-	-	23,013
Amortised cost	1,728	-	-	5,894	7,622	-	-	4	7,626
Total	7,195	3,045	5,165	15,228	30,633	2	453	4	31,092

2022	UK £m	US £m	Other £m	£m	£m	£m	£m	£m	£m
Mandatory fair value through profit or loss	-	-	-	-	-	-	417	-	417
Fair value through other comprehensive income	681	3,171	431	5,428	9,711	2	-	-	9,713
Amortised cost	888	-	-	3,156	4,044	-	-	6	4,050
Total	1,569	3,171	431	8,584	13,755	2	417	6	14,180

For accounting policy information refer to Accounting policy 3.8.

16 Other assets

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Intangible assets (Note 17)	1,897	1,607	1,698	1,458
Property, plant and equipment (Note 18)	3,751	3,704	2,021	1,969
Pension schemes in net surplus (Note 5)	5	7	-	-
Assets of disposal groups	24	6	24	3
Prepayments	331	321	273	286
Accrued income	199	151	106	82
Tax recoverable	40	229	-	331
Deferred tax (Note 7)	981	1,117	966	1,104
Acceptances	327	128	312	119
Other assets	394	397	335	289
	7,949	7,667	5,735	5,641

17 Intangible assets

	NWB Group					
	2023			2022		
	Goodwill £m	Other (1) £m	Total £m	Goodwill £m	Other (1) £m	Total £m
Cost						
At 1 January	623	3,706	4,329	623	3,014	3,637
Currency translation and other adjustments	-	-	-	-	(3)	(3)
Additions	-	737	737	-	722	722
Disposals and write-off of fully amortised assets	-	(114)	(114)	-	(27)	(27)
At 31 December	623	4,329	4,952	623	3,706	4,329
Accumulated amortisation and impairment						
At 1 January	564	2,158	2,722	564	1,841	2,405
Currency translation and other adjustments	-	-	-	-	(3)	(3)
Disposals and impairment of fully amortised assets	-	(115)	(115)	-	(18)	(18)
Amortisation charge for the year	-	425	425	-	338	338
Impairment of intangible assets	1	22	23	-	-	-
At 31 December	565	2,490	3,055	564	2,158	2,722
Net book value at 31 December	58	1,839	1,897	59	1,548	1,607

	NWB Plc	
	2023 ⁽¹⁾	2022 ⁽¹⁾
	£m	£m
Cost		
At 1 January	3,568	2,889
Currency translation and other adjustments	-	-
Additions	669	690
Disposals and write-off of fully amortised assets	(126)	(11)
At 31 December	4,111	3,568
Accumulated amortisation and impairment		
At 1 January	2,110	1,789
Currency translation and other adjustments	-	-
Disposals and write-off of fully amortised assets	(109)	(1)
Amortisation charge for the year	394	322
Impairment of intangible assets	18	-
At 31 December	2,413	2,110
Net book value at 31 December	1,698	1,458

(1) Principally consists of internally generated software.

Intangible assets and goodwill are reviewed for indicators of impairment. Impairment testing involves the comparison of the carrying value of each cash-generating unit (CGU) with its recoverable amount. The carrying values of the segments reflect the equity allocations made by management which are consistent with NatWest Group's capital targets. Intangible assets of NWB Group were impaired by £23 million in 2023. In 2022 no impairment was indicated.

Recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Value in use is the present value of expected future cash flows from the CGU.

The recoverable amounts for all CGUs at 31 December 2023 were based on value in use, using management's latest five-year revenue and cost forecasts. These are discounted cash flow projections over five years. The forecast is then extrapolated in perpetuity using a long-term growth rate to compute a terminal value, which comprises the majority of the value in use. The long-term growth rates have been based on expected growth of the CGUs. The pre-tax risk discount rates are based on those observed to be applied to businesses regarded as peers of the CGUs: 2023 - 16% (2022 - 15.3%).

For accounting policy information refer to Accounting policies 3.3 and 3.4.

18 Property, plant and equipment

	NWB Group			
	Investment properties £m	Property, plant and equipment £m	Operating leases £m	Total £m
2023				
Cost or valuation				
At 1 January	941	7,042	1,129	9,112
Transfers to disposal groups	-	(485)	-	(485)
Transfers to fellow subsidiaries	-	(8)	-	(8)
Currency translation and other adjustments (1)	(51)	(8)	-	(59)
Additions	81	627	156	864
Disposals and write-off of fully depreciated assets	-	(974)	(211)	(1,185)
At 31 December	971	6,194	1,074	8,239
Accumulated impairment, depreciation and amortisation				
At 1 January	-	4,796	612	5,408
Transfers to disposal groups	-	(396)	-	(396)
Transfers to fellow subsidiaries	-	-	-	-
Currency translation and other adjustments (2)	-	(3)	-	(3)
Disposals and write-off of fully depreciated assets	-	(799)	(152)	(951)
Charge for the year	-	241	115	356
Impairment of property, plant and equipment	-	74	-	74
At 31 December	-	3,913	575	4,488
Net book value at 31 December	971	2,281	499	3,751
2022				
Cost or valuation				
At 1 January	840	6,970	1,095	8,905
Transfers to disposal groups	-	(7)	-	(7)
Transfers to fellow subsidiaries	-	(10)	-	(10)
Currency translation and other adjustments (1)	(17)	(9)	-	(26)
Additions	145	399	146	690
Disposals and write-off of fully depreciated assets	(27)	(301)	(112)	(440)
At 31 December	941	7,042	1,129	9,112
Accumulated impairment, depreciation and amortisation				
At 1 January	-	4,692	569	5,261
Transfers to disposal groups	-	(4)	-	(4)
Transfers to fellow subsidiaries	-	4	-	4
Currency translation and other adjustments (2)	-	28	-	28
Disposals and write-off of fully depreciated assets	-	(224)	(85)	(309)
Charge for the year	-	264	128	392
Impairment of property, plant and equipment	-	36	-	36
At 31 December	-	4,796	612	5,408
Net book value at 31 December	941	2,246	517	3,704

(1) Currency translation and other adjustments includes fair value adjustment in investment properties of £6 million (2022: £7 million) for NWB Group

(2) Other adjustments include the effect of the purchase of freeholds for properties where the NWB Group was the primary leaseholder.

Investment property valuations principally employ present value techniques that discount expected cash flows. Expected cash flows reflect rental income, occupancy and residual market values; valuations are sensitive to changes in these factors. The investment property fair value measurements are categorised as level 3. A 5% change in the most sensitive assumption, residual values, is £32 million (2022 - £33 million) on the value of Investment property.

Valuations were carried out by qualified surveyors working within the Royal Institution of Chartered Surveyors framework; property with a fair value of £109 million (2022 - £135million) was valued by independent valuers for the purposes of year end valuations.

For accounting policy information refer to Accounting policies 3.4 and 3.5.

18 Property, plant and equipment continued

	NWB Plc	
	31 December 2023 £m	31 December 2022 £m
Cost		
At 1 January	6,572	6,479
Transfers to disposal groups	(485)	(7)
Transfers to subsidiaries and fellow subsidiaries	(10)	(10)
Currency translation and other adjustments	(6)	(9)
Additions	616	381
Disposals and write-off of fully depreciated assets	(936)	(262)
At 31 December	5,751	6,572
Accumulated impairment and depreciation		
At 1 January	4,603	4,496
Transfers to disposal groups	(397)	(4)
Transfers to subsidiaries and fellow subsidiaries	-	4
Currency translation and other adjustments (1)	(2)	26
Disposals and write-off of fully depreciated assets	(768)	(194)
Charge for the year	219	240
Impairment for the year	75	35
At 31 December	3,730	4,603
Net book value at 31 December	2,021	1,969

(1) Other adjustments include the effect of the purchase of freeholds for properties where the NWB Group was the primary leaseholder.

19 Other financial liabilities

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Bank deposits - held-for-trading	6	7	6	7
Customer deposits - held-for-trading	7	10	7	10
Settlement balances	4	2	4	2
Debt securities in issue				
- Commercial paper and certificates of deposit	6,009	1,664	6,008	1,664
- Covered bonds	2,122	2,842	2,122	2,842
- Securitisation	863	859	-	-
Total	9,011	5,384	8,147	4,525

For accounting policy information refer to Accounting policies 3.8 and 3.10.

20 Subordinated liabilities

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Undated loan capital	3	78	-	72
Preference shares (2)	119	119	119	119
	122	197	119	191

(1) The table above excludes amounts due to holding company and fellow subsidiaries of £3,636 million (2022 - £2,941 million) for NWB Group and £3,636 million (2022 - £2,941 million) for NWB Plc. Refer to intercompany balances in Note 33.

(2) The preference shares issued by NWB Plc are classified as liabilities; these securities remain subject to the capital maintenance rules of the Companies Act 2006.

For accounting policy information refer to Accounting policies 3.8 and 3.10.

					2023	2022
					£m	£m
Undated loan capital						
NatWest Bank Plc		First call date	Maturity date	Capital treatment		
£35 million	11.500% notes	Dec-22	-	Tier 2	-	72
					-	72
Preference shares						
NatWest Bank Plc						
£140 million	Non-cumulative preference shares of £1	-	-	Not applicable	119	119
					119	119
					119	191
Undated loan capital other subsidiaries						
					3	6
					122	197

The following tables analyse these intercompany subordinated liabilities:

							NWB Group and NWB Plc	
							2023	2022
							£m	£m
Other subsidiaries								
Dated loan capital							3,636	2,241
Undated loan capital							-	700
Preference shares							-	-
							3,636	2,941
Dated loan capital								
NatWest Bank Plc							2023	2022
							£m	£m
€411.4 million	1.043% notes	Jun-27	Sep-32	Tier 2			325	311
\$750 million	3.754% notes	Nov-24	Nov-29	Tier 2			575	594
£500 million	3.622% notes	Aug-25	Aug-30	Tier 2			479	458
£1000 million	2.105% notes	May-26	Nov-31	Tier 2			919	878
£650 million	7.536% notes	Nov-28	Jun-33	Tier 2			679	-
€700 million	5.763% notes	Jun-28	Feb-34	Tier 2			659	-
							3,636	2,241
Undated loan capital								
NatWest Bank Plc								
£700 million	Floating rate notes	-	-	Tier 2			-	700
								700

(1) Further details of the contractual terms of the preference shares are given in Note 22.

21 Other liabilities

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Lease liabilities	513	901	427	802
Provisions for liabilities and charges	456	550	424	519
Retirement benefit liabilities (Note 5)	37	35	9	9
Accruals	1,068	1,009	872	878
Deferred income	264	232	242	212
Current tax	137	2	46	2
Deferred tax (Note 7)	89	130	-	-
Acceptances	327	128	312	119
Other liabilities	434	483	202	202
Total	3,325	3,470	2,534	2,743

	NWB Group				
	Redress and other litigation £m	Property £m	Financial commitments and guarantees £m	Other (1) £m	Total £m
Provisions for liabilities and charges					
At 1 January 2023	292	105	59	94	550
Expected credit losses impairment release	-	-	(3)	-	(3)
Currency translation and other movements	(4)	-	-	(4)	(8)
Charge to income statement	102	29	-	84	215
Release to income statement	(17)	(47)	-	(24)	(88)
Provisions utilised	(126)	(23)	-	(61)	(210)
At 31 December 2023	247	64	56	89	456

	NWB Plc				
	Redress and other litigation £m	Property £m	Financial commitments and guarantees £m	Other (1) £m	Total £m
Provisions for liabilities and charges					
At 1 January 2023	286	103	57	73	519
Expected credit losses impairment release	-	-	(3)	-	(3)
Currency translation and other movements	(3)	-	-	(2)	(5)
Charge to income statement	98	28	-	75	201
Release to income statement	(16)	(46)	-	(21)	(83)
Provisions utilised	(124)	(22)	-	(59)	(205)
At 31 December 2023	241	63	54	66	424

(1) Other materially comprises provisions relating to restructuring costs.

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

For accounting policy information refer to Accounting policy Note 2.4.

Critical accounting policy: Provisions for liabilities

The key judgement is involved in determining whether a present obligation exists. There is often a high degree of uncertainty and judgement is based on the specific facts and circumstances relating to individual events in determining whether there is a present obligation. Judgement is also involved in estimation of the probability, timing and amount of any outflows. Where NWB Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

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

- Customer redress: Provisions reflect the estimated cost of redress attributable to claims where it is determined that a present obligation exists.
- Litigation and other regulatory: NWB Group is engaged in various legal proceedings, both in the UK and in overseas jurisdictions, including the US. For further information in relation to legal proceedings and discussion of the associated uncertainties, refer to Note 26.
- Property: This includes provision for contractual costs associated with vacant properties.
- Other provisions: These materially comprise provisions for onerous contracts and restructuring costs. Onerous contract provisions comprise an estimate of the costs involved in fulfilling the terms and conditions of contracts net of any expected benefits to be received. This includes provision for contractual costs associated with vacant properties. Redundancy and restructuring provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists.

Background information on all material provisions is given in Note 26.

22 Share capital and reserves

Allotted, called up and fully paid	2023 £m	2022 £m	Number of shares - 000s	
			2023 000s	2022 000s
Ordinary shares of £1	1,678	1,678	1,678,177	1,678,177
Non-cumulative preference shares of £1	116	116	116,349	116,349

Ordinary shares

No ordinary shares were issued during 2023 or 2022.

In 2023, NWB Plc paid an ordinary dividend of £1.7 billion to NWH Ltd (2022 – £3.3 billion).

Preference shares

The 9% non-cumulative preference shares Series A of £1 each are non-redeemable.

The holders of preference shares are entitled, on the winding-up of NWB Plc, to priority over the ordinary shareholders as regards payment of capital. Otherwise the holders of preference shares are not entitled to any further participation in the profits or assets of NWB Plc.

The holders of preference shares are not entitled to receive notice of, attend, or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of NWB Plc or the sale of the whole of the business of NWB Plc or any resolution directly affecting any of the special rights or privileges attached to any of the classes of preference shares.

Under IFRS, NWB Plc preference shares are classified as debt and are included in subordinated liabilities on the balance sheet Note 20.

Paid-in equity

Comprises equity instruments issued by NWB Plc other than those legally constituted as shares.

Additional Tier 1 Instruments issued by NWB Plc having the legal form of debt are classified as equity under IFRS. The coupons on these Instruments are non-cumulative and payable at NWB Plc's discretion.

Capital recognised for regulatory purposes cannot be redeemed without Prudential Regulation Authority consent. This includes ordinary shares, preference shares and additional Tier 1 Instruments.

Reserves

Under UK companies legislation, when shares are redeemed or purchased wholly or partly out of NWB Plc's profits, the amount by which NWB Plc's issued share capital is diminished must be transferred to the capital redemption reserve. The capital maintenance provisions of UK companies legislation apply to the capital redemption reserve as if it were part of NWB Plc's paid up share capital.

UK law prescribes that only distributable reserves of NWB Plc are taken into account for the purpose of making distributions, this includes permissible applications within the share premium account and capital redemption reserve of £631 million (2022 – £631 million).

NWB Plc optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. Certain preference shares and subordinated debt are also included within regulatory capital. The remittance of reserves to the parent company or the redemption of shares or subordinated capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

For accounting policy information refer to Accounting policy Note 3.10

	2023 £m	2022 £m
Additional Tier 1 instruments		
US \$2,000 million 3.8495% instruments callable - August 2023	1,007	1,007
US \$750 million 4.3517% instruments callable - June 2023	541	541
GBP £400 million 3.9438% instruments callable - March 2028	400	400
GBP £500 million 6.8543% instruments callable - May 2027	500	500
	2,581	2,581

23 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.

Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred, or the credit risk is transferred via a derivative or financial guarantee to a SE which then issues liabilities to third party investors.

NWB Group's involvement in client securitisations takes a number of forms. It may provide secured finance to, or purchase asset-backed notes from, client sponsored SEs secured on assets transferred by the client entity; or purchase asset backed securities issued by client sponsored SEs in the primary or secondary markets. In addition, NWB Group undertakes own-asset securitisations to transfer the credit risk on portfolios of financial assets.

Other credit risk transfers securitisations

NWB Group transfers credit risk on originated loans and mortgages without the transfer of the assets to a SE. As part of this, NWB Group enters into credit derivative and financial guarantee contracts with consolidated SEs. At 31 December 2023, debt securities in issue by such SEs (and held by third parties) were £863 million (2022 - £859 million). The associated loans and mortgages at 31 December 2023 were £2,687 million (2022 - £4,361 million). At 31 December, ECL in relation to non-defaulted assets was reduced by £11 million (2022 - £20million) as a result of financial guarantee contracts with consolidated SEs.

Covered bond programme

Certain loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by NWB Group. NWB Group retains all of the risks and rewards of these loans. The partnerships are consolidated by NWB Group, the loans retained on NWB Group's balance sheet and the related covered bonds included within debt securities in issue of the NWB Group. At 31 December 2023, £9,784 million of loans to customers have been assigned to bankruptcy remote limited liability partnerships to provide security for issues of debt securities by the NWB Group of £2,122 million (2022 - loans to customers - £6,992 million, debt securities in issue - £2,842 million).

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to structured entities not controlled by NWB Group, and which are established either by NWB 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 NWB 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 NWB Group, provision of lending and loan commitments, financial guarantees and investment management agreements. NWB 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. NWB 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 NWB 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 NWB 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						
Loans to customers	215	253	468	30	254	284
Other financial assets	2,621	-	2,621	1,403	-	1,403
Total	2,836	253	3,089	1,433	254	1,687
Off balance sheet						
Liquidity facilities/loan commitments	115	50	165	250	38	288
Guarantees	-	11	11	-	14	14
Total	115	61	176	250	52	302
Maximum exposure	2,951	314	3,265	1,683	306	1,989

24 Asset transfers

Transfers that do not qualify for derecognition

NWB Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level.

Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or re-pledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under repurchase transactions are not derecognised if NWB Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of securities transferred under such repurchase transactions included on the balance sheet, are set out below. All of these securities could be sold or re-pledged by the holder.

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
The following assets have failed derecognition (1)				
Loans to bank - amortised cost	10	16	10	16
Loans to customers - amortised cost	281	398	281	398
Other financial assets	6,469	2,140	6,469	2,140
Total	6,760	2,554	6,760	2,554

(1) Associated liabilities were £6,437 million for both NWB Group and NWB Plc (2022 - £2,137 million).

Assets pledged as collateral

NWB Group pledges collateral with its counterparties in respect of derivative liabilities, bank and stock borrowings and other transactions.

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Assets pledged against liabilities				
Loans to banks - amortised cost	63	66	-	-
Loans to customers - amortised cost	21,611	17,493	21,611	17,493
Other financial assets (1)	1,252	697	770	697
Total	22,926	18,256	22,381	18,190

(1) Includes assets pledged for pension derivatives and £482 million of debt securities under the continuing control of NWB Plc. This follows the agreement between NWB Plc and the Group Pension Fund to establish a bankruptcy remote reservoir trust to hold these assets. Refer to Note 5 for additional information.

The following table analyses assets that have been transferred but have failed the derecognition rules under IFRS 9 and therefore continue to be recognised on NWB Plc's balance sheet.

	2023	2022
Asset type (1)	£m	£m
UK mortgages - covered bond programme	9,784	6,992

(1) The associated liabilities are £9,702 million (2022 - £6,888 million).

25 Capital resources

Regulatory capital is assessed against minimum requirements that are set out under the UK Capital Requirements Regulation on a legal entity and consolidated basis. Transitional arrangements on the phasing in of end-point capital resources are set by the relevant regulatory authority.

The capital resources under the PRA transitional basis for NWB Plc are set out below.

	2023	2022
	£m	£m
Shareholders' equity (excluding non-controlling interests)		
Shareholders' equity	19,701	18,243
Other equity instruments	(2,518)	(2,518)
	17,183	15,725
Regulatory adjustments and deductions		
Cash flow hedging reserve	601	393
Deferred tax assets	(332)	(421)
Prudential valuation adjustments	(41)	(20)
Goodwill and other intangible assets	(1,698)	(1,458)
Excess of expected losses over impairment provisions	-	(86)
Instruments of financial sector entities where the institution has a significant investment	(869)	(430)
Foreseeable dividends	(880)	(900)
Adjustment for trust assets (1)	-	(365)
Adjustment under IFRS 9 transition arrangements	169	281
Insufficient coverage for non-performing exposures	-	(6)
Other adjustments for regulatory purposes	(51)	-
	(3,101)	(3,012)
CET1 capital	14,082	12,713
Additional Tier 1 (AT1) capital		
Qualifying instruments and related share premium	2,518	2,518
	2,518	2,518
Tier 1 capital		
Instruments of financial sector entities where the institution has a significant investment	(240)	(275)
Tier 1 capital	16,360	14,956
Qualifying Tier 2 capital		
Qualifying instruments and related share premium	3,704	3,188
Tier 2 deductions		
Instruments of financial sector entities where the institution has a significant investment	(302)	(266)
Other regulatory adjustments	36	(1)
	(266)	(267)
Tier 2 capital	3,438	2,921
Total regulatory capital	19,798	17,877

(1) Prudent deduction in respect of agreement with the pension fund to establish legal structure to remove dividend linked contribution. Refer to Notes 5 and 33 in the NatWest Group 2023 Annual Report and Accounts.

In the management of capital resources, NWB Plc is governed by NatWest Group's policy to maintain a strong 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, NatWest Group has regard to the supervisory requirements of the PRA. The PRA uses capital ratios as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks); by international agreement, the Pillar 1 capital ratios, excluding capital buffers should be not less than 8% with a Common equity Tier 1 component of not less than 4.5%. NWB Plc has complied with the PRA's capital requirements throughout the year.

A number of subsidiaries and sub-groups within NWB Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of NatWest Group to lend money to other members of NatWest Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

26 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 NWB 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 NWB Group's expectation of future losses.

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Contingent liabilities and commitments				
Guarantees	1,376	1,728	1,320	1,664
Other contingent liabilities	1,003	1,197	994	1,190
Standby facilities, credit lines and other commitments	77,149	87,221	73,343	83,321
Total	79,528	90,146	75,657	86,175

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. NWB Group's maximum exposure to credit loss, in the event of its obligation crystallising and all counterclaims, collateral or security proving valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to NWB Group's normal credit approval processes.

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

Indemnity deed

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

Capital Support Deed

NWB Plc, together with certain other subsidiaries of NatWest Holdings Limited, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Bank may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the NWB Plc's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. NWB Plc may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by NWB Plc from other parties to the CSD becomes immediately repayable, such repayment being limited to the NWB Plc's available resources.

Contractual obligations for future expenditure not provided for in the accounts

The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end.

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Capital expenditure on other property, plant and equipment	35	4	35	4
Contracts to purchase goods or services (1)	1,116	671	963	549
	1,151	675	998	553

(1) Of which due within 1 year: £375 million (2022 - £318 million) for NWB Group and £333 million (2022 - £290 million) for NWB Plc.

26 Memorandum items continued

Trustee and other fiduciary activities

In its capacity as trustee or other fiduciary role, NWB Group may hold or place assets on behalf of individuals, trusts, companies, pension schemes and others. The assets and their income are not included in NWB Group's financial statements. NWB Group earned fee income of £205 million (2022 - £215 million) from these activities.

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Prudential Regulation Authority. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

Litigation and regulatory matters

NWB Plc and its subsidiary and associated undertakings ('NWB Group') are party to various legal proceedings and are involved in, or subject to, various regulatory matters, including as the subject of investigations and other regulatory and governmental action (Matters) in the United Kingdom (UK), the United States (US), the European Union (EU) and other jurisdictions.

NWB 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 NWB 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. NWB Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for Matters that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where NWB 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 NWB 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 NWB 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. NWB Group expects that in future periods, additional provisions and economic outflows relating to Matters that may or may not be currently known by NWB Group will be necessary, in amounts that are expected to be substantial in some instances. Please refer to Note 21 for information on material provisions.

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

For a discussion of certain risks associated with NWB Group's litigation and regulatory matters (including the Matters), see the Risk Factor relating to legal, regulatory and governmental actions and investigations set out on page 184.

Litigation

London Interbank Offered Rate (LIBOR) and other rates litigation

In August 2020, a complaint was filed in the United States District Court for the Northern District of California by several United States retail borrowers against the USD ICE LIBOR panel banks and their affiliates (including NatWest Group plc, NatWest Markets Plc, NatWest Markets Securities Inc. and NWB Plc), alleging (i) that the very process of setting USD ICE LIBOR amounts to illegal price-fixing; and (ii) that banks in the United States have illegally agreed to use LIBOR as a component of price in variable retail loans. In September 2022, the district court dismissed the complaint. The plaintiffs filed an amended complaint but in October 2023, the district court dismissed that complaint as well, and indicated that further amendment would not be permitted. The plaintiffs have commenced an appeal to the United States Court of Appeals for the Ninth Circuit, which is currently pending.

Offshoring VAT assessments

HMRC issued protective tax assessments in 2018 against NatWest Group plc totalling £143 million relating to unpaid VAT in respect of the UK branches of two NatWest Group companies registered in India. NatWest Group formally requested reconsideration by HMRC of their assessments, and this process was completed in November 2020. HMRC upheld their original decision and, as a result, NatWest Group plc lodged an appeal with the Tax Tribunal and an application for judicial review with the High Court of Justice of England and Wales, both in December 2020. In order to lodge the appeal with the Tax Tribunal, NatWest Group plc was required to pay £143 million to HMRC, and payment was made in December 2020. The appeal and the application for judicial review have both been stayed pending resolution of separate cases involving other banks.

Regulatory matters

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

NWB Group expects government and regulatory intervention in financial services to be high for the foreseeable future, including increased scrutiny from competition and other regulators in the retail and SME business sectors.

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 NWB Group, remediation of systems and controls, public or private censure, restriction of NWB Group's business activities and/or fines. Any of the events or circumstances mentioned in this paragraph or below could have a material adverse effect on NWB 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.

NWB Group is co-operating fully with the matters described below.

Investment advice review

In October 2019, the FCA notified NatWest Group of its intention to appoint a Skilled Person under section 166 of the Financial Services and Markets Act 2000 to conduct a review of whether NatWest Group's past business review of investment advice provided during 2010 to 2015 was subject to appropriate governance and accountability and led to appropriate customer outcomes. The Skilled Person's review has concluded and, after discussion with the FCA, NatWest Group is undertaking additional review / remediation work.

Reviews into customer account closures

In July 2023, NatWest Group plc commissioned an independent review by the law firm Travers Smith LLP into issues that had arisen from treatment of a customer in connection with an account closure decision that attracted significant public attention and certain related interactions with the media. NatWest Group plc has received reports in connection with that review (and in October and December 2023 published summaries of the key findings and recommendations).

In addition, NatWest Group plc is conducting internal reviews with respect to certain governance processes, policies, systems and controls of NatWest Group entities, including with respect to customer account closures.

The FCA is conducting supervisory work into how the governance, systems and controls of NatWest Group and Coutts & Company are working, to identify and address any significant shortcomings.

27 Analysis of the net investment in business interests and intangible assets

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Additional investment in associates	(5)	-	(5)	-
Additional investments in Group undertakings	-	-	(531)	(256)
Disposal of investments in Group undertakings	-	-	35	227
Purchase of net assets and liabilities	-	(270)	-	-
Net outflow of cash in respect of purchases and disposals	(5)	(270)	(501)	(29)
Net cash expenditure on intangible assets	(719)	(722)	(687)	(690)
Net outflow of cash	(724)	(992)	(1,188)	(719)

28 Non-cash and other items

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

	NWB Group		NWB Plc	
	2023	2022	2023	2022
	£m	£m	£m	£m
Impairment losses	504	341	483	389
Depreciation and amortisation	877	768	705	598
Net (reversal)/impairment of impairment of investments in Group undertakings	-	-	(2)	336
Change in fair value taken to profit or loss on other financial assets	(541)	1,177	(541)	1,177
Change in fair value taken to profit or loss on other financial liabilities and subordinated liabilities	374	(912)	383	(924)
Elimination of foreign exchange differences	325	(47)	320	(3)
Other non-cash items	(38)	(195)	(49)	(215)
Income receivable on other financial assets	(731)	(303)	(713)	(303)
Loss on sale of other financial assets	43	93	43	93
Dividends receivable from subsidiaries	-	-	(617)	(1,010)
Profit on sale of subsidiaries and associates	-	-	(36)	-
Loss on sale of other assets and net assets and liabilities	50	5	46	6
Gain on redemption of own debt	(234)	-	(234)	-
Interest payable on MREs and subordinated liabilities	484	371	426	358
Charges and releases on provisions	127	122	118	122
Defined benefit pension schemes	89	154	64	132
Non-cash and other items	1,329	1,574	396	756
Change in operating assets and liabilities				
Change in derivative assets	1,043	(2,230)	1,037	(2,171)
Change in loans to banks	443	(198)	431	(164)
Change in loans to customers	(17,296)	(14,448)	(17,405)	(12,313)
Change in amounts due from holding companies and fellow subsidiaries	2,607	(355)	(97)	(6,204)
Change in other financial assets	(139)	239	(139)	239
Change in other assets	(239)	(34)	(243)	14
Change in bank deposits	1,992	(6,771)	1,993	(6,770)
Change in customer deposits	(8,862)	(9,065)	(5,356)	(10,912)
Change in amounts due to holding companies and fellow subsidiaries	7,578	(7,218)	8,225	(2,191)
Change in derivative liabilities	(370)	(2,031)	(568)	(1,754)
Change in other financial liabilities	3,627	(1,867)	3,623	(1,859)
Change in notes in circulation	(3)	(95)	(3)	(95)
Change in other liabilities	(513)	(1,197)	(497)	(1,194)
Change in operating assets and liabilities	(10,132)	(45,270)	(8,999)	(45,374)

29 Analysis of changes in financing during the year

	NWB Group						NWB Plc					
	Called up share capital, share premium, and paid-in equity		Subordinated liabilities (1)		MRELS (2)		Called up share capital, share premium, and paid-in equity		Subordinated liabilities (1)		MRELS (2)	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	6,421	6,280	3,138	3,285	6,339	5,687	6,421	6,280	3,132	3,279	5,709	5,133
Issue of paid-in equity	-	500					-	500				
Redemption of paid-in equity	-	(388)					-	(388)				
Issue of subordinated liabilities			1,263	-					1,263	-		
Redemption of subordinated liabilities			(539)	(55)					(539)	(55)		
Interest paid on subordinated liabilities			(145)	(145)					(120)	(144)		
Issue of MRELS					441	750					441	700
Maturity and redemption of MRELS					(157)	-					(107)	-
Interest paid on MRELS					(293)	(202)					(261)	(191)
Net cash inflow/(outflow) from financing	-	112	579	(200)	(9)	548	-	112	604	(199)	73	509
Effects of foreign exchange	-	-	(47)	86	(316)	612	-	-	(47)	86	(311)	599
Changes in fair value of subordinated liabilities and MRELS			147	(178)	227	(734)			148	(178)	235	(746)
Interest payable on subordinated liabilities and MRELS			177	145	307	226			152	144	274	214
Gain on redemption of own debt			(234)	-					(234)	-		
Other	-	29	(2)	-	-	-	-	29	-	-	-	-
At 31 December	6,421	6,421	3,758	3,138	6,548	6,339	6,421	6,421	3,755	3,132	5,980	5,709

(1) Subordinated liabilities include intercompany subordinated liabilities.

(2) NWB Group MREL balances are included in amounts due to holding companies and fellow subsidiaries. NWB Plc MREL balances are shown net of the effect of down streaming funding to subsidiary companies.

30 Analysis of cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and loans to banks 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.

	NWB Group		NWB Plc	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash and balances at central banks	48,259	73,065	48,238	73,062
Other financial assets	129	234	129	234
Loans to banks including intragroup balances (1)	3,613	3,019	4,115	2,176
Cash and cash equivalents	52,001	76,318	52,482	75,472

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of £129 million (2022 - £234 million).

31 Directors' and key management remuneration

The composition of NWB Plc's board of directors is aligned to the board of its intermediate holding company NatWest Holdings Ltd. The directors are remunerated for their services to NatWest Group as a whole, and their remuneration cannot be apportioned in respect of their services to NWB Plc.

The directors' emoluments in the table below represent the NWH Group emoluments of the directors.

	2023 £m	2022 £m
Directors' remuneration		
Non-executive directors emoluments	1,852	1,950
Chairman and executive directors emoluments	6,408	5,804
	8,260	7,754
Amounts receivable under long-term incentive plans and share option plans	2,708	542
	10,968	8,296

The total emoluments and amounts receivable under long-term incentive plans and share option plans of the highest paid director were £2,930,000 (2022 - £3,497,000).

The executive directors may participate in the NatWest Group's long-term incentive plans, executive share option and sharesave schemes. Where directors of NWB Plc are also directors of NatWest Group plc, details of their share interests can be found in the 2023 Annual Report and Accounts of NatWest Group plc, in line with regulations applying to NatWest Group plc as a premium listed company.

Compensation of key management

The aggregate remuneration of directors and other members of key management⁽¹⁾ during the year was as follows:

	2023 £m	2022 £m
Short-term benefits	17,244	18,390
Post-employment benefits	601	594
Share-based payments	6,104	1,823
	23,949	20,807

(1) Key management comprises members of the NWH Ltd Executive Committee.

Short term benefits include benefits expected to be settled wholly within twelve months of the balance sheet date. Post-employment benefits include defined benefit contributions for active members and pension funding to support contributions to the defined contribution schemes. Share-based payments include awards vesting under rewards schemes.

32 Transactions with directors and key management

For the purposes of IAS 24 Related Party Disclosures, key management comprises directors of NWB Plc and members of the NWB Plc Executive Committee. Key management have banking relationships with NatWest Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features. Key management had no reportable transactions or balances with the holding companies.

Amounts in the table below are attributed to each person at their highest level of NatWest Group key management and relate to those who were key management at any time during the financial period.

	At 31 December 2023 £m	2022 £m
Loans to customers - amortised cost	10,579	11,172
Customer deposits	48,595	42,932

At 31 December 2023, amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in NWB Group, as defined in UK legislation, were £8,408,984 in respect of loans to eleven persons who were directors of NWB Plc at any time during the financial period (£2022 - £9,636,586).

33 Related parties

UK Government

UK Government through HM Treasury is the controlling shareholder of NatWest Group plc as per UK Listing rules. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. At 31 December 2023, HM Treasury's holding in NatWest Group's ordinary shares was 37.97%. As a result the UK Government and UK Government controlled bodies are related parties of the Group.

NWB Group enters into transactions with many of these bodies. Transactions include the payment of: taxes, principally UK corporation tax (Note 7) and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and levy sits undertaken in the normal course of banker-customer relationships.

Bank of England facilities

NWB Group may participate in a number of schemes operated by the Bank of England in the normal course of business.

Members of NWB Group that are UK authorised institutions are required to maintain non-interest bearing (cash ratio) deposits with the Bank of England amounting to 0.382% of their average eligible liabilities in excess of £600 million. They also have access to Bank of England reserve accounts: sterling current accounts that earn interest at the Bank of England base rate.

NWB Plc guarantees certain liabilities of NWH Group to the Bank of England.

Other related party

- (a) In accordance with IAS 24, transactions or balances between NWB Group entities that have been eliminated on consolidation are not reported
- (b) The primary financial statements include transactions and balances with its subsidiaries which have been further disclosed in the relevant parent company notes.

Business 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 - £0.4 billion). The total contingent liabilities and commitments transferred from NWM N.V. to NatWest Bank Plc in 2023 was nil (2022 - nil). 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.

Associates, joint ventures and equity investments

In their roles as providers of finance, NWB Group companies provide development and other types of capital support to businesses. These investments are made in the normal course of business. To further strategic partnerships, NWB Group may seek to invest in third parties or allow third parties to hold a minority interest in a subsidiary of NatWest Group. We disclose as related parties for associates and joint ventures and where equity interest are over 10%. Ongoing business transactions with these entities are on normal commercial terms.

At 31 December 2023 NWB Group held investment in associates and joint Ventures amounting to £4 million (2022- £2 million). For the year ended 31 December 2023 NWB Group's share of losses of associates was £3 million (2022- £6 million). At 31 December 2023 there were balances within customer deposits of £2 million (2022 -nil) relating to associates and joint ventures.

Post employment benefits

NatWest Group recharges NatWest Group Pension Fund with the cost of pension management services incurred by it.

33 Related parties continued

Holding companies and fellow subsidiaries

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

	2023			2022		
	Holding company	Fellow subsidiaries	Total	Holding company	Fellow subsidiaries	Total
	£m	£m	£m	£m	£m	£m
Interest receivable	-	133	133	1	40	41
Interest payable	(674)	(1,588)	(2,262)	(408)	(369)	(777)
Fees and commissions receivable	-	62	62	-	97	97
Fees and commissions payable	-	(71)	(71)	-	(70)	(70)
Other operating income (1)	11	1,532	1,543	36	1,605	1,641
Other administration expenses (2)	-	(156)	(156)	-	-	-
Impairment (losses)/releases	3	-	3	(3)	-	(3)
	(660)	(88)	(748)	(374)	1,303	929

(1) Includes internal service recharges of £1,542 million (2022 - £1,616 million).

(2) Other administration expense relates to a new profit share arrangement with a fellow NatWest Group subsidiary that commenced in 2023. The profit share arrangement was introduced during the year to reward NWM Group on an arm's length basis for its contribution to the performance of the NatWest Group Commercial & Institutional business segment, 2023 being the first full year with the Commercial & Institutional segment in place.

The following tables include amounts due from or to holding companies and fellow subsidiaries:

	NWB Group					
	2023			2022		
	Holding companies	Fellow subsidiaries	Total	Holding companies	Fellow subsidiaries	Total
	£m	£m	£m	£m	£m	£m
Assets						
Loans to banks - amortised cost	-	1,797	1,797	-	4,100	4,100
Loans to customers - amortised cost	-	11	11	-	73	73
Other financial assets	-	-	-	-	5	5
Other assets	104	399	503	15	710	725
Amounts due from holding companies and fellow subsidiaries	104	2,207	2,311	15	4,888	4,903
Derivatives (1)	275	2,045	2,320	405	2,977	3,382
Liabilities						
Bank deposits	-	30,499	30,499	-	22,919	22,919
Customer deposits	6,262	11	6,273	6,264	46	6,310
Subordinated liabilities	3,636	-	3,636	2,941	-	2,941
MREL instruments issued to NatWest Holdings Ltd	6,548	-	6,548	6,339	-	6,339
Other financial liabilities	-	17	17	-	106	106
Other liabilities	43	236	279	33	123	156
Amounts due to holding companies and fellow subsidiaries	16,489	30,763	47,252	15,577	23,194	38,771
Derivatives (1)	258	710	968	403	667	1,070

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

There was £0.9 billion (2022 - £5.9 billion) of NWB Group commitments and guarantees related to transactions with fellow group companies outstanding at the balance sheet date.

33 Related parties continued

	NWB Plc							
	2023				2022			
	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m	Holding companies £m	Fellow subsidiaries £m	Subsidiaries £m	Total £m
Assets								
Loans to banks - amortised cost	-	1,547	15,516	17,063	-	3,585	10,547	14,132
Loans to customers - amortised cost	-	11	15,084	15,095	-	85	16,368	16,453
Other financial assets	-	-	559	559	-	4	604	608
Other assets	104	393	285	782	16	678	246	940
Amounts due from holding companies and fellow subsidiaries	104	1,951	31,444	33,499	16	4,352	27,765	32,133
Derivatives (1)	275	2,044	30	2,349	405	2,977	25	3,407
Liabilities								
Bank deposits	-	23,582	36,496	60,078	-	19,816	34,549	54,365
Customer deposits	6,284	3	7,247	13,534	6,263	75	4,776	11,114
Subordinated liabilities	3,636	-	-	3,636	2,941	-	-	2,941
MREL instruments issued to NatWest Holdings Ltd	6,544	-	-	6,544	6,328	-	-	6,328
Other financial liabilities	-	17	-	17	-	106	-	106
Other liabilities	43	223	99	365	33	94	56	183
Amounts due to holding companies and fellow subsidiaries	16,507	23,825	43,842	84,174	15,565	20,091	39,381	75,037
Derivatives (1)	258	710	317	1,285	403	666	527	1,596

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

There was £1.2 billion (2022 - £6.2 billion) of NWB Plc commitments and guarantees related to transactions with fellow group companies outstanding at the balance sheet date.

34 Ultimate holding company

NWB Group's ultimate holding company is NatWest Group plc and its intermediate parent company is NatWest Holdings Limited.

NatWest Group plc is incorporated in the United Kingdom and registered in Scotland and NWH Ltd is registered in England. As at 31 December 2023, NatWest Group plc heads the largest group in which NWB Group is consolidated. Copies of the consolidated accounts of both companies may be obtained from Legal, Governance & Regulatory Affairs, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or at natwestgroup.com.

Following placing and open offers by NatWest Group plc in December 2008 and April 2009, the UK Government, through HM Treasury, held 37.97% (at 31 December 2023) of the issued ordinary share capital of NatWest Group plc and is therefore NWB Group's ultimate controlling party.

35 Post balance sheet events

There have been no other significant events between 31 December 2023 and the date of approval of these accounts which would require a change to or additional disclosure in the accounts.

36 Related undertakings

Legal entities and activities at 31 December 2023

In accordance with the Companies Act 2006, NWB Plc's related undertakings and the accounting treatment for each are listed below. All undertakings are wholly-owned by NWB Plc or subsidiaries of NWB Plc and are consolidated by reason of contractual control (Section 1162(2) CA 2006), unless otherwise indicated. NWB Group interest refers to ordinary shares of equal values and voting rights unless further analysis is provided in the notes. Activities are classified in accordance with Annex I to the Capital Requirements Directive (CRD V) and the definitions in Article 4 of the UK Capital Requirements Regulation.

Active related undertakings incorporated in the UK which are 100% owned by NWB Group and fully consolidated for accounting purpose

Entity name	Activity	Regulatory treatment	Notes
Caledonian Sleepers Rail Leasing Ltd	BF	FC	1
Coutts & Company	CI	FC	10
Coutts Finance Co	BF	FC	10
Esme Loans Ltd	BF	FC	1
FreeAgent Central Ltd	SC	FC	16
FreeAgent Holdings Ltd	SC	FC	16
Gatehouse Way Developments Ltd	INV	DE	1
KUC Properties Ltd	BF	DE	3
Land Options (West) Ltd	INV	DE	3
Lombard & Ulster Ltd	BF	FC	9
Lombard Business Leasing Ltd	BF	FC	1
Lombard Corporate Finance (December 1) Ltd	BF	FC	1
Lombard Corporate Finance (December 3) Ltd	BF	FC	1
Lombard Corporate Finance (June 2) Ltd	BF	FC	1
Lombard Discount Ltd	BF	FC	1
Lombard Finance Ltd	BF	FC	1
Lombard Industrial Leasing Ltd	BF	FC	1
Lombard Lease Finance Ltd	BF	FC	1
Lombard Leasing Company Ltd	BF	FC	1
Lombard Leasing Contracts Ltd	BF	FC	1
Lombard Lessors Ltd	BF	FC	1
Lombard Maritime Ltd	BF	FC	1
Lombard North Central Leasing Ltd	BF	FC	1
Lombard North Central PLC	BF	FC	1
Lombard Property Facilities Ltd	BF	FC	1
Lombard Technology Services Ltd	BF	FC	1

Entity name	Activity	Regulatory treatment	Notes
Mettle Ventures Ltd	OTH	FC	1
National Westminster Home Loans Ltd	BF	FC	1
Natwest Invoice Finance Ltd	OTH	FC	1
NatWest Property Investments Ltd	INV	DE	1
NatWest RT Holdings Ltd	OTH	FC	1
Pittville Leasing Ltd	BF	FC	1
Premier Audit Company Ltd	BF	FC	1
R.B. Capital Leasing Ltd	BF	FC	1
R.B. Leasing (September) Ltd	BF	FC	1
R.B. Quadrangle Leasing Ltd	BF	FC	1
RBS Asset Management Holdings	BF	FC	10
RBS Collective Investment Funds Ltd	BF	FC	8
RBS Invoice Finance Ltd	BF	FC	1
RBSG Collective Investments Holdings Ltd	BF	FC	8
RBSSAF (2) Ltd	BF	FC	1
RBSSAF (25) Ltd	BF	FC	1
Royal Bank Leasing Ltd	BF	FC	3
Royal Bank of Scotland (Industrial Leasing) Ltd	BF	FC	3
Royal Scot Leasing Ltd	BF	FC	3
RoyScot Trust Plc	BF	FC	1
Silvermere Holdings Ltd	BF	FC	3
The Royal Bank of Scotland Group Independent Financial Services Ltd	BF	FC	3
Ulster Bank Ltd	CI	FC	9
Ulster Bank Pension Trustees Ltd	TR	DE	9
Walton Lake Developments Ltd	INV	DE	1
World Learning Ltd	BF	FC	1

Active related undertakings incorporated outside the UK which are 100% owned by NWB Group and fully consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
Airside Properties AB	BF	FC	2
Arenarena AS	BF	FC	29
Arkivborgen KB	BF	FC	2
Artul Koy	BF	FC	4
BD Lagerhus AS	BF	FC	5
Bilfastighet i Akalla AB	BF	FC	2
Bilfastighet i Avesta AB	BF	FC	2
Bilfastighet i Bollnas AB	BF	FC	2
Bilfastighet i Hemlingby AB	BF	FC	2
Bilfastighet i Hudiksvall AB	BF	FC	2
Bilfastighet i Ludvika AB	BF	FC	2
Bilfastighet i Mlrsta AB	BF	FC	2
Bilfastighet i Mora AB	BF	FC	2
Bilfastighet i Uppsala KB	BF	FC	2
Bilfastighet Kista AB	BF	FC	2
Brodmagasinet KB	BF	FC	2
Eiendomsselskapet Apteno La AS	BF	FC	5
Espeland Naering AS	BF	FC	5
Eurohill 4 KB	BF	FC	2
Fab Ekenäs Formanshagen 4	BF	FC	4
Fastighets AB Flöjten i Norrköping	BF	FC	2
Fastighets Aktiebolaget Sambiblioteket	BF	FC	2
Fastighetsbolaget Elmotorgatan AB	BF	FC	2

Entity name	Activity	Regulatory treatment	Notes
Fastighetsbolaget Holma i Hoor AB	BF	FC	2
Forskningshögden KB	BF	FC	2
Forvaltningsbolaget Dalkyrkan KB	BF	FC	2
Forvaltningsbolaget Kloverbacken Skola KB	BF	FC	2
Fyrs!te Fastighets AB	BF	FC	2
Grinnhagen KB	BF	FC	2
Hatros 1 AS	BF	FC	5
Horrsta 4:38 KB	BF	FC	2
IR Fastighets AB	BF	FC	2
IR IndustriRenting AB	BF	FC	2
Kallebäck Institutfastigheter AB	BF	FC	2
KB Eurohill	BF	FC	2
KB Lagermannen	BF	FC	2
KB Likriktaren	BF	FC	2
Kiinteist Oy Turun Mustionkatu 6	BF	FC	12
Koy Harkokuja 2	BF	FC	12
Kiinteisto Oy Lohjan Ojamonharjuntie 61	BF	FC	12
Koy Pennalan Johtotie 2	BF	FC	4
Kiinteisto Oy Vantaan Rasti IV	BF	FC	12
Koy Helsingin Mechelininkatu 1	BF	FC	4
Koy Helsingin Osmontie 34	BF	FC	4
Koy Helsingin Panuntie 11	BF	FC	4
Koy Helsingin Panuntie 6	BF	FC	4

36 Related undertakings continued

Entity name	Activity	Regulatory treatment	Notes
Koy Iisalmen Kihlavrta	BF	FC	4
Koy Jamsan Keskushovi	BF	FC	4
Koy Jasperintie 6	BF	FC	12
Koy Kakkolan Kaarlenportti Fab	BF	FC	4
Koy Kouvola Oikeus ja Poliisitalo	BF	FC	4
Koy Millennium	BF	FC	4
Koy Nummela Portti	BF	FC	4
Koy Nuolialan päiväkot	BF	FC	4
Koy Peltolantie 27	BF	FC	12
Koy Porkkanakatu 2	BF	FC	12
Koy Puotikuja 2 Vaasa	BF	FC	4
Koy Raisio Kihlakulma	BF	FC	4
Koy Ravattulan Kauppakeskus	BF	FC	4
Koy Tapiolan Louhi	BF	FC	4
Koy Vapaalan Service-Center	BF	FC	4
Kvam Eiendom AS	BF	FC	5
Lakten 1 KB	BF	FC	2
Leiv Sand Eiendom AS	BF	FC	5
LerumsKryset KB	BF	FC	2
Limstagsgården KB	BF	FC	2
Lundbyfilen 5 AB	BF	FC	2
Narmovegen 455 AS	BF	FC	5
National Westminster International Holdings B.V.	BF	FC	3
NatWest Digital Services India Private Ltd	SC	FC	19
NatWest Services (Switzerland) Ltd	SC	FC	23
Nordisk Renting AB	BF	FC	2

Entity name	Activity	Regulatory treatment	Notes
Nordisk Renting AS	BF	FC	21
Nordisk Renting OY	BF	FC	4
Nordisk Specialinvest AB	BF	FC	2
Nordiska Strategifastigheter Holding AB	BF	FC	2
Nybergflata 5 AS	BF	FC	5
OFH Eiendom AS	BF	FC	30
Optimus KB	BF	FC	2
RBS Deutschland Holdings GmbH	BF	FC	17
RBS Polish Financial Advisory Services Sp. Z o.o.	BF	FC	22
Rigedalen 44 Eiendom AS	BF	FC	5
Ringdalveien 20 AS	BF	FC	5
Sandmoen Naeringsbygg AS	BF	FC	5
SFK Kommunfastigheter AB	BF	FC	2
Sjöklockan KB	BF	FC	2
Skinnarängen KB	BF	FC	2
Sletta Eiendom II AS	BF	FC	5
Snipetjernveien 1 AS	BF	FC	5
Solbanken KB	BF	FC	2
Solnorvika AS	BF	FC	5
Strand European Holdings AB	BF	FC	2
Svenskt Fastighetskapital AB	BF	FC	2
Svenskt Energikapital AB	BF	FC	2
Svenskt Fastighetskapital Holding AB	BF	FC	2
Tygverkstaden 1 KB	BF	FC	2
Nordisk Renting Facilities Management AB	BF	FC	2

Active related undertakings which are 100% owned by NWB Group but are not consolidated for accounting purposes

Entity name	Activity	Regulatory treatment	Notes
AD Aggregator Platform Ltd	OTH	DE	25
Bioenergie Dargun Immobilien GmbH	OTH	DE	31
Bioenergie Jessen Immobilien GmbH	OTH	DE	31
Bioenergie Wiesenburg GmbH & Co. KG	INV	DE	31
Bioenergie Wiesenburg Verwaltungs GmbH	OTH	DE	31
Bioenergie Zittau GmbH	OTH	DE	31
Bioenergie Zittau Immobilien GmbH	OTH	DE	31
Capulet Homes Florida LLC	OTH	DE	6
Crook Hill Properties Ltd	OTH	DE	27
DBV Deutsche Bioenergie Verbinder GmbH	OTH	DE	31
East Grove Holding Ltd	INV	DE	26
European Investments (Crook Hill) Ltd	OTH	DE	28
German Biogas Holdco Ltd	INV	DE	25
Montague Homes Florida LLC	OTH	DE	6
Reaps Moss Ltd	OTH	DE	27
Reppinichen Dritte Biogas Betriebs GmbH	OTH	DE	31
Reppinichen Erste Biogas Betriebs GmbH	OTH	DE	31
Reppinichen Zweite Biogas Betriebs GmbH	OTH	DE	31
Romeo Homes Florida LLC	OTH	DE	6
Romeo Homes Georgia LLC	OTH	DE	6
Romeo Homes Indiana LLC	OTH	DE	6

Entity name	Activity	Regulatory treatment	Notes
Romeo Homes Kansas LLC	OTH	DE	6
Romeo Homes Nevada LLC	OTH	DE	6
Romeo Homes North Carolina LLC	OTH	DE	6
Romeo Homes Oklahoma LLC	OTH	DE	6
Romeo Homes Tennessee LLC	OTH	DE	6
Romeo Homes Texas LLC	OTH	DE	6
Ventus Investments Ltd	OTH	DE	28
West Granite Homes Inc.	INV	DE	6
WGH Development LLC	OTH	DE	6
WGH Florida LLC	OTH	DE	6
WGH Georgia LLC	OTH	DE	6
WGH Indiana LLC	OTH	DE	6
WGH Kansas LLC	OTH	DE	6
WGH Nevada LLC	OTH	DE	6
WGH North Carolina LLC	OTH	DE	6
WGH Oklahoma LLC	OTH	DE	6
WGH Texas LLC	OTH	DE	6
Wiesenburg Dritte Biogas Betriebs GmbH	OTH	DE	31
Wiesenburg Erste Biogas Betriebs GmbH	OTH	DE	31
Wiesenburg Zweite Biogas Betriebs GmbH	OTH	DE	31
Wiesenburg Marktfrucht GmbH	OTH	DE	31

36 Related undertakings continued

Active related undertakings incorporated in the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Falcon Wharf Ltd	OTH	EAJV	PC	50	15
GWNW City Developments Ltd	BF	EAJV	DE	50	15
Jaguar Cars Finance Ltd	BF	FC	FC	50	1
JCB Finance Ltd	BF	FC	FC	75	13
London Rail Leasing Ltd	BF	EAJV	PC	50	20

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
NatWest Boxed Ltd	OTH	FC	FC	82	1
Natwest Covered Bonds (LM) Ltd	BF	IA	PC	20	11
Natwest Covered Bonds LLP	BF	FC	FC	60	1
Pollinate Networks Ltd	OTH	AHC	DE	25	1

Active related undertakings incorporated outside the UK where NWB Group ownership is less than 100%

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Nightingale CRE 2018-1 Ltd	BF	FC	DE	0	7
Nightingale LF 2021-1 Ltd	BF	FC	DE	0	7
Nightingale Project Finance 2019 1 Ltd	BF	FC	DE	0	7
Nightingale Project Finance II 2023-1 Ltd	BF	FC	DE	0	7

Entity name	Activity	Accounting treatment	Regulatory treatment	Group %	Notes
Nightingale Securities 2017-1 Ltd	BF	FC	DE	0	7
Nightingale UK Corp 2020 2 Ltd	BF	FC	DE	0	7
Pharos Estates Ltd	OTH	AHC	DE	49	18

Related undertakings that are not active (actively being dissolved)

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Lombard Ireland Group Holdings Unlimited	FC	FC	100	14
Lombard Ireland Ltd	FC	FC	100	14
Natwest Nominees Ltd	FC	FC	100	1
RBS Asset Management (Dublin) Ltd	FC	FC	100	24

Related undertakings that are dormant

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Coutts Scotland Nominees Ltd	FC	FC	100	8
JCB Finance Pension Ltd	FC	DE	88	9
Natwest FIS Nominees Ltd	FC	FC	100	1
NatWest Group Retirement Savings Trustee Ltd	FC	FC	100	1
Natwest Group Secretarial Services Ltd	FC	FC	100	3
Natwest Pension Trustee Ltd	NC	DE	100	1
Natwest Pep Nominees Ltd	FC	FC	100	1
NatWest Strategic Investments Ltd	FC	FC	100	1

Entity name	Accounting treatment	Regulatory treatment	Group %	Notes
Nordisk Renting A/S	FC	FC	100	5
Nordisk Renting HB	FC	FC	100	2
R.B. Leasing (March) Ltd	FC	FC	100	1
RBS Investment Executive Ltd	NC	DE	100	3
RBSG Collective Investments Nominees Ltd	FC	FC	100	8
Strand Nominees Ltd	FC	FC	100	10
Syndicate Nominees Ltd	FC	FC	100	1
The Royal Bank Of Scotland Group Ltd	FC	FC	100	1

Overseas regulated branches of NWB Group

Subsidiary	Geographic location
National Westminster Bank Plc	Germany

36 Related undertakings continued

Key:

Activity

BF	Banking and financial institution
CI	Credit institution
INV	Investment (shares or property) holding company
SC	Service company
TR	Trustee
OTH	Other

Accounting/Regulatory treatment

DE	Deconsolidated
FC	Full consolidation
PC	Pro-rata consolidation
AHC	Associate held at cost
EAJV	Equity accounting – Joint venture
IA	Investment accounting
NC	Not consolidated

Notes	Registered addresses	Country of incorporation
1	250 Bishopsgate, London, EC2M 4AA, England	UK
2	Jakobsbergsgatan 13, 8th Floor, Box 14044, Stockholm, SE-111 44	Sweden
3	Gogarburn, 175 Glasgow Road, Edinburgh, EH12 1HQ, Scotland	UK
4	Mikonkatu 9, 6th Floor, Helsinki, 00100	Finland
5	Postboks 1400, 0115 Oslo	Norway
6	251 Little Falls Drive, Wilmington, DE, 19808	USA
7	44 Esplanade, St Helier, JE4 9WG	Jersey
8	6-8 George Street, Edinburgh, EH2 2PF, Scotland	UK
9	11-16 Donegall Square East, Belfast, Co Antrim, BT1 5UB, Northern Ireland	UK
10	440, Strand, London, England, WC2R OQS	UK
11	1 Bartholomew Lane London EC2N 2AX, England	UK
12	Mikonkatu 9, 00100 Helsinki	Finland
13	The Mill, High Street, Rocester, Staffordshire, ST14 5JW, England	UK
14	Block A Georges Quay Plaza, Georges Quay, Dublin 2	Ireland
15	Gate House, Turnpike Road, High Wycombe, Buckinghamshire, HP12 3NR	UK
16	One Edinburgh Quay, 133 Fountainbridge, Edinburgh, EH3 9QG, Scotland	UK
17	Roßmarkt 10, Frankfurt am Main, 60311	Germany
18	24 Demostheni Severi, 1st Floor, Nicosia, 1080	Cyprus
19	6th Floor, Building 2, Tower A, GIL IT/ITES SEZ, Candor TechSpace, Sector 21, Dundaheera, Gurugram, Haryana, 122016	India
20	99 Queen Victoria Street, London, EC4V 4EH	UK
21	H. Heyerdahls gate 1, Postboks 2020 Viken, Oslo, 0125	Norway
22	Ilzecka 26 Street, Warsaw, 02-135	Poland
23	Lerchenstrasse 16, Zurich, CH 8022	Switzerland
24	One Dockland Central, Guild Street, IFSC, Dublin 1	Ireland
25	Greencoat Capital, 5 The Peak, Wilton Road, London, Greater London, SW1V 1AN, England	UK
26	8 Sackville Street, London, W1S 3DG, England	UK
27	2nd floor, Palm Grove House, Road Town, Tortola	British Virgin Islands
28	18 Riversway Business Village, Navigation Way, Ashton-on Ribble, Preston, PR2 2YP	UK
29	Postboks 1400, Oslo, 0115	Norway
30	Dokkveien 1, NO-0250, Oslo	Norway
31	Walther-Nernst-Straße 1, Berlin, 12489	Germany
32	222 Bishopsgate, London, EC2M 4QD	UK

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could have a material adverse effect on NWB Group's future results, its financial condition and/or prospects and cause them to be materially different from what is forecast or expected, and directly or indirectly impact the value of its securities. These risk factors are broadly categorised and should be read in conjunction with other risk factors in this section and other parts of this annual report, including the forward-looking statements section, the strategic report and the risk and capital management section. They should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing NWB Group.

Economic and political risk

NWB Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK and global markets, including as a result of inflation and interest rates, supply chain disruption, and geopolitical developments.

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

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

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

In recent years, the UK has experienced significant political uncertainty and a general election will take place before February 2025. Heightened political uncertainty could lead to a loss of confidence in the UK that could, in turn, negatively impact the economy and companies operating in the UK. NWB Group also faces political uncertainty in Scotland as a result of a possible Scottish independence referendum. Scottish independence may adversely affect NWB Group both in relation to its entities incorporated in Scotland and in other jurisdictions. Any changes to Scotland's relationship with the UK or the EU may adversely affect the environment in which NatWest Group plc and its subsidiaries operate and may require further changes to NatWest Group's (including NWB Group's) structure, independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NWB Group. See also 'Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWB Group's post Brexit EU operating model may adversely affect NWB Group and its operating environment'.

The value of NWB Group's own and other securities may be materially affected by economic and market conditions. Market volatility, illiquid market conditions and disruptions in the financial markets may make it very difficult to value certain of NWB Group's own and other securities, particularly during periods of market displacement. This could cause a decline in the value of NWB Group's own and other securities, or inaccurate carrying values for certain financial instruments.

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

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

Changes in interest rates will continue to affect NWB Group's business and results.

NWB Group's performance is affected by changes in interest rates. Benchmark overnight interest rates, such as the UK base rate, increased in 2023, although forward rates at 31 December 2023 suggested interest rates may begin to fall in 2024.

Stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates, are generally expected to be less favourable for banks.

Volatility in interest rates may result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NWB Group. For example, unexpected movements in spreads between key benchmark rates such as sovereign and swap rates may in turn affect liquidity portfolio valuations. In addition, unexpected sharp rises in rates may also have negative impacts on some asset and derivative valuations. Furthermore, customer and investor responses to rapid changes in interest rates can have an adverse effect on NWB Group. For example, customers may make deposit choices that provide them with higher returns than those then being offered by NWB Group, and NWB Group may not respond with competitive products as rapidly, for example following an interest rate change, which may in turn decrease NWB Group's net interest income.

Movements in interest rates also influence and reflect the macroeconomic situation more broadly, affecting factors such as business and consumer confidence, property prices, default rates on loans, customer behaviour (which may adversely impact the effectiveness of NWB Group's hedging strategy) and other indicators that may indirectly affect NWB Group.

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

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

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

Although NWB Group is principally a UK-focused banking group, it is subject to structural foreign exchange risk from capital deployed in NatWest Group's foreign subsidiaries and branches. NWB Group also issues internal instruments in non-sterling currencies, such as USD, that assist in meeting NWB Group's MREL requirements. In addition, NWB Group conducts banking activities in non-sterling currencies (for example loans and deposits) which affect its revenue. NWB Group also uses service providers based outside of the United Kingdom for certain services and as a result certain operating results are subject to fluctuations in currency exchange rates.

NWB Group maintains policies and procedures designed to manage the impact of its exposure to fluctuations in currency exchange rates. Nevertheless, changes in currency exchange rates, particularly in the sterling-US dollar and sterling-euro rates, may adversely affect various accounting and financial metrics including, the value of assets, liabilities (including the total amount of MREL-eligible instruments), income and expenses, RWAs and hence the reported earnings and financial condition of NWB Plc.

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

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

As a result of the UK's withdrawal from the EU, certain aspects of the services provided by NWB Group require local licences or individual equivalence decisions (temporary or otherwise) by relevant regulators.

In late 2021 the European Commission proposed legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing 'banking services' in the EU. When these proposals become law all 'banking services' provided by NatWest Group (of which NWB Group forms part) in the EU may be licensable activities in each EU member state in which it provides such services and member states may not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide such 'banking services', except in limited circumstances.

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

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

Uncertainties remain as to the extent to which EU/EEA laws will diverge from UK law. For example, bank regulation in the UK may diverge from European bank regulation following the enactment of the Financial Services and Markets Act 2023 ('FSMA 2023') and the Retained EU Law (Revocation and Reform) Act 2023. In particular, FSMA 2023 provides for the revocation of Retained EU Law relating to financial services regulation but sets out that this process will likely take a number of years and that the intention is that specific retained EU laws will not be revoked until such time as replacement regulatory rules are in place. The actions taken by regulators in response to any new or revised bank regulation and other rules affecting financial services, may adversely affect NWB Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements.

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

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

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

NatWest Group plc has most recently: (i) carried out a directed buyback of NatWest Group plc ordinary shares from HM Treasury in May 2023, and (ii) made purchases under NatWest Group plc's on-market buyback programmes announced in July 2023 and February 2024. NatWest Group plc may participate in similar directed or on-market buybacks in the near- and medium-term future. As at 8 January 2024, HM Treasury held 36.94% of the ordinary share capital with voting rights of NatWest Group plc. Achievement of the UK Government's Autumn Statement 2023 objective is likely to entail it selling a significant number of NatWest Group plc's shares.

The precise timing, method and extent of further HM Treasury's disposal of NatWest Group plc's shares may be driven by economic as well as other considerations and is uncertain, which could result in a prolonged period of price volatility for NatWest Group plc's ordinary shares and its (and NatWest Group's) other securities.

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

HM Treasury has indicated that it intends to respect the commercial decisions of NatWest Group and that NatWest Group entities (including NWB Group) will continue to have their own independent board of directors and management team determining their own strategy. However, for as long as HM Treasury remains NatWest Group plc's largest single shareholder, HM Treasury and UK Government Investments Limited ('UKGI') (as manager of HM Treasury's shareholding) could exercise a significant degree of influence over NatWest Group (including NWB Group) including: the election or removal of directors, the appointment or removal of senior management, NatWest Group's (including NWB Group's) capital strategy, dividend policy, remuneration policy or the conduct of NatWest Group's (including NWB Group's) operations.

HM Treasury or UKGI's approach largely depends on government policy, which could change. The manner in which HM Treasury or UKGI exercises HM Treasury's rights as the largest single shareholder of NatWest Group could give rise to conflicts between the interests of HM Treasury and the interests of other shareholders, including as a result of a change in government policy. The exertion of such influence over NatWest Group may in turn adversely affect the governance, business strategy, future results, financial condition and/or prospects of NWB Group.

In addition, NWB Plc is a wholly owned subsidiary of NatWest Group plc, and NatWest Group plc therefore controls NWB Group's board of directors, corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder and as NWB Group's parent may differ from the interests of NWB Group or of potential investors in NWB Group's securities.

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

Strategic risk

NatWest Group (of which NWB Group forms part) continues to implement its strategy, which carries significant execution and operational risks and it may not achieve its stated aims and targeted outcomes.

NatWest Group (of which NWB Group forms part) continues to implement its strategy, which is intended to reflect the rapidly shifting environment and backdrop of significant disruption in society driven by technology and changing customer expectations. Further, shifting trends include digitalisation, decarbonisation, automation, artificial intelligence, e-commerce and hybrid working, each of which has resulted in significant market volatility and change.

There is also increasing investor, employee, stakeholder, regulatory and customer scrutiny regarding how businesses address these changes and related environmental challenges, including climate change, biodiversity and other sustainability issues, including how NatWest Group supports its customers' transition to net zero, is tackling inequality, working conditions, workplace health, safety and wellbeing, diversity and inclusion, data protection and management, workforce management, human rights and supply chain management.

In recent years, as part of its strategy, NatWest Group has refocused its NatWest Markets business, and has also created the Commercial & Institutional business segment. This business segment combines the previously separately reporting Commercial, NatWest Markets and RBS International businesses to form a single business segment, which focuses on serving Commercial & Institutional customers. It was created to promote closer operational and strategic alignment to support growth, with more integrated services to customers across NatWest Group entities within and outside the ring-fenced banks, with the potential increased risk of breach of the UK ring-fencing regime requiring effective conflicts of interest policies. In December 2023, a transfer pricing arrangement between NWB Group and NWM Group allowing a sharing of certain Commercial & Institutional business segment profits through payment from NWB Group to NWM Group was approved. As a result, NWB Group may suffer from reduced profitability if the relevant Commercial & Institutional profits are reduced because of weaker performance in NWM Group.

Many factors may adversely impact the successful implementation of NatWest Group's strategy and the delivery of its intended benefits, including:

- macroeconomic challenges including GDP growth, inflation, changing interest rates, changing asset prices (including residential and commercial property), energy prices, supply chain disruption, changes to monetary and fiscal policy, and the impact of armed conflict, which may adversely affect NWB Group's customers and which could in turn impact adversely certain strategic initiatives and new venture opportunities for NWB Group;
- changing customer expectations and behaviour in response to macroeconomic conditions or developments, technology and other factors which could reduce the profitability, competitiveness, or volume of the services NWB Group offers;
- the rapid emergence and rapid deployment of new technologies (such as artificial intelligence, quantum computing, blockchain and digital currencies) resulting in a potential shift across the market, towards products and services that are not part of NWB Group's core offering today;
- increased competitive threats from incumbent banks, fintech companies, large technology conglomerates and other new market entrants (including those that emerge from mergers and consolidations) who may have competitive advantages in terms of scale, technology and customer engagement;
- uncertainties regarding, or changes by, the senior leadership of NatWest Group; and
- changes to the regulatory environment and associated requirements which could lead to shifts in operating cost and regulatory capital requirements, that impact NWB Group's product offerings and business models; (see also 'NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group'; and NWB Group could incur losses or be required to maintain higher levels of capital as a result of limitations or failure of various models)

Delivery of NWB Group's strategy will require:

- maintaining effective governance, procedures, systems and controls giving effect to NatWest Group's strategy;
- managing a broad range of risks and opportunities related to changes in the macroeconomic environment, customer expectations and behaviour, technology, regulation and competition alongside the emerging risks and opportunities associated with climate and other sustainability-related areas;
- achieving a number of financial, capital and operational targets and expectations within the relevant timeframe, or at all; and
- continued cost-controlling measures, which may result in provisions in connection to a lower NatWest Group's (and NWB Group's) cost base, may divert investment from other areas, and may vary considerably from year to year.

In pursuing NatWest Group's strategy, NWB Group may not be able to successfully: (i) implement some or all aspects of its strategy; (ii) meet any or all of the related targets or expectations of its strategy and otherwise realise the anticipated benefits of its strategy, in a timely manner, or at all; or (iii) realise the intended strategic objectives of any other future strategic or growth initiative. The scale and scope of NatWest Group's (and NWB Group's) strategy and the intended changes continue to present material business, operational and regulatory (including compliance with the UK ring-fencing regime), conflicts, legal, execution, IT system, cybersecurity, internal culture, conduct and people risks. Implementing changes and strategic actions, including in respect of any growth initiatives, requires the effective application of robust governance and controls frameworks and robust IT systems; and there is a risk that NatWest Group (and NWB Group) may not be successful in all these respects. The ongoing implementation of NatWest Group's strategy could result in materially higher costs than initially contemplated (including due to material uncertainties and factors outside of NatWest Group's control) and may not be completed as planned (both in terms of substantive targets and timing), or at all. This could lead to additional management actions by NatWest Group (or NWB Group).

Each of these risks, and others identified in these Principal Risks and Uncertainties, individually or collectively could jeopardise the implementation and delivery of NatWest Group's strategy, impact NWB Group's products and services offering, its reputation with customers or business model and adversely affect NWB Group's ability to deliver its strategy and meet its targets and guidance, each of which could have a material adverse effect on NWB Group's future results, financial condition, prospects, and/or reputation.

Acquisitions, divestments or other strategic transactions by NatWest Group (and/or NWB Group) may not be successful, and consolidation or fragmentation of the financial services industry may adversely affect NatWest Group.

The financial services industry is experiencing continued competitive pressure resulting from technological advancement that disrupts traditional business models and from incumbent banks, fintech companies, large technology conglomerates and other new market entrants. To compete effectively, NatWest Group may decide (of which NWB Group forms part), as part of its strategy, to undertake acquisitions, investments, the purchase of assets and liabilities, divestments, restructurings, reorganisations, joint ventures and other strategic partnerships, as well as other transactions and initiatives. In addition, NatWest Group (of which NWB Group forms part), may decide to grow its business through these transactions and initiatives to, amongst others, : (i) enhance capabilities that may lead to better productivity or cost efficiencies; (ii) acquire talent; (iii) pursue new products or expand existing products; and/or (iv) enter new markets or enhance its presence in existing markets.

In pursuing its strategy, NWB Group may not fully realise the expected benefits and value from the above-mentioned transactions and initiatives in the time, or to the degree anticipated, or at all. In particular, NatWest Group (and NWB Group) may: (i) fail to realise the business rationale for the transaction or initiative, or rely on assumptions underlying the business plans supporting the valuation of a target transaction or initiative that may prove inaccurate, for example, regarding synergies and expected commercial demand; (ii) fail to successfully integrate any acquired businesses, investment, joint-venture or assets (including in respect of technologies, existing strategies, products, governance, systems and controls, and human capital) or to successfully divest or restructure a business; (iii) fail to retain key employees, customers and suppliers of any acquired or restructured business; (iv) be required or wish to terminate pre-existing contractual relationships, which could prove costly and/or be executed at unfavourable terms and conditions; (v) fail to discover certain contingent or undisclosed liabilities in businesses that it acquires, or its due diligence to discover any such liabilities may be inadequate; (vi) not obtain necessary regulatory and other approvals or onerous conditions may be attached to such approvals, and (vii) compete with existing larger banks or financial institutions (and those that emerge from mergers and consolidations) or other larger entities offering financial services products that may have more bargaining power in negotiations than NatWest Group (or NWB Group). Accordingly, NatWest Group (or NWB Group) may not be successful in changing its business and any particular transaction may not succeed, may be limited in scope or scale (including due to NatWest Group's current ownership structure) and may not conclude on the terms contemplated, or at all.

Continued competitive pressure in the financial services industry from both established and new market entrants such as technology companies, may have a negative impact on NWB Group's business. Existing larger banks or financial institutions (and those that emerge from mergers and consolidations) or other larger entities offering financial services products may have more bargaining power in negotiations than NatWest Group (and NWB Group) and therefore may be in a position to extract more advantageous terms than NatWest Group (and NWB Group). See also, 'NWB Group operates in markets that are highly competitive, with competitive pressures and technology disruption'.

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

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

To improve efficiencies and best serve customers following Brexit, NWB Group expects that certain of NatWest Group's assets, liabilities, transactions and activities (including NatWest Group's Western European corporate portfolio, principally consisting of term funding and revolving credit facilities), may be: (i) transferred from the ring-fenced subgroup of NatWest Group, to NWM Group and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its results of operations. As a result, this could have a material adverse effect on NatWest Group's (including NWB Group's) future results, financial condition, prospects, and/or reputation.

Financial resilience risk

NWB Group may not achieve its ambitions, targets and guidance it communicates or generate sustainable returns.

As part of NatWest Group's strategy, it has set a number of financial, capital and operational targets for NWB Group including in respect of: MREL targets, funding plans and requirements, employee engagement, diversity and inclusion as well as climate strategy (including its climate and sustainable funding and financing targets) and customer satisfaction targets.

NWB Group's ability to meet NatWest Group and NWB Group's respective ambitions, targets and guidance and make discretionary capital distributions are subject to various internal and external factors, risks and uncertainties. These include, but are not limited to: market, regulatory, macroeconomic and political uncertainties, developments relating to litigation, governmental actions, investigations and regulatory matters, and operational risks and risks relating to NWB Group's business model and strategy (including risks associated with climate and other sustainability-related issues), competitive pressures, litigation, governmental actions, investigations and regulatory matters. If assumptions, judgements and estimates (for example about future economic conditions) prove to be incorrect, NatWest Group may not achieve any or all of its targets or meet its ambitions, targets, or guidance. A number of factors may impact NWB Group's ability to maintain its current CET1 ratio, including impairments, limited organic capital generation or unanticipated increases in RWAs. In addition, the run-down of RWAs may be accompanied by the recognition of disposal losses which may be higher than anticipated. See also 'NatWest Group (NWB Plc's parent company) continues to implement its strategy, which carries significant execution and operational risks and may not achieve its stated aims and targeted outcomes.'

Any failure of NWB Group to achieve NatWest Group and NWB Group's respective ambitions, targets or guidance may have a material adverse effect on NatWest Group's future results, financial condition, prospects, and/or reputation.

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

NWB Group has exposure to many different sectors, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWB Group's businesses. NWB Group's lending strategy and associated processes and systems may fail to identify, anticipate or quickly react to weaknesses or risks in a particular sector, market, borrower or counterparty, or NatWest Group's credit risk appetite relative to competitors, or fail to appropriately value physical or financial collateral. This may result in increased default rates or a higher loss given default for loans, which may, in turn, impact NWB Group's profitability. See also 'Risk and capital management — Credit Risk'.

The credit quality of NWB Group's borrowers and other counterparties may be affected by UK and global macroeconomic and political uncertainties, prevailing economic and market conditions. These include factors relating to interest rates and inflation, changing asset prices (including residential and commercial property), energy prices, supply chain disruption, changes to monetary and fiscal policy, the impact of armed conflict, and the legal and regulatory landscape in the UK and countries where NWB Group is exposed to credit risk. Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual right, increasing credit risk.

Any increase in drawings upon committed credit facilities may also increase NWB Group's RWAs. In addition, the level of household indebtedness in the UK (on a per capita basis) remains high. The ability of households and businesses to service their debts could be worsened by a period of high unemployment, or high interest rates or inflation, particularly if prolonged.

NWB Group may be affected by volatility in property prices (including as a result of UK political or economic conditions) given that NWB Group's mortgage loan and wholesale property loan portfolios as at 31 December 2023, amounted to £214.8 billion, representing 66% of NWB Group's total loan exposure. If property prices in the UK were to weaken this could lead to higher impairment charges, particularly if default rates also increase. In addition, NWB Group's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions, regulatory intervention, or other applicable laws, or if it is liquidated at prices not sufficient to recover the net amount outstanding to NWB Group after accounting for any IFRS 9 provisions already made. This is most likely to occur during periods of illiquidity or depressed asset valuations.

Concerns about, or a default by, a financial institution or intermediary could lead to significant liquidity problems and losses or defaults by other financial institutions or intermediaries, since the commercial and financial soundness of many financial institutions and intermediaries is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty or borrower may lead to market-wide liquidity problems and losses for NWB Group. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWB Group interacts on a regular basis. See also, 'NWB Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options.'

As a result, adverse changes in borrower and counterparty credit risk may cause additional impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWB Group and an inability to engage in routine funding transactions. If NWB Group experiences losses and a reduction in profitability, this is likely to affect the recoverable value of fixed assets, including goodwill and deferred taxes, which may lead to write-downs.

NWB Group has applied an internal analysis of multiple economic scenarios (MES) together with the determination of specific overlay adjustments to inform its IFRS 9 ECL (Expected Credit Loss). The recognition and measurement of ECL is complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic scenarios into ECL to meet the measurement objective of IFRS 9. The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate. Going forward, NWB Group anticipates observable credit deterioration of a proportion of assets resulting in a systematic uplift in defaults, which is mitigated by those economic assumption scenarios being reflected in the Stage 2 ECL across portfolios, along with a combination of post model overlays in both wholesale and retail portfolios reflecting the uncertainty of credit outcomes. See also, 'Risk and capital management — Credit Risk'. A credit deterioration would also lead to RWA increases. Furthermore, the assumptions and judgements used in the MES and ECL assessment at 31 December 2023 may not prove to be adequate resulting in incremental ECL provisions for NWB Group.

In line with certain mandated COVID-19 pandemic support schemes, NWB Group assisted customers with a number of initiatives including NWB Group's participation in BBLS, CBILS and CLBILS products. NWB Group sought to manage the risks of fraud and money laundering against the need for the fast and efficient release of funds to customers and businesses. NWB Group may be exposed to fraud, conduct and litigation risks arising from inappropriate approval (or denial) of BBLS, CBILS or CLBILS or the enforcing or pursuing repayment of BBLS, CBILS and CLBILS (or a failure to exercise forbearance), which may have an adverse effect on NWB Group's reputation and results of operations. The implementation of the initiatives and efforts mentioned above may result in litigation, regulatory and government actions and proceedings. These actions may result in judgements, settlements, penalties, fines, or removal of recourse to the government guarantee provided under those schemes for impacted loans.

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

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

The market for UK financial services is highly competitive. NWB Group expects competition to continue and intensify in response to various changes including; evolving customer behaviour, technological changes (including digital currencies and other instruments, stablecoins and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers such as retail or technology conglomerates, who may have competitive advantages in scale, technology and customer engagement), competitive foreign-exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services or conversely the re-intermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new (or more competitive) banking, lending and payment products and services offered by rapidly evolving incumbents, challengers (including shadow banks and alternative lenders, i.e. entities which carry out activities of a similar nature to banks but without the same regulatory oversight) and new entrants such as technology companies (which may result in a shift in customer behaviour) and the introduction of disruptive technology, may impede NWB Group's ability to grow or retain its market share and impact its revenues and profitability, particularly in its key UK retail and commercial and institutional banking segments. Moreover, innovations such as biometrics, artificial intelligence (including generative artificial intelligence), automation, the cloud, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

Some of these trends have been catalysed by various regulatory and competition policy interventions, including the UK initiative on Open Banking, 'Open Finance' and other remedies imposed by the Competition and Markets Authority ('CMA') which are designed to further promote competition within the financial sector (including banking). The competition enhancing measures under NatWest Group's independently administered Alternative Remedies Package ('ARP') benefits grant recipients and eligible competitors. The ARP may be more costly than anticipated and may adversely affect NWB Group's competitive position and/or reputation. Failure to comply with the terms of the ARP scheme could result in the imposition of additional measures or limitations on NWB Group's operations, additional supervision by NWB Group's regulators, and loss of investor confidence.

Increasingly, many of the products and services offered by NWB Group are, and will become, more technology intensive, including through digitalisation and the use of artificial intelligence. For example, NWB Group has invested in a number of fintech ventures, including Mettle, FreeAgent, Tyl, Rapid Cash, Rooster Money, Vodeno and Cushon. NWB Group's ability to develop or acquire such digital solutions (which also need to comply with applicable and evolving regulations) and their integration in NWB Group's systems and controls has become increasingly important to retaining and growing NWB Group's competitiveness, market share and customer facing businesses in the UK or elsewhere. There is a risk that NWB Group's innovation strategy, which includes investment in its IT capability intended to address the material increase in customer and merchant use of online and mobile technology for banking as well as selective acquisitions, which carry associated risks will be successful, or that it will allow NWB Group to successfully offer innovative products and services in the future. For example, NWB Group's current or future competitors may be more successful than NWB Group in implementing technologies for delivering products or services to their customers, which may adversely affect its competitive position. NWB Group may also fail to identify future opportunities or fail to derive benefits from technologies in a context of technological innovation, changing customer behaviour and changing regulatory demands resulting in increased competition from traditional banking businesses as well as new providers of financial services, including technology conglomerates with strong brand recognition, that may be able to develop financial services at a lower cost base.

NWB Group's competitors may also be better able to attract and retain customers and key employees, may have more effective IT systems, and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than NWB Group. Although NWB Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWB Group's focus on cost efficiencies. This could affect NWB Group's ability to offer innovative products or technologies for delivering products or services to customers and its competitive position.

Furthermore, the development of innovative products depends on NWB Group's ability to effectively produce, acquire, or manage underlying high-quality data, failing which its ability to offer innovative products may be compromised. If NWB Group is unable to offer competitive, attractive and innovative products that are also profitable and rolled out in a timely manner, it will lose market share, incur losses on some or all of its initiatives and lose opportunities for growth. In this context, NWB Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through automated processes and artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is not used appropriately, is defective, inadequate or is not fully integrated into NWB Group's current solutions, systems and controls. There can be no certainty that such initiatives will deliver the expected cost savings and investment in technology (including automated processes and artificial intelligence) will likely also result in increased costs for NWB Group.

In addition, the implementation of NatWest Group's strategy (including in relation to acquisitions, divestments, reorganisations and/or partnerships), delivery on its climate ambition, cost-controlling measures, as well as employee remuneration constraints, may also have an impact on NWB Group's ability to compete effectively. Intensified competition from incumbents, challengers and new entrants as well as disintermediation by large technology companies could affect NWB Group's ability to maintain satisfactory returns.

Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's (including NWB Group's) strategic initiatives. Furthermore, continued consolidation or technological or other developments in the financial services industry could result in NWB Group's competitors gaining greater capital and other resources, including the ability to offer a broader and more attractive or better value range of products and services and geographic diversity, or the emergence of new competitors.

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

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

Liquidity and the ability to raise funds continues to be a key area of focus for NWB Group and the industry as a whole. NatWest Group and NWB Plc (as a member of the Domestic Liquidity sub-group) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate liquidity and funding resources. To satisfy its liquidity and funding requirements, NWB Group may therefore access sources of liquidity and funding through retail and wholesale deposits, as well as through the debt capital markets. As at 31 December 2023, NWB Plc held £ 294.3 billion in deposits from banks and customers. The level of deposits may fluctuate due to factors outside NWB Group's control, such as a loss of customers, loss of customer and/or investor confidence (including in individual NatWest Group entities and as a result of volatility in the financial sector), changes in customer behaviour, changes in interest rates, government support, increasing competitive pressures for retail and corporate customer deposits or the reduction or cessation of deposits by wholesale depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow, or any material decrease in NWB Group's deposits could, particularly if accompanied by one or more of the other factors mentioned above, adversely affect NWB Group's ability to satisfy its liquidity or funding needs, or comply with its related regulatory requirements. In turn, this could require NWB Group to adapt its funding plans or change its operations.

Macroeconomic developments, political uncertainty, changes in interest rates, and market volatility could affect NWB Group's ability to access sources of liquidity and funding on satisfactory terms, or at all. This may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWB Group could be required to change its funding plans. This could exacerbate funding and liquidity risk, which may adversely affect NWB Group.

As at 31 December 2023, NWB Plc's liquidity coverage ratio was 138% and net stable funding ratio was 126%. If NWB Plc's liquidity position were to come under stress, and if NWB Group were unable to raise funds through deposits, in the debt capital markets or through other reliable funding sources, on acceptable terms, or at all, its liquidity position would likely be adversely affected and it might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet its obligations under committed financing facilities, to comply with regulatory funding requirements, to undertake certain capital and/or debt management activities, and/or to fund new loans, investments and businesses, or make capital distributions to NatWest Group.

If, under a stress scenario, the level of liquidity falls outside of NWB Group's risk appetite, there are a range of recovery management actions that NWB Group could take to manage its liquidity levels, but any such actions may not be sufficient to restore adequate liquidity levels and the related implementation may have adverse consequences for NWB Group's operations. Under the EU Bank Recovery and Resolution Directives I and II ('BRRD'), as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWB Group's applicable liquidity requirements may trigger the application of NatWest Group's recovery plan to attempt to remediate a deficient liquidity position.

NWB Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding commitments or trigger the execution of certain management actions or recovery options. In a time of reduced liquidity, NWB Group may be unable to sell its assets, at attractive prices, or at all, which may have a material adverse effect on NWB Group's liquidity.

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

NWB Group may not meet the prudential regulatory requirements for regulatory capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options.

NatWest Group and NWB Plc (via the Domestic Liquidity sub-group) are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate financial resources. Adequate levels of capital provide NatWest Group (including NWB Group) with financial flexibility specifically in its core UK operations in the face of turbulence and uncertainty in the UK and the global economy.

As at 31 December 2023, NWB Plc's CET1 ratio was 11.6%. A number of subsidiaries and sub-groups within NWB Group, principally banking entities, are subject to various individual regulatory capital requirements in the UK and overseas. NatWest Group plc currently targets a CET1 ratio of 13-14% by 31 December 2024. NatWest Group plc's target CET1 ratio is based on a combination of its views on the appropriate level of capital and its actual and expected regulatory requirements and internal modelling, including stress scenarios and management's and/or the Prudential Regulation Authority's ('PRA') views on appropriate buffers above minimum required operating levels.

NatWest Group's current capital strategy for NWB Plc is based on: the expected accumulation of additional capital through the accrual of retained earnings over time; the receipt of assets and resultant RWAs from other NatWest Group entities; RWA growth in the form of regulatory uplifts and lending growth and other capital management initiatives which focus on improving capital efficiency through improved data and upstreaming of dividends from NWB Plc to NatWest Group plc and ensuring NatWest Group meets its medium to long term targets.

A number of factors may impact NWB Group's ability to maintain its CET1 ratio target and achieve its capital strategy. These include:

- a depletion of its capital resources through increased costs or liabilities or reduced profits (for example, due to an increase in provisions due to a deterioration in UK economic conditions);
- an increase in the quantum of RWAs/Leverage Exposure in excess of that expected, including due to regulatory changes (including their interpretation or application) or a failure in internal controls or procedures to accurately measure and report RWAs/Leverage Exposure;

- changes in prudential regulatory requirements/ Leverage Requirement including NWB Plc's Total Capital Requirement set by the PRA, including Pillar 2 requirements, as applicable, and regulatory buffers as well as any applicable scalars; and reduced upstreaming of dividends from NWB Group plc's subsidiaries because of changes in their financial performance and/or the extent to which local capital requirements exceed NWB Plc's target ratio; and limitations on the use of double leverage (i.e., NWB Group's use of debt to invest in the equity of its subsidiaries, as a result of the Bank of England's and/or NWB Group's evolving views on distribution of capital within groups).

In addition to regulatory capital, NWB Plc is required to maintain a set quantum of internal MREL set as the higher of its RWAs or applicable leverage-based minimum capital requirement. The Bank of England has identified single point-of-entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group. As a result, NatWest Group plc is the only entity that can externally issue securities that count towards its MREL, the proceeds of which can then be downstreamed to meet the internal MREL of its operating entities, including NWB Plc. NWB Plc is therefore dependent not only on NatWest Group plc to fund NWB Plc's internal MREL targets over time, but also on NatWest Group plc's ability to issue and maintain sufficient amounts of external MREL liabilities to support this. In turn, NWB Plc is required to fund the internal capital requirements and MREL of its subsidiaries. See also, 'NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group.'

If, under a stress scenario, the level of regulatory capital or MREL falls outside of NWB Group's risk appetite, there are a range of recovery management actions (focused on risk reduction and mitigation) that NWB Group could seek to take to manage its capital levels, but any such actions may not be sufficient to restore adequate capital levels. Under the BRRD, as implemented in the UK, NatWest Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWB Group's applicable capital or leverage requirements may trigger the application of NatWest Group's recovery plan to remediate a deficient capital position.

NatWest Group's regulator may request that NWB Group carry out certain capital management actions or, if NatWest Group plc's CET1 ratio falls below 7%, certain regulatory capital instruments issued by NatWest Group plc will be written-down or converted into equity and there may be an issue of additional equity by NatWest Group plc, which could result in the reduction in value of the holdings of NatWest Group plc's existing shareholders. The success of such issuances will also be dependent on favourable market conditions and NatWest Group may not be able to raise the amount of capital required on acceptable terms or at all. Separately, NatWest Group may address a shortage of capital by taking action to reduce leverage exposure and/or RWAs via asset or business disposals. These actions may, in turn, affect: NWB Group's product offering, credit ratings, ability to operate its businesses, pursue its current strategy and strategic opportunities. See also, 'NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWB Group's eligible liabilities.'; and also 'NWB Group may be adversely affected if NatWest Group fails to meet the requirements of regulatory stress tests'.

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

NWB Group is reliant on NatWest Group for capital and funding support, and is substantially reliant on NatWest Group plc's ability to issue sufficient amounts of capital and external MREL securities and downstream the proceeds to NWB Group. The inability to do so may adversely affect NWB Group.

NWB Plc receives capital and funding from NatWest Group. NWB Plc has set target levels for different tiers of capital and for the internal MREL, as percentages of its RWAs. The level of capital and funding required for NWB Plc to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWB Plc and this may vary over time.

NWB Plc's internal MREL comprises the capital value of regulatory capital instruments and loss-absorbing senior funding issued by NWB Plc to its ultimate parent, NatWest Group plc. The Bank of England has identified that the preferred resolution strategy for NatWest Group is as a single point of entry at NatWest Group plc. As a result, only NatWest Group plc is able to issue Group MREL eligible liabilities to third-party investors, using the proceeds to fund the internal MREL targets and/or requirements of its operating entities, including NWB Plc.

NWB Plc is therefore dependent on NatWest Group plc to fund its internal capital targets and its ability to source appropriate funding at NatWest Group plc level to support this. NWB Plc is also dependent on NatWest Group plc to fund its internal MREL target over time and its ability to raise and maintain sufficient amounts of external MREL liabilities to support this.

If NatWest Group plc is unable to issue adequate levels of MREL securities such that it is unable to downstream sufficient amounts to NWB Plc, this could lead to a failure of NWB Group to meet its own individual internal MREL as well as the internal MREL of subsidiaries within NWB Group, which in either case may have a material adverse effect on NWB Group's future results, financial condition, prospects, and reputation. See also, 'NWB Group may not meet the prudential regulatory requirements for capital and MREL, or manage its capital effectively, which could trigger the execution of certain management actions or recovery options'.

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

Rating agencies regularly review NatWest Group plc, NWB Plc and other NatWest Group entities' credit ratings and outlooks. NWB Group entities' credit ratings and outlooks could be negatively affected (directly and indirectly) by a number of factors that can change over time, including without limitation: credit rating agencies' assessment of NWB Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity, and risk management practices; the level of political support for the sectors and regions in which NWB Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWB Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment; political, geopolitical and economic conditions in NWB Group's key markets (including inflation and interest rates, supply chain disruptions and the outcome of any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions. See also 'A reduction in the ESG ratings of NWB Group could have a negative impact on NWB Group's reputation and on investors' risk appetite and customers' willingness to deal with NWB Group.'

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

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

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

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

Failure by NatWest Group to meet the quantitative and qualitative requirements of the stress tests as set forth by its UK regulator may result in: NatWest Group's regulators requiring NatWest Group to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions, restrictions on capital distributions and loss of investor confidence, all of which may have a material adverse effect on NatWest Group's future results, financial condition, prospects, and/or reputation and, in turn, NWB Group.

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

Given the complexity of NWB Group's business, strategy and capital requirements, NWB Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWB Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as external or internal fraud (collectively, 'financial crime')). NWB Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

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

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

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

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

Accounting policies deemed critical to NWB Group's results and financial position, based upon materiality and significant judgements and estimates, involve a high degree of uncertainty and may have a material impact on its results. For 2023, these include loan impairments, fair value, deferred tax and conduct and litigation provisions. These are set out in 'Critical accounting policies'.

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

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

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

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

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

NatWest Group (including NWB Group) may become subject to the application of UK statutory stabilisation or resolution powers which may result in, for example, the write-down or conversion of NWB Group's eligible liabilities.

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

Under the UK Banking Act 2009, the Authorities are generally required to have regard to specified objectives in exercising the powers provided for by the UK Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. Moreover, the 'no creditor worse off' safeguard provides that where resolution action is taken, the Authorities are required to ensure that no creditor is in a worse position than if the bank had entered into normal insolvency proceedings. Although, this safeguard may not apply in relation to an application of the separate write-down and conversion power relating to capital instruments under the Banking Act 2009 in circumstances where a stabilisation power is not also used, the UK Banking Act still requires the Authorities to respect the hierarchy on insolvency when using the write-down and conversion power. Further, holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

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

If NatWest Group is at or is approaching the point such that regulatory intervention is required, there may be a corresponding material adverse effect on NWB Group's future results, financial condition, prospects, and/or reputation.

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

NatWest Group is subject to regulatory oversight by the Bank of England and the PRA and is required (under the PRA rulebook) to carry out an assessment of its preparations for resolution, submit a report of the assessment to the PRA, and disclose a summary of this report. NatWest Group has dedicated significant resources towards the preparation of NatWest Group for a potential resolution scenario. In June 2022 the Bank of England communicated its assessment of NatWest Group's preparations and did not identify any shortcomings, deficiencies or substantive impediments although two areas were highlighted as requiring further enhancements. NatWest Group, and in turn NWB, could be adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

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

Climate and sustainability-related risks

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

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

Climate and sustainability-related risks may:

- adversely affect asset pricing and valuations of NWB Group's own and other securities and, in turn, the wider financial system;
- adversely affect economic activities directly (for example through lower corporate profitability or the devaluation of assets) or indirectly (for example through macro-financial changes);
- adversely affect the viability or resilience of business models over the medium to longer term, particularly those business models most vulnerable to climate and sustainability-related risks;
- trigger losses stemming directly or indirectly from liability risks and/or reputational damage, including as a result of adverse media coverage, activists, the public, customers, counterparties (including suppliers) and/or investors associating NWB Group or its customers with adverse climate and sustainability-related issues;

- adversely affect NWB Group's ability to contribute to deliver on NatWest Group's strategy, including contributing to achieve NatWest Group's climate ambitions and targets;
- exacerbate other risk categories to which NWB Group is exposed, including credit risk, operational risk (including business continuity), market risk (both traded and non-traded), liquidity and funding risk (for example, net cash outflows or depletion of liquidity buffers), reputational risk, pension risk, regulatory compliance risk and conduct risk; and
- may have a material adverse effect on NWB Group's reputation, future results, financial condition, and/or prospects (including cash flows, access to finance or cost of capital over the short, medium or long term).

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

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

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

Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks are expected to be widespread and may disrupt the orderly functioning of financial markets and have an adverse effect on financial institutions, including NWB Group.

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

To meet the goals of the UK's Net Zero Strategy will require a net-zero transition across all sectors of the UK economy. The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve this transition remain uncertain but are expected to be significant, subject to continuous changes and developments and may be disruptive across the

global economy and markets, especially if these changes do not occur in an orderly or timely manner, or are not effective in reducing emissions sufficiently in a timely manner, or at all. NWB Group's business and customers in some sectors, including but not limited to, residential mortgages, commercial real estate, agriculture (primary farming), automotive manufacturing, aviation, shipping, land transport and logistics (freight road, passenger rail and road), electricity generation and oil and gas are expected to be particularly impacted. The timing and pace of the net-zero transition is also uncertain, will depend on many factors and uncertainties and may be near-term, gradual and orderly, or delayed, rapid and disorderly, or a combination of these.

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

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

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

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

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

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

There is also growing expectation of the need for a 'just transition' and 'energy justice' – in recognition that the transition to net zero should happen in a way that is as fair and inclusive as possible to everyone concerned.

Although NatWest Group (including NWB Group) continues to evaluate and assess how it integrates 'just transition' considerations into its climate and sustainability strategy, a failure (or perception of failure) by NatWest Group (including NWB Group) to sufficiently factor these considerations into existing products and service offerings may adversely affect NatWest Group's (including NWB Group) reputation.

In 2023, NatWest Group (including NWB Group) published its initial assessment of its 'salient human rights issues'. Human rights saliency assessments are high-level scoping exercises based on internal and external stakeholder engagement and involve subjective materiality and other judgements including as to severity and likelihood of human rights impacts. Failure by NatWest Group (including NWB Group) to identify, assess, prioritise and monitor any actual or potential adverse human rights issues that NatWest Group (including NWB Group) contributes to, or is directly linked to, may adversely impact people and communities, which in turn may have a material adverse effect on NWB Group's future results, financial condition, prospects and/or reputation. Sustainability-related risks may have the potential to cause or stress other financial and non-financial risks, including climate-related risks, and they may have a material adverse effect on NWB Group's future results, financial condition, prospects, and/or reputation including as a result of financial losses caused directly or indirectly by sustainability-related litigation and conduct matters (referred to as 'liability risk'). See also, 'NWB Group may be subject to potential climate and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk'.

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

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

Further, in December 2022, NatWest Group published its science-based targets validated by Science Based Target Initiative for 79% of its lending book as at 31 December 2019 and 57% of debt securities and equity shares, excluding sovereign debt securities.

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

Making the changes necessary to contribute to achieving NatWest Group's strategic direction on climate change, including contributing to achieve NatWest Group's climate ambitions and targets and contributing to the execution to NatWest Group's transition plan, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material changes to NWB Group's business, operating model, its existing exposures and the products and services NWB Group provides to its customers (potentially on accelerated timescales). NWB Group may be required to (i) significantly reduce its financed emissions and its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place, and (ii) divest or discontinue certain activities for regulatory or legal reasons or in response to the transition to a less carbon-dependent economy. Increases in lending and financing activities may wholly or partially offset some or all these reductions, which may increase the extent of changes and reductions necessary.

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

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

NWB Group's ability to contribute to achieving NatWest Group's climate ambitions and targets depends to a significant extent on the timely implementation and integration of appropriate government policies. The UK CCC June 2023 Progress Report to the UK Parliament states that the rate of emissions reduction will need to significantly increase for the UK to meet its 2030 commitments and continued delays in policy development and implementation mean achievement is increasingly challenging. On 20 September 2023, the UK Government announced its revised plans on reducing emissions to reach net zero, including (i) delaying the proposed ban on the sale of petrol and diesel cars to 2035; (ii) not proceeding with new policies forcing landlords to upgrade the energy efficiency of their properties; and (iii) delaying the ban on new fossil fuel boilers for certain households.

Accordingly, NatWest Group (including NWB Group) considers achievement of the following ambitions increasingly challenging (i) 50% of NatWest Group's mortgage portfolio to have an EPC rating of C or above by 2030; and (ii) to at least halve the climate impact of NatWest Group's financing activity by 2030, against a 2019 baseline.

NatWest Group (including NWB Group) has also stated that it plans to phase-out coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase-out by 1 January 2030. Data challenges, particularly the lack of granular customer information, creates challenges in identifying customers with 'coal related infrastructure' (e.g. transportation and storage) and other customers with 'coal-related operations' within NatWest Group's (including NWB Group) large and diversified customer portfolios. Therefore, there is a risk that some customers with UK-based coal activities may not have been identified and that NatWest Group (including NWB Group) will not be able to identify all relevant activities to achieve these coal phase-out plans.

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

There are significant limitations related to accessing accurate, reliable, verifiable, auditable, consistent and comparable climate and other sustainability-related data that contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.

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

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

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

Significant risks, uncertainties and variables are inherent in the assessment, measurement and mitigation of climate and sustainability-related risks. These include data quality gaps and limitations mentioned above, as well as the pace at which climate science, greenhouse gas accounting standards and various emissions reduction solutions develop. In addition, there is significant uncertainty about how climate change and the world's transition to a net-zero economy will unfold over time and how and when climate and sustainability-related risks will manifest. These timeframes are considerably longer than NWB Group's historical and current strategic, financial, resilience and investment planning horizons.

As a result, NWB Group's climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NWB Group's data and methodologies continue to improve. These data quality challenges, gaps and limitations may have a material impact on NWB Group's ability to make effective business decisions about climate and sustainability-related risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions, targets and pathways.

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

The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example:

- climate scenarios are not predictions of what is likely to happen or what NWB Group would like to happen, rather they explore the possible implications of different judgements and assumptions by considering a series of scenarios;
- climate scenarios do not provide a comprehensive description of all possible future outcomes;
- lack of specialist expertise in NWB Group that needs to rely on third party advice, modelling, and data which is also subject to many limitations and uncertainties;
- immaturity of modelling of and data on climate-related risks on financial assets which will presumably evolve rapidly in the coming years;
- the number of variables and the forward-looking nature of climate scenarios which makes them challenging to back test and benchmark;
- the significant uncertainty as to how the climate will evolve over time, how and when governments, regulators, businesses, investors and customers respond and how those responses impact the economy, asset valuations, land systems, energy systems, technology, policy and wider society;

- the assumptions will continue to evolve with more data/information which may affect the baselines for comparability across reporting periods and impact internal and external verification processes; and
- the pace of the development of the methodologies across different sectors may be different and therefore it may be challenging to report on the whole balance sheet with regard to financed emissions.

Accordingly, these risks and uncertainties coupled with significantly long timeframes make the outputs of climate-related risk modelling, climate-related targets (including emission reduction targets) and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. Furthermore, there is a lack of scientific, industry and regulatory consensus regarding the appropriate metrics, methodologies, modelling and standardised reporting to enable the assessment of the location, acuteness, and severity of climate-related risks and the monitoring and mitigation of these risks in the economy and financial system. There is increasing industry concern (acknowledged by the Network for Greening the Financial System) that model scenarios, including those provided by central banks and supervisory bodies and are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible ‘tipping points’ that could lead to large, irreversible changes in the climate system (for example the melting of permafrost or the Greenland and Antarctic ice sheets).

Capabilities within NWB Group to appropriately assess, model, report and manage climate-related risks and impacts and the suitability of the assumptions required to model and manage climate-related risks appropriately continue to develop. But such development is still in its early stages. Even when those capabilities are appropriately developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgements and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies or regulatory non-compliance, all of which may have a material adverse effect on NWB Group’s business, future results, financial condition, prospects, reputation and the price of its securities.

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

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

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

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

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

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

Certain non-UK subsidiaries of NatWest Group in the EU and elsewhere may also be subject to EU, national and other climate and sustainability laws and regulations which in some cases may differ. For example, NatWest Group’s Dutch subsidiary, NWM N.V., is subject to the EU Taxonomy, CSRD, the proposed CSDDD, and other legal, regulatory and supervisory expectations relating to climate-related and environmental risk management and disclosure. A failure of NatWest Group or any of its subsidiaries, including NWM N.V., to comply with these regulations (if applicable), whether through insufficient resources, expertise, support, customer and counterparty data challenges or otherwise may have an adverse effect on NWB Group’s reputation and the successful contribution to the implementation of NatWest Group’s strategy.

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

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

Failure to comply with these divergent legal and regulatory requirements which are applicable to NWB Group may result in NWB Group and/or its subsidiaries not meeting applicable regulatory requirements or investors' expectations. Compliance with these complex and evolving climate and sustainability-related legal and regulatory requirements and voluntary standards and initiatives is likely to require NWB Group to implement significant changes to its business models, IT systems, products, governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, result in higher capital requirements, and entail additional change risk and increased compliance, regulatory sanctions, conduct and litigation (including settlements) costs. Failure to implement and comply with these requirements, standards and initiatives may also result in investigations and/or regulatory sanctions, reputational damage and investor disapproval each of which may have a material adverse effect on NWB Group's future results, financial condition, prospects, and/or reputation.

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

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

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

NatWest Group (including NWB Group) plans to invest in voluntary carbon credits to mitigate emissions beyond its own value chain whilst transitioning towards a state of net zero emissions by 2050. NatWest Group (including NWB Group) may also be involved in trading voluntary carbon credits with its clients, or facilitating clients to trade these credits. Financial market and platform regulators are increasingly taking an interest in the voluntary carbon market and voluntary carbon credits retired, sold or traded by financial institutions or used by them as part of their own emissions reduction plans. NWB Group could potentially be exposed to financial, litigation, regulatory enforcement and reputational risk where it retires, facilitates or is otherwise associated with voluntary carbon credit transactions or use (including use to offset own emissions).

This includes where voluntary carbon credits are not of sufficient quality, potential issues or risks with respect to such carbon credits (or projects through which they are generated) are not adequately disclosed or stated benefits are exaggerated or misleading and/or such carbon credits are used either by NWB Group or by a third party organisation (such as a customer) as a substitute for achieving appropriate emissions reductions in their own operations.

Any failure of NWB Group to implement robust and effective climate and sustainability-related disclosure, communications and product governance policies, procedures and controls to make accurate public statements and claims about how environmentally friendly, sustainable or ethical NWB Group's products and services are and to apply these in line with applicable legal and regulatory requirements and expectations, may adversely affect NWB Group's regulatory compliance and/or reputation and could give rise to increased regulatory enforcement, investigation and litigation.

NWB Group may be subject to potential climate and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

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

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

- failure to meet obligations, targets or commitments relating to, or to disclose accurately, or provide updates on material climate and/or sustainability-related risks, or otherwise provide appropriate balanced, clear, complete, correct, fair, meaningful, understandable, disclosure (which is capable of being substantiated) to investors, customers, counterparties (including suppliers) and other stakeholders;
- conduct, mis-selling and customer protection claims, including claims which may relate to alleged insufficient product understanding, unsuitable product offering and /or reliance upon information provided by NWB Group or claims alleging unfair pricing of climate-related products, for example in relation to products where limited liquidity or reliable market data exists for benchmarking purposes or which may be impacted by future climate policy uncertainty or other factors;
- marketing that portrays products, securities, activities or policies as having positive climate, nature-related or sustainable outcomes to an extent that may not be the case, or may not adequately be qualified and/or omits material information about NWB Group's contribution to the climate crisis and/or its direct / indirect contribution to greenhouse gas emissions or other sustainability-related issues;
- damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks;
- alleged violations of officers', directors' and other fiduciaries' duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries;
- changes in the understanding of what constitutes positive climate, nature-related or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations;

- any weaknesses or failures in specific systems or processes associated particularly with climate, nature-related or sustainability linked products, and/or human rights due diligence, including any failure in the timely implementation, onboarding and/or updating of such systems or processes;
- counterparties, collaborators, customers to whom NWB Group provides services and third parties in NWB Group's value chain who act, or fail to act, or undertake due diligence, or apply appropriate risk management and product governance in a manner that may adversely affect NWB Group's reputation or sustainability credentials; or
- NWB Group's or its customers', counterparties' (including suppliers') involvement in, or decision not to participate in, certain industries or projects associated with causing or exacerbating climate change and nature-related degradation.

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

There is an increase in the number of legal, conduct and regulatory claims as well as an increase in the variety of legal bases being alleged, remedies sought and amount of damages awarded in legal, conduct and regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions for climate and sustainability matters. There is a risk that as climate, nature-related and environmental science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate and the broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NWB Group. There is also an increase in enforcement and litigation focusing on challenging public and private sector sustainability policies and initiatives intended to address climate change and nature-related degradation. See also, 'NWB Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group'. In addition, supervisors and regulators are increasing their enforcement focus on climate and sustainability-related matters. For example, the ECB has stated that enforcement measures in the form of periodic penalty payments may be imposed on banks that do not fully align with ECB supervisory expectations of sound practices for managing climate and environmental risks.

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

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

ESG ratings from agencies and data providers which rate how NatWest Group (including NWB Group) manages environmental, social and governance risks are increasingly influencing investment decisions pertaining to NatWest Group's and/or its subsidiaries' securities or being used as a basis to label financial products and services as environmentally friendly or sustainable. ESG ratings are often (i) unsolicited; (ii) subject to the assessment and interpretation by the ESG rating agencies; (iii) provided without warranty; (iv) not a sponsorship, endorsement, or promotion of NatWest Group (including NWB Group) by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWB Group's control (e.g. any change in rating methodology). In addition, certain NatWest Group entities offer and sell products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency or data providers. ESG rating agencies, at this stage, are not subject to any specific regulatory or other regime or oversight (although there are proposals by regulators in different jurisdictions to regulate rating agencies and data providers).

Regulators have expressed concern that harm may arise from potential conflicts of interest within ESG rating and review or second party opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. Any material reduction in the ESG ratings of NatWest Group (including NWB Group) may have a negative impact on NWB Group's reputation, could influence investors' risk appetite for NWB Group's and/or its subsidiaries' securities, particularly ESG securities, could potentially affect the pricing of securities issued by NWB Group and/or its subsidiaries and could affect a customer's willingness to deal with NWB Group. A regulatory sanction or enforcement action involving an ESG rating agency used by a NatWest Group entity, could also have a negative impact on NWB Group's reputation.

Operational and IT resilience risk

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

Operational risk is the risk of loss or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks, third party processes, procedures, people or systems. NWB Group offers a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including for example, payment errors or financial crime and fraud), for which there is continued scrutiny by third parties of NWB Group's compliance with financial crime requirements; see 'NWB Group is exposed to the risks of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWB Group.'

These risks are also present when NWB Group relies on critical service providers (suppliers) or vendors to provide services to it or its customers, as is increasingly the case as NWB Group outsources certain activities, including with respect to the implementation of technologies, innovation and responding to regulatory and market changes.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's strategy, and the organisational and operational changes involved, including: NatWest Group's current cost-controlling measures; the progression towards working as One Bank across NatWest Group (of which NWB Group is part) to serve customers; the implementation of the recommendations from the recent independent reviews by the law firm Travers Smith LLP of customer account closures, as well as the outcome of ongoing FCA and internal reviews with respect to certain governance processes, policies, systems and controls of NatWest Group entities including with respect to customer account closures; and conditions affecting the financial services industry generally (including macroeconomic and other geopolitical developments) as well as the legal and regulatory uncertainty resulting from these conditions. It is unclear as to how the future ways of working may evolve, including in respect of how working practices may further evolve, or how NWB Group will evolve to best serve its customers. Any of the above may place significant pressure on NWB Group's ability to maintain effective internal controls and governance frameworks.

NWB Group increasingly provides certain shared critical services and operations, including, without limitation, property, finance, accounting, treasury, legal, risk, regulatory compliance and reporting, financial crime, human resources, and certain other support and administrative functions to other entities within NatWest Group (in particular, NWM Plc) and receives income in respect of these services. As a result, NWB Group may be exposed to a loss of income if these services are not required to the same extent, or are no longer required at all.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting customer business. Although NWB Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWB Group.

Ineffective management of such risks may have a material adverse effect on NWB Group's future results, financial condition, prospects, and/or reputation.

NWB Group is subject to sophisticated and frequent cyberattacks.

NatWest Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWB Group) and against NatWest Group and NWB Group's supply chain, reinforcing the importance of due diligence of and close working relationship with the third parties on which NWB Group relies. NWB Group is reliant on technology, against which there is a constantly evolving series of attacks that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWB Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2023, NWB Group and its supply chain were subjected to a small number of Distributed Denial of Service ('DDOS') and ransomware attacks, which are a pervasive threat to the financial services industry. The focus is to manage the impact of the attacks and sustain availability of services for NWB Group's customers. Consequently, NWB Group continues to invest significant resources in developing and evolving of cybersecurity controls that are designed to minimise the potential effect of such attacks.

Third parties continue to make hostile attempts to gain access to, introduce malware (including ransomware) into and exploit potential vulnerabilities of NWB Group's IT systems. NWB Group has information and cybersecurity controls that seek to minimise the impact of any such attacks, which are subject to review on a regular basis, but given the nature of the threat, there can be no assurance that such measures will prevent the potential adverse effect of an attack from occurring. See also, 'NWB Group's operations are highly dependent on its complex IT systems and any IT failure could adversely affect NWB Group.'

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

Furthermore, cyberattacks on NWB Group's counterparties and suppliers may also have an adverse effect on NWB Group's operations. Additionally, third parties may induce employees, customers, third party providers or other users with access to NWB Group's systems to wrongfully disclose sensitive information to gain access to NWB Group's data or systems or that of NWB Group's customers or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWB Group's employees or third parties, including third party providers, or may result from technological failure.

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

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

A failure to monitor and manage data in accordance with the UK Data Protection Framework and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

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

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

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

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

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

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

Individually or collectively, any system failure, loss of service availability or breach of data security could potentially cause significant damage to: (i) important business services and (ii) NWB Group's ability to provide services to its customers, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations), or a breach of applicable regulations and could affect NWB Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers and talent. NWB Group outsources certain functions as it innovates and offers new digital solutions to its customers to meet the demand for online and mobile banking. Outsourcing alongside remote working heighten the above risks.

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

In 2023, NWB Group made considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). NWB Group also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cybersecurity. Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, may adversely affect NWB Group's operations, its reputation and ability to retain or grow its customer business or adversely affect its competitive position.

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

NWB Group relies on attracting, retaining and developing diverse senior management and skilled personnel, and is required to maintain good employee relations.

NWB Group's success depends on its ability to attract, retain through creating an inclusive environment, and develop highly skilled and qualified diverse personnel, including senior management, directors and key employees (including technology and data focused roles), in a highly competitive market and under internal cost efficiency pressures.

NWB Group's ability to attract, retain and develop highly skilled and qualified diverse senior management (this may include a new permanent CEO in 2024) and skilled personnel may be more difficult due to the cost-controlling measures, a failure to pay employees competitive compensation, heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements (in particular those of banks that have been in receipt of government support such as NatWest Group). In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or may increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NWB Group's employee engagement and the formulation and execution of its strategy, and could also have an adverse effect on its reputation with employees, customers, investors and regulators.

Many of NWB Group's employees in the UK, the ROI and continental Europe are represented by employee representative bodies, including trade unions and works councils. Engagement with its employees and such bodies is important to NWB Group in maintaining good employee relations. Any failure to do so may adversely affect NWB Group's ability to operate its business effectively.

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

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

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

In addition, financial crime risk management is dependent on the use and effectiveness of financial crime assessment, systems and controls. Weak or ineffective financial crime processes and controls may risk NWB Group inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and/or reputational damage. Financial crime continues to evolve, whether through fraud, scams, cyberattacks or other criminal activity. These risks are exacerbated as NWB Group continues to innovate its product offering and increasingly offers digital solutions to its customers. NatWest Group (including NWB Group) has made and continues to make significant, multi-year investments to strengthen and improve its overall financial crime control framework with prevention systems and capabilities. As part of its ongoing programme of investment, there is current and future investment planned to further strengthen financial crime controls over the coming years, including investment in new technologies and capabilities to further enhance customer due diligence, transaction monitoring, sanctions and anti-bribery and corruption systems.

Financial risk management is highly dependent on the use and effectiveness of internal stress tests and models and ineffective risk management may arise from a wide variety of factors, including lack of transparency or incomplete risk reporting, manual processes and controls, inaccurate data, inadequate IT systems, unidentified conflicts or misaligned incentives, lack of accountability control and governance, incomplete risk monitoring and management or insufficient challenges or assurance processes to commence or timely complete risk remediation projects. Failure to manage risks effectively, or within regulatory expectations, could adversely affect NWB Group's reputation or its relationship with its regulators, customers, shareholders or other stakeholders.

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

NWB Group's businesses are also exposed to risks from employee, contractor or service providers misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWB Group. Hybrid working arrangements for NWB Group employees place heavy reliance on the IT systems that enable remote working and may place additional pressure on NWB Group's ability to maintain effective internal controls and governance frameworks and increase operational risk.

Hybrid working arrangements are also subject to regulatory scrutiny to ensure adequate recording, surveillance and supervision of regulated activities, and compliance with regulatory requirements and expectations, including requirements to: meet threshold conditions for regulated activities; ensure the ability to oversee functions (including any outsourced functions); ensure no detriment is caused to customers; and ensure no increased risk of financial crime.

NWB Group seeks to embed a risk awareness culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in risk management, including the ongoing development of a NatWest Group risk management strategy in line with regulatory expectations. However, such efforts may not insulate NWB Group from instances of misconduct and no assurance can be given that NWB Group's strategy and control framework will be effective. Any failure in NWB Group's risk management framework may result in the inability to achieve its strategic objectives for their customers, employees and wider stakeholders.

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

NWB Group's operations are subject to inherent reputational risk.

Reputational risk relates to stakeholder and public perceptions of NWB Group arising from an actual or perceived failure to meet stakeholder or the public's expectations, including with respect to NatWest Group's strategy and related targets, the progression towards working as One Bank across NatWest Group (of which NWB Group is part) to serve customers, or due to any events, behaviour, action or inaction by NWB Group, its employees or those with whom NWB Group is associated. See also, 'NWB Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWB Group.' This includes harm to its brand, which may be detrimental to NWB Group's business, including its ability to build or sustain business relationships with customers, stakeholders and regulators, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding.

Reputational risk may arise whenever there is, or there is perceived to be, a material lapse in standards of integrity, compliance, customer or operating efficiency, or regulatory or press scrutiny, and may adversely affect NWB Group's ability to attract and retain customers. For example, NWB Group's reputational risks were elevated during 2023 as a result of the departure of its CEO in connection with account closures and related use of customer data that attracted significant public and media attention.

In particular, NWB Group's ability to attract and retain customers (particularly, corporate/institutional and retail depositors), and talent, and engage with counterparties may be adversely affected by factors including: negative public opinion resulting from the actual or perceived manner in which NWB Group or any other member of NatWest Group conducts or modifies its business activities and operations, media coverage (whether accurate or otherwise), employee misconduct, NWB Group's financial performance, IT systems failures or cyberattacks, data breaches, financial crime and fraud, the level of direct and indirect government support, or the actual or perceived practices in the banking and financial industry in general, or a wide variety of other factors.

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

Although NWB Group has implemented a Reputational Risk Policy to identify, measure and manage material reputational risk exposures, NWB Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

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

Legal, regulatory and conduct risk

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

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

Regulators and governments continue to focus on reforming the prudential regulation of the financial services industry and the manner in which the business of financial services is conducted. Measures have included: enhanced capital, liquidity and funding requirements, through initiatives such as the Basel 3.1 standards implementation (and any resulting effect on RWAs and models), the UK ring-fencing regime, the strengthening of the recovery and resolution framework applicable to financial institutions in the UK, the EU and the US, financial industry reforms (including in respect of MiFID II and the FSM Act 2023), LIBOR transition, corporate governance requirements, rules relating to the compensation of senior management and other employees, enhanced data protection and IT resilience requirements, financial market infrastructure reforms, enhanced regulations in respect of the provision of 'investment services and activities', and increased regulatory focus in certain areas, including conduct, consumer protection (such as the FCA's Consumer Duty) in retail or other financial markets, competition and disputes regimes, anti-money laundering, anti-corruption, anti-bribery, anti-tax evasion, payment systems, sanctions and anti-terrorism laws and regulations.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWB Group operates. The competitive landscape for banks and other financial institutions in the UK, EU/EEA, Asia and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Regulatory and competition authorities, including the CMA, are currently also looking at and focusing more on how they can support competition and innovation in digital and other markets. Future competition investigations, market reviews, or the regulation of mergers may lead to the imposition of financial penalties or market remedies that may adversely affect NatWest Group's competitive or financial position.

Recent regulatory changes and heightened levels of public and regulatory scrutiny in the UK, the EU and the US have resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs, and have impacted, and will continue to impact, product offerings and business models.

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

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWB Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation or appropriation of assets;
- increased scrutiny including from the CMA, FCA and Payment Systems Regulator ('PSR') for the protection and resilience of, and competition and innovation in, digital and other markets, UK payment systems (with the development of the government's National Payments Vision and Strategy) and retail banking developments relating to the UK initiative on Open Banking, Open Finance and the European directive on payment services;
- the ongoing compliance by NatWest Group with CMA's Market Orders including the Retail Banking Market Order 2017 (the 'Order') and SME Undertakings as well as legislation being drafted to introduce penalties for breaches of such requirements (in addition to the current customer remediation requirements);
- ongoing competition litigation in the English courts around payment card interchange fees, combined with increased regulatory scrutiny (from the PSR) of the Visa and Mastercard card schemes;
- increased risk of new class action claims being brought against NWB Group in the Competition Appeal Tribunal for breaches of competition law;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the proposed UK Data Protection and Digital Information (No 2) Bill and in India, the Digital Personal Data Protection Bill 2022;
- the introduction of, and changes to, taxes, levies or fees applicable to NWB Group's operations, changes in tax rates, changes in the scope and administration of the Bank Levy, increases in the bank corporation tax surcharge in the UK, restrictions on the tax deductibility of interest payments or further restrictions imposed on the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax;
- the potential introduction by the Bank of England of a Central Bank Digital Currency which could result in deposit outflows, higher funding costs, and/or other implications for UK banks including NWB Group;
- regulatory enforcement in the form of PRA imposed financial penalties for failings in banks' regulatory reporting governance and controls, and ongoing regulatory scrutiny; the PRA's thematic reviews of the governance, controls and processes for preparing regulatory returns of selected UK banks, including NatWest Group (of which NWB Group is a part of);
- 'Dear CEO' letters issued by the Bank of England from time to time;
- recent or proposed US regulations around cybersecurity incidents, climate disclosures and other climate and sustainability-related rules;
- new or increased regulations relating to financial crime (including the new criminal offence of failure to prevent fraud)
- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act).

Any of these developments (including any failure to comply with new rules and regulations) could also have an adverse effect on NWB Group's authorisations and licences, the products and services that NWB Group may offer, its reputation and the value of its assets, NWB Group's operations or legal entity structure, and the manner in which NWB Group conducts its business.

Material consequences could arise should NWB Group be found to be non-compliant with these regulatory requirements. Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWB Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

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

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

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

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

NWB Group is, has recently been or will likely be involved in a number of significant legal and regulatory actions, including investigations, proceedings and ongoing reviews (both formal and informal) by governmental law enforcement and other agencies and litigation proceedings, including in relation to the offering of securities, conduct in the foreign exchange market, the setting of benchmark rates such as LIBOR and related derivatives trading, the issuance, underwriting, and sales and trading of fixed-income securities (including government securities), product mis-selling, customer mistreatment, anti-money laundering, antitrust, VAT recovery and various other issues. Legal and regulatory actions are subject to many uncertainties, and their outcomes, including the timing, amount of fines, damages or settlements or the form of any settlements, which may be material and in excess of any related provisions, are often difficult to predict, particularly in the early stages of a case or investigation. NWB Group's expectation for resolution may change and substantial additional provisions and costs may be recognised in respect of any matter.

Ongoing matters include the implementation of recommendations made by the law firm Travers Smith LLP following independent reviews into issues that had arisen from treatment of a customer in connection with an account closure decision that attracted significant public attention and related interactions with the media, and certain account closures more generally. NatWest Group plc has received reports in connection with the Travers Smith reviews, and published summaries of the key findings and recommendations in October and December 2023. In addition, NatWest Group plc and the FCA are conducting reviews with respect to certain governance processes, policies, systems and controls of NatWest Group entities, including with respect to customer account closures and the FCA is conducting supervisory work into how the governance, systems and controls of NatWest

Group and Coutts & Company are working, to identify and address any significant shortcomings. For additional information relating to legal, regulatory proceedings and matters to which NWB Group is exposed, see 'Litigation and regulatory matters' at Note 26 to the consolidated accounts.

Recently resolved matters or adverse outcomes or resolution of current or future legal, regulatory or other matters, including conduct-related reviews, redress projects or the subject matter and outcomes of any of the independent or internal reviews described above, could increase the risk of greater regulatory and third-party scrutiny and/or result in future legal or regulatory actions, and could have material financial, reputational, or collateral consequences for NWB Group's business and result in restrictions or limitations on NWB Group's operations. These may include consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWB Group, which may take a significant period of time and the results and implications of which are uncertain.

Failure to obtain such licences or waivers may adversely affect NWB Group's business, including if it results in NWB Group being precluded from carrying out certain activities. This in turn and/or any fines, settlement payments or penalties may adversely affect NWB Group's capital position. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

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

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

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

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

Failure to generate sufficient future taxable profits or further changes in tax legislation (including with respect to rates of tax) or accounting standards may reduce the recoverable amount of the recognised tax loss deferred tax assets, amounting to £362 million as at 31 December 2023. Changes to the treatment of certain deferred tax assets may impact NWB Group's capital position. In addition, NWB Group's interpretation or application of relevant tax laws may differ from those of the relevant tax authorities and provisions are made for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

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

Forward looking statements

Cautionary statement regarding forward-looking statements

This document may include forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, such as statements that include, without limitation, the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'will', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions. These statements concern or may affect future matters, such as NWB Group's future economic results, business plans and strategies. In particular, this document may include forward-looking statements relating to NWB Group in respect of, but not limited to: its economic and political risks, its regulatory capital position and related requirements, its financial position, profitability and financial performance (including financial, capital, cost savings and operational targets), the implementation of NatWest Group's strategy, its climate and sustainability related targets, its access to adequate sources of liquidity and funding, increasing competition from incumbents, challengers and new entrants and disruptive technologies, its exposure to third party risks, its ongoing compliance with the UK ring-fencing regime and ensuring operational continuity in resolution, its impairment losses and credit exposures under certain specified scenarios, substantial regulation and oversight, ongoing legal, regulatory and governmental actions and investigations, and NWB Group's exposure to, operational risk, conduct risk, cyber, data and IT risk, financial crime risk, key person risk and credit rating risk. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, future growth initiatives (including acquisitions, joint ventures and strategic partnerships), the outcome of legal, regulatory and governmental actions and investigations, the level and extent of future impairments and write-downs, legislative, political, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, interest and exchange rate fluctuations, and general economic and political conditions and the impact of climate-related risks and the transitioning to a net zero economy. These and other factors, risks and uncertainties that may impact any forward-looking statement or the NWB Group's actual results are discussed in the NWB Plc's 2023 Annual Report and Accounts (ARA). The forward-looking statements contained in this document speak only as of the date of this document and NWB Plc does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.