NatWest Group

NatWest Markets N.V.

2023 Annual Report and Accounts

Financial review

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Presentation of information

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

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

Description of business

NWM N.V., a licensed bank, operates as an investment banking firm serving corporates and financial institutions in the European Economic Area. NWM N.V. helps corporate and institutional customers manage their financial risks and achieve their short and long-term financial goals while navigating changing markets and regulation. NWM N.V. does this by providing global market access, financing, risk management and trading solutions. NWM N.V. provides access to public and private markets, funding and capital, leveraging market leading structuring and risk distribution capabilities through the following customer-facing businesses: Trading & Customer Sales and Capital Markets. NWM N.V. is committed to acting sustainably and responsibly and actively supports customers in their transition to achieving broader climate, environmental and societal goals, working with issuers and investors to develop holistic sustainability strategies. NWM N.V. is based in Amsterdam with branches authorised in Frankfurt, Milan, Paris and Stockholm.

NWM N.V. Group is part of the NatWest Group Commercial & Institutional (C&I) segment.

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

Business developments

- 2023 market conditions have been marked by volatility and uncertainty due to persistent inflation, Central Banks monetary tightening, geopolitical concerns, and turmoil in the banking sector. The rapid tightening in financial conditions led to pressure on bank deposits; NWM N.V. Group managed to raise deposits in line with our strategy to increase customer deposits to match planned banking book activity.
- On 1 July 2023, the C&I franchise celebrated its first year of bringing together Commercial & Institutional business segments officially. Franchise collaboration across C&I and Europe has supported delivery of our growth and customer goals.
- NatWest Group, as a third-country group with two or more subsidiary banking institutions in the European Union (EU), was approved by the ECB to establish a dual Intermediate EU Parent Undertaking (IPU) structure on behalf of its European subsidiaries. As a result, RBSH N.V. will act as the non-ring-fenced IPU.
- In November 2023, the ECB confirmed that RBSH N.V. and its subsidiary NWM N.V. were classified as a "significant supervised group". As a result, the ECB assumed direct supervision of both entities on 1 January 2024.

Performance overview

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

Income and balance sheet

- Total income was €269 million compared with €237 million in 2022, primarily driven by higher net interest income of €132 million (2022 - €19 million) and other operating income, which was a net expense of €44 million compared with an income of €32 million in 2022.
- Total assets increased to €28.2 billion from €26.4 billion in 2022 and total liabilities increased to €26.2 billion compared with €24.1 billion in 2022. The increase in total assets was primarily driven by increases in cash and balances at central banks, amounts due from holding companies and fellow subsidiaries and other financial assets, partially offset by a decrease in derivative assets. The increase in total liabilities was mainly due to increases in customer deposits and trading liabilities, partially offset by derivative liabilities.

Capital, liquidity and funding

- NWM N.V. Group RWAs increased to €8.2 billion from €8.1 billion at 31 December 2022, primarily driven by increased client positions in the trading book and purchases for investment purposes, offset by a reduction in committed undrawn facilities.
- NWM N.V. Group remained well-capitalised, with a NWM N.V. Group CET1 ratio of 19.0%, above guidance of ~14%.
- The liquidity position also remained strong, with NWM N.V. liquidity portfolio of €6.5 billion and LCR of 144%.
- Capital, funding and liquidity remained closely monitored, with increased tracking and scenario analysis to ensure balance sheet strength.
- Throughout 2023, NWM N.V. Group ensured a stable funding base through various sources of funding, including the customer deposit book, issuances of commercial paper and capital instruments. During 2023, NWM N.V. Group did not issue any new senior unsecured debt securities based on its Euro Medium Term Note (EMTN) programme (2022 - €0.7 billion).
- NWM N.V. Group maintains an active EMTN programme and may need to utilise it to raise funding, based on its current and anticipated business activities. NWM N.V. Group therefore may be reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers.

Outlook[1]

Medium-term outlook

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

(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" section on pages 137 to 160.

Performance key metrics and ratios	2023	2022
Liquidity coverage ratio (LCR) (%)	**144**	230
Net stable funding ratio (NSFR) (%)	**133**	193
Liquidity portfolio (€bn)	**6.5**	5.2
Total wholesale funding (€bn)	**7.7**	3.6
Total funding including repo (€bn)	**16.4**	12.0
Common Equity Tier (CET1) ratio (%)	**19.0**	21.0
CRR leverage ratio (%)	**7.0**	9.1
Risk-weighted assets (RWAs) (€bn)	**8.2**	8.1
Total Capital ratio (%)	**23.9**	25.9

Chief Executive statement

In 2023 we continued to support our customers with financing, risk solutions and advisory services, as market conditions were marked by volatility and uncertainty.

Delivering on our strategy of sustainable growth

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

Total assets increased to €28.2 billion as at 31 December 2023 compared with €26.4 billion as at 31 December 2022. We managed to raise deposits from €1.0 billion to €4.5 billion when financial conditions tightened.

We continue to be well capitalised. Total equity as at 31 December 2023 was €2.0 billion, a decrease of €0.3 billion compared with 31 December 2022. At 31 December 2023, our total capital ratio was 23.9% with a CET1 ratio of 19.0% and Tier 1 ratio of 22.1%.

Corporate governance

Ms Anne Snel stepped down as member of the NWM N.V. Supervisory Board on 25 March 2023 at the end of her term. In October 2023, Ms Angelique Slach stepped down as Chief Operating Officer and was replaced by Mr Mickey van Wieringen on an interim basis. Ms Marije Elkenbracht has notified NWM N.V. that she will step down from her Chief Risk Officer role as per 1 April 2024, Mr Spencer Lloyd will lead the Risk Management Function on an interim basis. For both, this includes stepping down as members of the NWM N.V. Managing Board. A search is underway to identify their permanent successors in both capacities.

In Q4 2023, NWM N.V. successfully handed back the licences of its Dublin and London branches, as part of the conclusion of the reshaping of NWM Group initiated in 2020.

Building an outstanding business in Europe

I am pleased with how we've sustained strong relationships and supported our customers in the European region, to manage their financial risks while achieving their short- and long-term financial goals in an uncertain economic environment.

As part of the NatWest Group Commercial & Institutional (C&I) segment in Europe, we've designed and launched a specific business operating model together with NatWest Bank Europe GmbH Group to deliver opportunities including revenue growth.

Commercial performance has been strong throughout the year, especially from our Capital Markets business, including ESG, focused on Corporates and Financial Institutions.

Maintaining our focus on Climate and ESG

We've continued to support our customers' transition to a low carbon economy as well as achieving their climate ambitions. An example of this is NWM N.V. involvement as sole arranger in the issuance of the Ørsted blue bond, which represents the world's first blue bond issued by an energy company

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

In 2023, we provided €8.9 billion of climate and sustainable funding and financing, contributing a cumulative €17.9 billion (£15.4 billion) towards the NatWest Group target of £100 billion aimed to be delivered between 1 July 2021 and the end of 2025.

Enhancing our licence to grow and operate

Continued efforts over a number of years to build a robust control environment came to fruition in 2023.

Examples include: the confirmation from De Nederlandsche Bank (DNB) that some enhancement programmes can be closed, as well as the progress in implementing plans to address climate-related and environmental risks.

In September 2023, DNB granted a positive qualifier to NatWest Markets N.V. Group's overall Supervisory Review and Evaluation Process score. This recognises the robustness of our control environment and is a further sign of confidence that we are equipped to be supervised by the European Central Bank (ECB) from 1 January 2024. This was achieved thanks to a robust programme of work delivered throughout 2023 to support this significant transition.

Empowering our colleagues

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

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

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

Vincent Goedegebuure
Chairman and CEO, NatWest Markets N.V.
15 February 2024

Financial review

Summary consolidated income statement

	2023	2022	Variance	
	€m	€m	€m	
Interest receivable	**453**	81	372	459%
Interest payable	**(321)**	(62)	(259)	418%
Net interest income	**132**	19	113	595%
Fees and commissions receivable	**202**	206	(4)	(2%)
Fees and commissions payable	**(23)**	(20)	(3)	15%
Income from trading activities	**2**	-	2	n/a
Other operating income	**(44)**	32	(76)	(238%)
Non-interest income	**137**	218	(81)	(37%)
Total income	**269**	237	32	14%
Staff costs	**(79)**	(75)	(4)	5%
Premises and equipment	**(6)**	(8)	2	(25%)
Other administrative expenses	**(82)**	(76)	(6)	8%
Depreciation and amortisation	**(2)**	(2)	-	-
Operating expenses	**(169)**	(161)	(8)	5%
Profit before impairments	**100**	76	24	32%
Impairment losses	**-**	(14)	14	(100%)
Operating profit before tax	**100**	62	38	61%
Tax credit/(charge)	**8**	(9)	17	(189%)
Profit for the year	**108**	53	55	104%
Attributable to:				
Ordinary shareholders	**84**	38	46	121%
Paid-in-equity holders	**24**	15	9	60%
	108	53	55	104%

Operating profit before tax was €100 million compared with €62 million in 2022. This increase was primarily due to higher total income which increased by €32 million to €269 million. Impairments were nil, compared with a loss of €14 million in 2022. This was partially offset by increase in operating expenses to €169 million compared with €161 million in 2022.

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

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

Non-interest income decreased by €81 million to €137 million compared with €218 million in 2022. Net fees and commissions were an income of €179 million (2022 - €186 million income). The decrease in net fees and commission was mainly due to a decrease in transfer pricing income from NWM Plc to €128 million (2022 - €130 million) and a decrease of €4 million in fees from relationship banking. This was partially offset by an increase in syndicate fee income to €56 million (2022 - €55 million). Guarantee fees paid to NWM Plc for risk sharing agreements were €7 million in 2023 and in 2022.

Income from trading activities was €2 million, compared with nil in 2022. Other operating income was a loss of €44 million, compared with a gain of €32 million in 2022. This was mainly driven by fair value changes of structured deposits due to rising interest rates and by legacy items[1]. 2022 included a net gain of €23 million related to a liability management exercise and a €6 million gain on foreign exchange reserve recycling.

Operating expenses increased by €8 million to €169 million compared with €161 million in 2022. This was mainly due to other administrative expenses which were up €6 million to €82 million, mainly driven by an increase in cost recharges from NatWest Group companies of €6 million. Staff costs increased by €4 million to €79 million. Premises and equipment costs decreased by €2 million to €6 million. Depreciation and amortisation were €2 million in 2023 and in 2022.

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

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

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

Consolidated balance sheet as at 31 December 2023

	2023	2022	Variance	
	€m	€m	€m	
Assets				
Cash and balances at central banks	**5,979**	3,961	*2,018*	*51%*
Trading assets	**4,693**	4,440	*253*	*6%*
Derivatives	**9,890**	12,335	*(2,445)*	*(20%)*
Settlement balances	**565**	739	*(174)*	*(24%)*
Loans to banks - amortised cost	**236**	223	*13*	*6%*
Loans to customers - amortised cost	**951**	1,024	*(73)*	*(7%)*
Amounts due from holding companies and fellow subsidiaries	**3,174**	1,951	*1,223*	*63%*
Other financial assets	**2,605**	1,673	*932*	*56%*
Other assets	**95**	90	*5*	*6%*
Total assets	**28,188**	26,436	*1,752*	*7%*
Liabilities				
Bank deposits	**411**	150	*261*	*174%*
Customer deposits	**4,531**	1,046	*3,485*	*333%*
Amounts due to holding companies and fellow subsidiaries	**3,952**	4,359	*(407)*	*(9%)*
Settlement balances	**679**	608	*71*	*12%*
Trading liabilities	**4,637**	3,998	*639*	*16%*
Derivatives	**8,814**	11,114	*(2,300)*	*(21%)*
Other financial liabilities	**2,805**	2,441	*364*	*15%*
Subordinated liabilities	**293**	365	*(72)*	*(20%)*
Other liabilities	**65**	64	*1*	*2%*
Total liabilities	**26,187**	24,145	*2,042*	*8%*
Total equity	**2,001**	2,291	*(290)*	*(13%)*
Total liabilities and equity	**28,188**	26,436	*1,752*	*7%*

Total assets were €28,188 million at 31 December 2023, an increase of €1,752 million, or 7%, compared with €26,436 million at 31 December 2022, mainly driven by cash and balances at central banks of €5,979 million (31 December 2022 - €3,961 million), amounts due from holding companies and fellow subsidiaries of €3,174 million (31 December 2022 - €1,951 million) and other financial assets of €2,605 million (31 December 2022 - €1,673 million). This was partially offset by a decrease in derivatives to €9,890 million (31 December 2022 - €12,335 million).

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

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

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

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

Amounts due from holding companies and fellow subsidiaries increased by €1,223 million to €3,174 million, mainly driven by an increase in trading assets of €1,334 million to €2,740 million and an increase in settlement balances of €177 million to €318 million. This was partially offset by a decrease in loans to banks of €292 million to €81 million.

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

Other assets increased by €5 million, or 6%, to €95 million at 31 December 2023.

Derivative assets and liabilities were €9,890 million (2022 - €12,335 million) and €8,814 million (2022 - €11,114 million) respectively. The movement in mark-to-market largely reflects market volatility across major currencies and interest rates. The derivative balances primarily pertain to exchange rate contracts and interest rate contracts. €3,059 million of the derivative assets and €2,771 million of the derivative liabilities are balances with holding companies and fellow subsidiaries.

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

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

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

Amounts due to holding companies and fellow subsidiaries decreased by €407 million to €3,952 million, mainly driven by a decrease in bank deposits of €185 million to €917 million, a decrease in trading liabilities of €149 million to €2,708 million a decrease in settlement balances of €73 million to €153 million.

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

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

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

Other liabilities increased by €1 million, or 2%, to €65 million at 31 December 2023.

Total equity decreased by €290 million, or 13%, to €2,001 million, mainly driven by ordinary dividends paid of €392 million, paid-in equity dividends of €24 million and a reduction in own credit adjustments of €25 million. This was partially offset by the profit for the period of €108 million, cash flow hedging movements of €38 million and fair value through other comprehensive income movements of €5 million.

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. 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 NWM N.V. Group's ability to grow or retain market share, impacting revenues and profitability. 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).	NWM N.V. 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.
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 NWM N.V. 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.	NWM N.V. 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 NWM N.V. Group's customers. This includes testing and proving cyber resilience capabilities via stress testing of NWM N.V. 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 NWM N.V. 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.
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 NWM N.V. Group.	NatWest Group's climate-related strategy, targets and transition plan support the identification and management of climate related risks.
Operational risk scenarios	Operational risks are inherent in NWM N.V. Group's businesses and a broad range of scenarios are considered. NWM N.V. 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.	NWM 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 NWM N.V. Group's goals, with continued focus on delivering a long-term data strategy alongside enhancing control and policy frameworks governing data usage.
Evolving regulation	NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may have an adverse impact on NWM N.V. Group. Areas of focus include Basel 3.1 standards implementation, including the resulting effect on RWAs and models.	NWM N.V. Group constantly monitor regulatory change and work with the regulators to help shape those developments that materially impact NWM N.V. 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.

Top and emerging risks

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. NWM 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 NWM 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.	NWM 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	NWM N.V. 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.	NWM N.V. Group is developing its approach to assess, manage and mitigate nature-related risks. This includes how its business activities impact nature, the dependencies NWM N.V. Group and its counterparties (including its suppliers) and customers have on nature, and the risks and opportunities nature can generate.
Central bank digital currency	NWM N.V. Group operates in markets which would be exposed to any developments in digital money.	NatWest Group engages with regulators on digital currency developments. This includes engagement with policymakers on a bilateral and industry level. In addition, NatWest Group has established an Executive Steering Group on digital assets including overseeing developments and engagement on digital currencies, such as central bank digital currencies.
Geopolitical risk	NWM N.V. 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.	NWM N.V. 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.

Climate-related disclosures

Basis of reporting

Under the EU and Dutch non-financial disclosure regulations, specifically the EU Non-Financial Reporting Directive 2014/95/EU (NFRD) and the Dutch Decree on publication of non-financial information implementing the NFRD, NWM N.V., as a wholly owned indirect subsidiary of NWM Plc (and ultimately of NatWest Group plc), is currently not required to publish climate-related financial disclosures at the company level. From 2026 onwards, with 2025 as a first reference year, the principal regulatory requirements for sustainability reporting that will become applicable to NWM N.V. are contained in Article 8 of Delegated Act 2020/852/EU (EU Taxonomy Regulation) and the Corporate Sustainability Reporting Directive 2022/2464/EU (CSRD). NWM N.V. recognises that it needs to enhance its reporting capabilities to understand and implement its future sustainability-related (including climate-related) disclosures obligation. NWM N.V. Group has started to take initial steps and plans to report on its progress.

Whilst NWM N.V. Group has made some progress towards the integration of environmental matters within its strategy and operations, more progress has been made on climate-related matters rather than environmental matters. Therefore, our current disclosure is focusing mostly on climate-related matters, supplemented by limited environmental matters. It is acknowledged that much more needs to be done to progress and integrate climate and environmental matters into NWM N.V. Group's strategy and operations.

Consistent with previous years, to guide our climate-related disclosures, the headings of the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations have been used within this report to identify the key climate-related matters for NWM N.V. Group. However, the use of the TCFD headings does not intend to imply that the disclosures in this section are aligned with the relevant TCFD-recommended disclosures and related guidance. NatWest Group publishes climate-related disclosures for the consolidated group, including NWM N.V. Group.

Overview

The table below summarises the progress NWM N.V. Group has made during 2023 with regards to climate-related and certain limited environmental risks and opportunities in the following four areas: governance, strategy, risk management and metrics and targets. For further details of the progress in each of these areas please refer to the relevant section of the report.

Disclosure pillar	2023 progress	Areas of future focus
Governance	– In 2023 the NWM N.V. Managing Board and NWM N.V. Supervisory Board members received climate-related and environmental updates and training on CSRD, greenwashing risks and nature and biodiversity. – Specific Climate and Environmental strategy for NWM N.V. Group was approved by NWM N.V. Managing Board and NWM N.V. Supervisory Board in their sessions held in April and June 2023.	– Continue to increase awareness and understanding of the NWM N.V. Managing Board and other executive level governance bodies of climate-related and environmental risks and opportunities. – Further enhance the management roles and responsibilities framework to incorporate management of climate-related and environmental risks and opportunities across the NWM N.V. Group. – Continue to provide training within NWM N.V. Group on climate-related and environmental risks and opportunities.
Strategy	– NWM N.V. Group developed its Climate and Environmental strategy, which is closely linked to the strategic ambitions of NatWest Group. – NWM N.V. Group expanded the business environment assessment (PESTL – encompassing political, economic, social, technological, legal aspects) to include the potential impacts of environmental factors on its business outlook. – NWM N.V. Group continued to support its customers with sustainable financing and advisory, including increased engagement in the private finance business. – NWM N.V. Group hosted nine ESG-focused events in Europe and sponsored the Association for Financial Markets in Europe (AFME) European Sustainable Finance conference in Amsterdam. – As part of its product governance process, NWM N.V. Group obtained internal sign-off to offer voluntary carbon markets products to European clients.	– Continue to enhance risk management of climate and environmental risks in NWM N.V. Group's portfolio. – Further enhance capabilities of reporting on climate-related and environmental risks and opportunities. – Aim to develop new products and services that support our clients' sustainability objectives. – Enhance focus on transition finance solutions for customers. – Further integrate nature and biodiversity considerations into the sustainability offering for European clients. – Drive collaboration, both through events and participation in key industry working groups (examples include AFME, International Capital Markets Association). – Leverage NWM N.V. Group climate-related and environmental risk integration programme to drive client advisory and financing opportunities.

Overview continued

Disclosure pillar	2023 progress	Areas of future focus
Risk management	– In parallel with the full roll out of first-generation qualitative climate risk scorecards, NatWest Group, including NWM N.V. Group, began development of a climate decisioning framework to further embed climate within customer journeys. This includes second generation climate risk scorecards (enhancing quantitative considerations) as well as a customer transition plan assessment. The initial phased roll-out is scheduled for 2024 on a test and learn basis. – NWM N.V. Group also expanded the initial environmental risk materiality assessment for credit risk, introduced credit risk environmental scorecards for selected sectors and piloted a climate and environmental risk assessment at client onboarding stage. – NWM N.V. Group undertook an impact assessment of environmental risk upon the non-financial risk profile. – NWM Group (including NWM N.V. Group) enhanced the trading book climate stress testing methodology.	– Further embed climate and nature-related risk management practices and processes, such as executing climate scenario analysis exercises. – Continue the implementation of climate and environmental risk scorecards within credit assessment processes. – Continue to (i) consider and implement existing and future legal, regulatory and supervisory expectations (with special regard from the ECB and DNB) related to climate change and sustainability); and (ii) identify, limit and mitigate risks arising from data challenges, resource and expertise limitations in order to limit and mitigate any risks arising from potential regulatory non-compliance. – Further enhance our suite of Key Risk Indicators for climate and environmental risk and develop a Climate Risk Appetite Metric.
Metrics and targets	– In 2023 NWM N.V. Group contributed €8.9 billon (£7.8 billion) towards NatWest Group's climate and sustainable funding and financing target and €17.9 billon (£15.4 billion) since 1 July 2021.	– Develop the approach for the estimation of facilitated emissions together with NWM Group.

Governance

NWM N.V., as an indirect subsidiary of NWM Plc (and ultimately of NatWest Group plc), is part of the NatWest Group and NWM Group's integrated governance structure. The NWM N.V. Managing Board, NWM N.V. Supervisory Board and senior management oversight of climate-related and environmental risks and opportunities is supported by embedding them within our established governance structure and operating rhythm.

NWM N.V. Group's climate-related and environmental governance structure

The climate-related and environmental governance structure, together with roles and responsibilities, is summarised in the table below.

	Forum	Role/responsibility
Board level governance	NWM N.V. Supervisory Board	- Oversees the delivery against the agreed strategy and objectives, including climate ambitions, of NWM N.V. Group, within the aims of the wider NatWest Group. Approves the risk appetite of NWM N.V. Group.
	NWM N.V. Board Risk Committee	- Oversees the risk profile of NWM N.V. Group, including its progress towards meeting regulatory expectations over climate-related and environmental matters and related activity aiming to mitigate greenwashing risk.
	NWM N.V. Audit Committee	- Oversees all material financial and non-financial (including climate-related and environmental) disclosures.
Executive level governance	NWM N.V. Managing Board	- Implements the Climate and Environmental strategy; - Manages how NWM N.V. Group identifies, measures, manages and mitigates risks, including climate-related and environmental risks; - Identifies opportunities (including climate-related and environmental opportunities); - Provides input into setting risk appetite; and - Monitors the risk management response to climate change related physical and transition risks and opportunities.
	NWM N.V. Risk and Control Committee	- Reviews and challenges all risks, including climate-related and environmental risks, as well as the risk management framework; and - Oversees the management of risk appetite.
	NWM N.V. Executive Disclosure Committee	- Reviews all material financial and non-financial (including climate-related and environmental) disclosures.
Additional executive level governance	NWM Climate and Sustainability Committee	- Assesses and manages climate-related risks and opportunities of NWM Group; - Attended by executive members of NWM N.V. Group.
	NWM Reputational Risk Committee	- Considers all reputational risks presented by any aspect of the business activities, including the bank's involvement in certain transactions with proposed climate-related and environmental risks or benefits; - Attended by NWM N.V. Group representatives.

Governance continued

NWM N.V. Board-level oversight

NWM N.V. Climate & ESG Programme Board was set up in 2022, under the authority of the NWM N.V. Managing Board, to oversee the further embedding of climate-related and environmental risks within NWM N.V. Group. The NWM N.V. Climate & ESG Programme Board feeds into the NWM Climate and Sustainability Committee (CSC) meetings.

The NWM N.V. Managing Board considered climate-related and environmental matters at all ten of its regular meetings. Climate-related risk is embedded into the CRO report which is presented at each meeting. The NWM CSC business update and the progress update of NWM N.V. Climate & ESG Programme were provided each month as well as key climate-related and environmental matters. These included the climate and environmental strategy, the key risk indicators, the initial high-level environmental risk materiality assessment, managing greenwashing risk, understanding the impact of climate change on NWM Group (including NWM N.V. Group), the deep dive on the power and utilities portfolio, the business case to offer the voluntary carbon credits (VCCs) as well as the climate-related disclosures.

The NWM N.V. Supervisory Board considered climate-related and environmental matters at all seven of its scheduled meetings. The CRO report as well as NWM CSC business update were presented at each meeting. In addition to these bi-monthly updates in 2023, the NWM N.V. Supervisory Board discussed the proposed climate and environmental strategy.

Training for NWM N.V. Managing Board and NWM N.V. Supervisory Board members on climate-related and environmental matters continued in 2023 and formed part of the learning programme for board members. Besides the completion of the Climate Change Fundamentals Program which is mandatory for all staff, the NWM N.V. Managing Board and Supervisory Board members were provided with the following additional training sessions in 2023:

- Deep dive session on the requirements for the upcoming CSRD directive provided by external experts in September 2023;
- Training on greenwashing risks received in November 2023 and led by the Litigation and Investigations Legal team;
- Session on nature & biodiversity led by the World Wildlife Fund (WWF) in December 2023.

Strategy

In 2023, NWM N.V. Group continued to support NatWest Group's climate ambition to be a leading bank in the UK helping address the climate challenge. As a subsidiary of NatWest Group, NWM N.V. Group aligns its strategy to further support NatWest Group's ambition within the context of its operations, customers and other stakeholders. In addition, in 2023 NWM N.V. Group formulated its own high level aspirational strategic direction to become one of the forward-thinking banks in Europe with a key focus on climate and sustainability matters, to help our customers and the EU capital markets to advance sustainability objectives. NWM N.V. Group recognises that there is still much work to do to integrate climate and environmental matters into NWM N.V. Group's strategy, operations and risk management practices.

NatWest Group has an ambition to be net zero by 2050 across its financed emissions, assets under management and its operational value chain. In 2022, NatWest Group became the first UK bank to have science-based targets validated by the Science Based Targets initiative (SBTi).

NatWest Group (including NWM N.V. Group) aims to support our customers' transition to a net-zero economy, noting that NatWest Group (including NWM N.V. Group) has a significant dependency on factors and uncertainties beyond its direct control, including timely and appropriate government policies, technology developments, as well as supplier, customer and societal response in order to achieve its climate ambitions.

Climate-related risks

Climate-related physical and transition risk may impact our investors, customers, counterparties (including our suppliers), our employees and our business.

To assess climate-related physical and transition risk, in 2022 NWM N.V. Group together with NWM Group has undertaken a high-level analysis of political, economic, social, technological, legal and environmental (PESTLE) factors to facilitate a more informed understanding of the wider business environment. In 2023, NWM N.V. Group extended this assessment to also consider environmental factors beyond climate, including water, pollution, waste management and biodiversity loss. The outcomes of these quantitative assessments aim to support the development of our overall business strategy, including the assessment of business risks and opportunities, product development, the allocation of resources and our approach to scenario analysis. We plan to update these assessments periodically in response to the changing regulatory requirements, stakeholder expectations and relevant developments in our business environment.

NWM N.V. Group has identified a number of climate-related impacts which may affect its business and strategy, primarily associated with greenhouse gas emissions.

Emissions resulting from NWM N.V. Group business activities include:

- Financed emissions attributable to lending and investments;
- Facilitated emissions attributable to underwriting activities;
- Emissions attributable to the trading book (including fixed income and currencies);
- Emissions from NWM N.V. Group's own operations.

Estimating financed and facilitated emissions and assessing climate impact on NWM N.V. Group's business activities involves data limitations and other challenges, particularly as estimation methodologies evolve. NWM N.V. Group recognises that there is still much to do in understanding its impacts and dependencies on environment.

Financing activities

Financed emissions – lending and investments

Given the smaller size of the banking book relative to NWM N.V. Group's underwriting activities and trading book, financed emissions currently play a limited role within NWM N.V. Group. Drawn lending exposures, as defined by the Partnership for Carbon Accounting Financials standard, account for approximately 11% of NWM N.V. Group's total assets, as at 31 December 2023. The undrawn loan commitments are currently excluded, and therefore could potentially increase the financed emission estimations during challenging market conditions if called up by customers.

NWM N.V. Group's exposure to heightened climate-related risk sectors is summarised on page 15 (loans, loan commitments and contingent obligations by sector). Due to a lack of granular availability of customer level climate data, financial institutions are still developing measurement methodologies and capabilities to assess their scope three emissions. Therefore, estimated financed emission figures linked to lending exposures are expected to increase once scope three emissions are incorporated.

Strategy continued

Facilitated emissions – bond underwriting

Facilitation activities differ from on-balance sheet lending in two respects. They are off-balance sheet (representing services rather than financing) and they can take the form of a flow activity (temporary association with transactions) rather than a stock activity (recorded on the balance sheet). Refer to page 16 for the NWM N.V. Group estimate of facilitated emissions.

Trading book

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

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

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

Emissions from own operations

NatWest Group's (including NWM N.V. Group) ambition is to be net zero for its operational value chain by 2050. Emissions attributable to NWM N.V. Group's own operations are not measured separately and therefore are subsumed into NatWest Group's estimation of own operational footprint for the consolidated group.

Climate-related opportunities

Our Climate and Environmental Strategy, which aligns with the NatWest Group strategy, is centred around four pillars:

1. Customers: Continually engaging with our customers to understand their evolving aspirations and needs.
2. Propositions: Deepening and growing our propositions across asset classes.
3. Building out market presence: Building market recognition and contributing to application of sustainability principles in capital markets.
4. Tools and portfolio: Developing and embedding tools that enable risk management, portfolio transition and decision-making.

Customers and Propositions

NWM N.V. Group's aim is to support its clients' strategic sustainability objectives through our suite of products and services. We respond to our customers' needs by developing climate and sustainable products and services across fixed income and risk management asset classes. In addition, we aim to expand environmental products and solutions, and build our carbon markets activities.

During 2023, we continued to support our customers in lead managing a broad range of green, social, and sustainability (GSS) bonds, sustainability-linked bonds (SLBs) and underwriting sustainability-linked loans (SLLs), with the aim to improve their sustainability performance across climate-related, environmental and social matters.

This included NWM N.V. Group being the sole arranger on Ørsted's €100 million privately placed blue bond issuance, focusing on the sustainable use of ocean resources while preserving marine ecosystems, which represents the world's first blue bond issued by an energy company. We also acted as sole ESG Structuring Advisor to ACCIONA with regards to the company's new Sustainable Impact Financing Framework.

NWM Group (including NWM N.V. Group) also supported its clients through ESG advisory. ESG advisory provides advice, analysis, and insights on the ESG ratings and regulatory developments. This engagement aims to help our clients to improve their ESG reporting, sustainability performance and engagement with stakeholders. To support this, in 2023 Commercial and Institutional (C&I) business of NatWest Group delivered 'ESG Rating Management' training modules to our corporate clients, as part of the Corporate Sustainable Finance Leadership Toolkit series and hosted a workshop at the European Covered Bond Conference (ECBC) on 'Understanding the implications and challenges of ESG ratings for issuers.'

Furthermore, we continued our strong engagement in the private finance business, successfully completing several green and sustainability linked transactions with our European clients, while actively developing others. In some of these transactions, we assumed the role of sustainability coordinator, strengthening our presence in this market.

In 2023 we continued to develop our proposition for voluntary carbon markets. Customers are developing and implementing climate transition plans, and as part of this are considering how voluntary carbon credits can be used as a tool to support these. Industry standards and regulatory frameworks for governing voluntary carbon markets are still under development at both national and supranational levels, including the European Union.

Building out market presence

NWM Group (including NWM N.V. Group) continues to rank amongst one of the leading bookrunners for sustainable finance. For instance, at 31 December 2023 NWM Group (including NWM N.V. Group) ranked fourth by deal value among bookrunners for supporting European[1] Corporate issuers for green, social and sustainability (GSS) labelled debt issuance (excluding Sustainability Linked Bonds) issued in all currencies[2].

Through International Capital Markets Association (ICMA) working groups NWM Group (including NWM N.V. Group) helped review and update the ICMA's Climate Transition Finance Handbook[3], which provides guidance on how green bonds, sustainability bonds or sustainability-linked bonds can contribute towards climate transition strategy, and Sustainability-Linked Bond Principles, both published in June 2023.

In this regard, NWM N.V. Group is contributing to NatWest Group's £100bn Climate and Sustainable Funding and Financing (CSFF) target to be achieved between 1 July 2021 and the end of 2025. In 2023 NWM N.V. Group contributed €8.9 billon (£7.8 billion) of CSFF towards NatWest Group's CSFF target and €17.9 billon (£15.4 billion) since 1 July 2021.

We aim to build out our market presence by taking on roles in relevant industry bodies and working groups, attend key industry events and publish thought leadership pieces in relevant topics. During 2023, NWM N.V. Group hosted nine ESG-focused events in Europe and sponsored the Association for Financial Markets in Europe (AFME) European Sustainable Finance conference in Amsterdam moderating two panels: "Shaping sustainable investment strategies" and "Delivering the global transition to net zero"

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(1) Europe issuers refer to Europe, UK and Nordics.
(2) Source: Dealogic, 31 December 2023 – excludes money market and short-term debt.
(3) https://www.icmagroup.org/assets/Climate-Transition-Finance-WG_ToR_Final.pdf

Tools and portfolio

We aim to embed climate decisioning tools into portfolio management and develop environmental risk mapping. In addition, we intend to leverage tools to identify new customer funding and financing opportunities as well as to inform sustainability decisions.

During 2023, NWM Group (including NWM N.V. Group) enhanced internal data availability to support growth opportunities for customer facing staff, with a climate and ESG data exploration tool of external data on instruments, counterparties and sovereigns.

NatWest Group, including NWM N.V. Group, also started to develop Climate Decisioning Framework (CDF) tools, to further embed climate within customer journeys and enhance decision making. For further details on CDF refer to the Risk Management section.

Risk management

Integration of climate-related risks into risk management processes

NWM N.V. Group recognises that climate change is a global issue which has significant implications and inherent risks for our customers, colleagues, suppliers and partners, as well as for NWM N.V. Group itself. Climate change and nature loss (including environmental degradation) are inextricably linked, and each require immediate and significant action to avert potentially irreversible impacts. Climate and nature-related risks have the potential to affect asset values, operational costs and business models not only through increasing frequency and severity of extreme weather events and biodiversity loss, but also as the transition to a net-zero economy accelerates. These risks continue to evolve reflecting increasing regulatory, legislative, political and societal change.

Climate risk has been included in the NatWest Group risk directory since 2021 alongside an iterative multi-year approach to mature capabilities. The integration of climate-related risk into the risk management policies and processes is detailed in the Enterprise-Wide Risk Management Framework (EWRMF). This framework sets out the requirements on how risk appetite is implemented through risk policies and standards and translated into operational procedures. Climate-related risk factors are considered within this framework. During 2023 NatWest Group expanded the scope of climate risk within the EWRMF to include nature-related risks. It is recognised that these nature-related risks have the potential to increase the likelihood and / or magnitude of principal risks within the NatWest Group Risk Directory. NatWest Group (including NWM N.V. Group) is therefore focussed on developing and subsequently maturing its underlying capabilities, to effectively manage the potential risks, with planned implementation of the expanded framework during 2024.

Processes for identifying, assessing and managing climate-related risks

Relative significance

Climate risk is recognised as a principal risk as well as a factor affecting other financial and non-financial risks. Climate risk is considered relatively significant where NWM N.V. Group exposure to a principal risk could be taken outside of appetite due to climate-related risk factors.

During 2023, NatWest Group reviewed its assessment of the relative significance of climate-related risk factors to other principal risks. NWM N.V. Group reviewed the NatWest Group assessment and adapted it to the NWM N.V. Group activity and risk profile. This assessment used the judgement of risk subject matter experts combined with scenario analysis, portfolio level assessments and counterparty level assessments to understand the current and potential impact of physical and transition climate-related risk as a causal factor to other principal risks.

For more details, please refer to the Scenario analysis, Portfolio level assessment and Counterparty level assessment sections below.

Climate-related factors were identified as having a relatively significant impact on the following five principal risks: credit risk, operational risk, reputational risk, conduct risk, regulatory compliance risk.

As a result, the respective risk management process may require further enhancements to ensure adequate response to climate-related risk. Some of the enhancement work is underway. Within credit risk, the development of CDF tools, encompassing more quantitative climate risk scorecards, is planned for implementation on a phased basis during 2024 and beyond. Within conduct risk this included undertaking non-financial risk scenario analysis relating to greenwashing to identify climate-related risk impacts and reviewing and applying product flaw controls and regulatory requirements to align products with strategic objectives, address customer needs, and substantiate any climate-related product claims. Within reputational risk this included reviewing and updating Environmental, Social & Ethical (ESE) risk acceptance criteria, where applicable, for identified sectors with increased climate-related impacts.

The impact of climate-related risk as a causal factor to other principal risks is planned to be reassessed and managed through the annual refresh of the EWRMF and its individual components.

Non-financial risk assessment

In 2023 NWM N.V. Group undertook an assessment of the impact of environmental risk upon the non-financial risk profile. This extended the non-financial climate risk assessment undertaken in 2022 by NWM Group (including NWM N.V. Group) to include an environmental risk assessment. This exercise identified enhancements required to the respective non-financial risk management framework. We intend to implement the identified enhancements throughout 2024.

Scenario analysis

Scenario analysis allows NWM N.V. Group, as part of 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 to understand and prepare to manage risks that could arise.

Credit risk

NatWest Group leads the development of credit risk scenario modelling capabilities for NatWest Group as a whole, as well as including other legal entities within NatWest Group, such as NWM N.V. Group. In 2023, material enhancements to NatWest Group's scenario generation capability covered the maturing of sectoral and corporate transition risk modelling capabilities as well as commencing the development of physical scenario analysis capabilities.

As well as capturing transition-driven risk in its ICAAP P2B and IFRS 9 exercises, NatWest Group undertook two climate scenarios as part of a dedicated end-to-end transition-driven exercise focused on large and mid-corporates. The exercise provided an up-to-date view of NatWest Group's (including NWM N.V. Group's) corporate exposures.

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

Risk management continued

Traded market risk

The NWM N.V. Group, as part of NWM Group, traded market risk stress test was updated from a carbon intensity approach to an internal gross value add (GVA) stress approach. The new methodology uses credit spread adjustments derived from the GVA shocks developed by NatWest Group, capturing both the costs and opportunities associated with the climate transition and their impact on the trading book. Stress exposures continue to be calculated and monitored monthly along with other climate related market risks, for example, holding of green gilts.

Liquidity and Capital Stress Testing

Within NWM N.V. Group climate-related and environmental risk drivers are included in liquidity stress testing, including a scenario in the form of major environmental disruption in the UK and northern Europe. For 2023, outputs from the scenario were not the most severe within the suite of scenarios, so although included in the framework, did not directly impact the internal stress testing results. Climate risk is also considered under one of the 2023 ICAAP stress testing scenarios. The impact was not very material to the overall stress results.

Portfolio level assessment

NatWest Group's (including NWM N.V. Group's) heightened climate-related risk sector assessment seeks to identify sectors that are likely to see increased credit risks for NatWest Group (including NWM N.V. Group) as a result of climate-related factors, over a 10-to-15-year horizon.

Informed by the results of the Climate Biennial Exploratory Scenario (CBES) stress testing run by NatWest Group, in 2023 NWM N.V. Group undertook an analysis of key high climate risk sectors in the NWM N.V. Group's portfolio, starting with a deep dive into the power and utilities sector as it had the most sizeable exposure amongst these sectors. The approach involved identifying key indicators for measuring climate risk management and governance and developing a balanced scorecard methodology to assess counterparties. The result of this assessment has led to an analysis of counterparties, which is expected to inform future client actions and exposure decisions. Furthermore, NWM N.V. Group has expanded this methodology to include a full deep dive of the oil and gas sector. Additional sectors, including land transport, auto, and telecommunications, are expected to be reviewed and prioritised in 2024.

To supplement the sector assessments mentioned above, focused on climate-related risk, NWM N.V. Group piloted an initial, limited, environmental risk materiality assessment in 2022, with the aim to understand how environmental risks could potentially impact NWM N.V. Group's lending book. The initial assessment was undertaken (i) at the sector level, the top-down assessment, which helped NWM N.V. Group to identify sectors with high and very high environmental risk; and (ii) at the counterparty level, a bottom-up assessment, which provided insights on the sensitivities of how environmental risk could potentially have an impact on the financial performance for a small sample of selected counterparties.

The assessment has been expanded throughout 2023 which encompassed a refresh of the oil and gas sector, the assessment of technology, media and telecom sector, and a bottom-up assessment of five more counterparties. This analysis intends to support our credit risk assessments specifically, and our strategic and business model risk more broadly.

Counterparty level assessment

NatWest Group (including NWM N.V. Group) uses climate risk scorecards to provide a consistent and structured approach for assessing customer specific exposure to climate-related risks. During 2023, NatWest Group (including NWM N.V. Group) completed a review and recalibration exercise to enhance the quality of the insights generated by the qualitative climate risk scorecards. This included providing refined guidance to the customer relationship managers. Through this process we continue to build capability among first- and second-line risk colleagues, and a culture where consideration of climate risk is part of the credit journey.

Over 2023, in parallel with the roll-out of the initial suite of qualitative climate risk scorecards, NatWest Group (including NWM N.V. Group) has further enhanced the scorecards to incorporate more quantitative inputs as part of a new set of customer decisioning tools within CDF. CDF seeks to leverage the experience gained from the design and implementation of the initial suite of qualitative climate scorecards. The new tools sit within existing systems and aim to enhance quantification in the assessment by leveraging internal and external data points where available e.g. customer emissions data. We intend to launch the implementation of the CDF on phased, test-and-learn basis from early 2024, starting initially with the largest customers in the corporate and financial institutions sectors.

In 2023 NWM N.V. Group has started the implementation of the environmental risk scorecards to support the assessment of customer-specific risk exposure across different environmental physical and transition risks. These scorecards were applied to three priority sectors: electricity generation, land transport and logistics and commercial real estate. We aim to expand the scorecards sector coverage in 2024 as NWM N.V. Group continues to develop the identification and assessment of environmental risks.

As part of our climate-related and environmental due diligence, NWM N.V. Group aims to expand its client onboarding process with a Climate and Environment (C&E) Risk Assessment, both at the inception of a client relationship and on an ongoing basis. A pilot phase was initiated for a two-month period during 2023 for new clients onboarded to NWM N.V. Group. We aim to review the process and update it in 2024 based on the periodic evaluations and inputs from the stakeholders involved.

In addition, changes to the onboarding process were made which affect customers linked to high-risk Environmental, Social and Ethical (ESE) sectors. Customers which fall into one of the high-risk sectors as outlined in the ESE Risk framework need to follow a separate onboarding process and are excluded from the C&E client risk assessment process described above.

Risks related to data availability and data quality

Due to the diverse nature of NWM N.V. Group's clients, both in terms of activities and size, availability and quality of client specific non-financial data remains a challenge. Although a small proportion of our client base is already subject to the Non-Financial Reporting Directive (NFRD), and as such already required to disclose certain non-financial information, NWM N.V. Group expects that more of its clients could be subject to the CSRD and EU Taxonomy Regulation and could potentially be required to disclose additional non-financial information from financial year 2025 onwards. This is expected to potentially improve the availability and quality of our own non-financial disclosures as well, including our financed and facilitated emissions. In the meantime, NWM N.V. Group is working to integrate non-financial data requirements into our client onboarding and management processes.

How colleague education helps us manage climate risk

Developing colleague knowledge of climate risk is a key part of the bank's approach to climate risk. We recognise that gaps and limitations in climate expertise and capabilities would inhibit our ability to effectively manage climate risk, which we are trying to minimise through role-based climate training.

In 2023, NatWest Group (including NWM N.V. Group) committed to educate all colleagues through the Climate Change Fundamentals programme. The programme was launched through Group Policy Learning (GPL) which consists of a set of mandatory training modules that need to be completed by all staff each quarter. More than 200 colleagues successfully completed the six mandatory modules on topics such as "What is our role in climate change?" and "What should I do next?". In addition, trainings on CDF as well on ECB's climate and environmental expectations of banks were successfully completed by approximately 200 employees.

Metrics and targets

NatWest Group (including NWM N.V. Group) has an ambition to be net zero by 2050 across its financed emissions, assets under management and its operational value chain.

Own operations

Emissions attributable to NWM N.V. Group's own operations are not measured at a legal entity level and therefore are subsumed into NatWest Group's estimation of own operational footprint for the consolidated group.

Financed emissions

Financed emissions are GHG emissions that NatWest Group finances through its lending and investment activity. These activities fall within Scope 3, category 15 of the GHG Protocol. Given the smaller size of the banking book relative to NWM N.V. Group's underwriting activities and trading book, financed emissions currently play a limited role within NWM N.V. Group. Drawn lending exposures, as defined by the Partnership for Carbon Accounting Financials standard, account for approximately 11% of NWM N.V. Group's total assets, as at 31 December 2023. The undrawn loan commitments are currently excluded, and therefore could potentially increase the financed emission estimations during challenging market conditions if called up by customers.

To date, NWM N.V. Group does not estimate or report on its financed emissions at an entity level. NWM N.V. Group's financed emissions on its lending activities are included in NatWest Group's consolidated group estimates.

Metrics and targets continued

Heightened climate-related risk sectors[1]

The below table highlights all NWM N.V. Group sectors classified as heightened climate-related risk and is ordered based on the sector with the highest heightened exposure[2,3] as at 31 December 2023. Exposure is based on loans, loan commitments and contingent obligations. The amounts reported in the below table include all NWM N.V. Group lending to customers including climate and sustainable lending.

Total wholesale heightened climate-related risk exposure increased by €1.6 billion during 2023, predominantly as a result of an increase of the heightened exposure to the Power and utilities sector by €2.1 billion, and a decrease of the heightened exposure to the Oil and gas sector by €0.5 billion. The increase in the Power and utilities sector is primarily caused by the fact that in 2022 only the Electricity generation and Other electricity sub sectors were classed as heightened, whereas in 2023 the Power transmission, distribution and supply sub sector is also classed as heightened. The decrease in the Oil and gas sector is primarily related to an orderly planned expiration of facilities, as part of agreed climate strategy for the sector and Credit Transition Plan (CTP) assessment.

	31 December 2023					31 December 2022				
Sector/Portfolio	Loans (2) €m	Off-balance sheet (3) €m	Total sector exposure €m	Of which: heightened €m	Heightened As a % of NWM N.V. Group Total %	Loans €m	Off-balance sheet €m	Total sector exposure €m	Of which: heightened €m	Heightened As a % of NWM N.V. Group Total %
Wholesale heightened climate-related risk sectors										
Power utilities	**130**	**3,028**	**3,158**	**3,158**	**36.20%**	108	2,897	3,005	1,098	11.40%
Automotive	**2**	**635**	**637**	**635**	**7.28%**	2	644	646	646	6.71%
Land transport and logistics	**63**	**358**	**421**	**315**	**3.61%**	79	353	432	315	3.27%
Building materials	**5**	**196**	**201**	**201**	**2.30%**	4	20	24	24	0.25%
Commercial real estate	**26**	**114**	**140**	**141**	**1.62%**	14	119	133	133	1.38%
Food & Consumer (4)	**6**	**243**	**249**	**137**	**1.57%**	8	305	313	-	-
Chemicals	**13**	**77**	**90**	**90**	**1.03%**	15	72	87	87	0.90%
Construction	**2**	**69**	**71**	**71**	**0.81%**	112	69	181	181	1.88%
Water and waste	**20**	**38**	**58**	**57**	**0.65%**	4	286	290	186	1.93%
Industrials	**99**	**271**	**370**	**35**	**0.40%**	101	289	390	51	0.53%
Airlines and aerospace	**3**	**35**	**38**	**8**	**0.09%**	1	183	184	28	0.29%
Oil and gas	**3**	**3**	**6**	**6**	**0.07%**	4	545	549	549	5.70%
Business Services (4)	**41**	**1**	**42**	**4**	**0.05%**	52	6	58	-	-
Shipping	**2**	**-**	**2**	**2**	**0.02%**	2	-	2	2	0.02%
Retail	**16**	**450**	**466**	**2**	**0.02%**	-	486	486	-	-
Agriculture	**1**	**-**	**1**	**1**	**0.01%**	2	-	2	2	0.02%
Leisure	**3**	**-**	**3**	**1**	**0.01%**	1	-	1	1	0.01%
Total	**435**	**5,518**	**5,953**	**4,864**	**55.75%**	509	6,274	6,783	3,303	34.30%

(1) NatWest Group's (including NWM N.V. Group's) heightened climate-related risk sector assessment seeks to identify sectors that are likely to see increased credit risks for NatWest Group (including NWM N.V. Group) as a result of climate-related factors, over a 10-to-15-year horizon. The assessment applies three lenses which consider: transition risk, physical risk and liability risk. For 2023, this approach identified 42 subsectors exposed to heightened climate-related risk, increasing to 51 within 20 wholesale sectors, following a qualitative overlay applied by internal subject matter experts. This overlay reflects climate-related risks not captured within the modelling process but present within the broader external sub-sector. A separate assessment of internal mitigating action and policy is also carried out to guide internal use cases. We monitor exposure to heightened climate-related risk sector on a monthly basis to enable trend identification.
(2) Loans to customers and banks – amortised cost and FVOCI. This table shows gross loans only.
(3) Off-balance sheet includes loan commitments and contingent liabilities.
(4) These sectors were identified as heightened climate-related risk sectors under the updated methodology in 2023, and therefore do not have an 'of which heightened' exposure in 2022.
(5) Heightened climate-related risk sector methodology is used to identify segments of the portfolio with inherent heightened risk, which is then used to support portfolio management, including risk appetite setting, to effectively manage the inherent risk. There is no direct correlation between exposure to heightened sectors and heightened exposure to climate-related risk. Percentage is heightened exposure divided by the total NWM N.V. Group exposure.

Metrics and targets continued

Climate and sustainable funding and financing[1]

NatWest Group (including NWM N.V. Group) has a target to provide £100 billion climate and sustainable funding and financing between 1 July 2021 and the end of 2025. NatWest Group uses its climate and sustainable funding and financing inclusion (CSFFI) criteria[1] to determine the assets, activities and companies that are eligible to be included within its climate and sustainable funding and financing targets.

Since the £100 billion target came into effect in July 2021, NatWest Group has provided £61.9 billion of climate and sustainable funding and financing (£29.3 billion in 2023), comprised of €17.9 billion[2] (£15.4 billion) from NWM N.V. Group (€8.9 billion or £7.8 billion in 2023).

The table below summarises NWM N.V. Group climate and sustainable funding and financing activity.

Climate and sustainable funding and financing[1]	Full year ended 31 December 2023 €m	Full year ended 31 December 2022 €m	Cumulative progress towards the £100bn target (since 1 July 2021)[3] €m
Underwriting			
Green and sustainability bond public issuances and private placements (4)	**7,619**	6,835	15,387
Sustainability-linked bonds and private placements (6)		296	371
Other wholesale general purpose lending or wider financing within the CSFFI criteria (6)	**642**		642
Lending			
Sustainability-linked loans (3,5)	**619**	835	1,454
Total	**8,880**	7,966	17,854

(1) For the year ended 31 December 2023, the NatWest Group CSFFI criteria published in December 2022 have been used to determine the assets, activities and companies that are eligible to be counted. For the year ended 31 December 2022, our CSFFI criteria published in October 2021 was applied. For the year ended 31 December 2021, the CSFFI criteria published in February 2021 was applied. Full details of the latest CSFFI criteria can be found at natwestgroup.com.
(2) The €17.9 billion cumulative climate and sustainable funding and financing consists of €1.4 billion in lending and €16.5 billion in underwriting transactions.
(3) Lending amounts represent total commitment and include any undrawn portion of committed credit limits.
(4) Underwriting of specific use of proceeds debt capital market issuance for project expenditures, sovereign and EU green bond auctions, as well as green loan commitments when customers meet the CSFFI criteria. Amounts represent the NWM N.V. Group share of the notional (total underwriting amount lead managed or placed by NWM N.V. Group), based on the number of underwriters within a specific deal, and the allocated auction bond volumes. During the year ended 31 December 2023 NWM N.V. Group lead managed or placed 54 green bonds (including auctions), and private placements totalling a notional amount of €59.6 billion (37 deals, €37.2 billion during full year 2022). The CSFFI criteria allow for the inclusion of eligible sustainability bonds, which began to be included from 1 January 2022 (1 deal, climate and sustainable funding and financing contribution €0.3 billion in the year ended 31 December 2023) and sovereign and EU green bond auctions which are included from 2023.
(5) Sustainability-Linked Loans, Bonds and private placements, aligned with Loan Market Association (LMA) Sustainability Linked Loan principles and International Capital Market Association (ICMA) Sustainability-Linked Bond principles where deal targets include green performance indicators, aligned to CSFFI criteria.
(6) In addition to transactions that directly meet CSFFI criteria based on use of proceeds for green purposes, the CSFFI criteria also include certain general purpose loans and wider financing (including bonds and private placements) to a customer who can evidence (to NatWest Group's satisfaction through review of the customers' profit and loss statement or balance sheet): 90% or more of revenues are in the categories or sectors outlined in the criteria, or for real estate and utilities companies 90% of their assets are in categories or sectors outlined by the CSFFI criteria, or for fund clients 90% of assets under management are invested in activities that meet the CSFFI criteria.

Estimates of Facilitated emissions on corporate bond underwriting

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

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

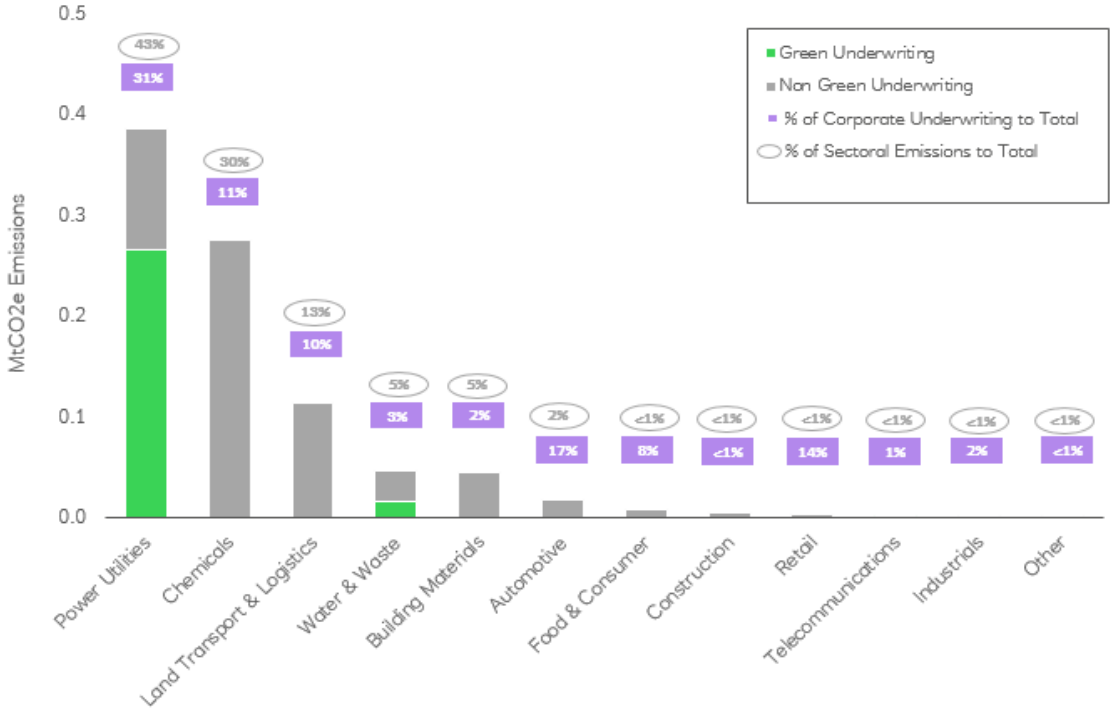
Facilitated emissions included in this section relate to corporate bond underwriting activities which equate to 28% of NWM N.V. Group's total bond underwriting[1] and results in absolute facilitated emissions of 0.9 MtCO2e for 2023.

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

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

Metrics and targets continued

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



- The estimated facilitated emissions are most significant in the power utilities sector, making up 43% of the total corporate facilitated emissions. However, it is important to note that more than 50% are green bonds.
- The second highest contributing sector is the chemicals industry, NWM N.V. Group's total underwriting in this sector was 11%.
- The remaining ten sectors contributed 27% of estimated facilitated emissions whilst representing more than half of total corporate bond underwriting (59%).

NWM Group (including NWM N.V. Group) methodology used for estimation

- The PCAF consultation paper[3] recommended splitting the responsibility among the transaction facilitators (passive and active) based on volumes, which NWM Group sourced from league tables. This determines the proportion of the 'facilitated' part of the transaction each facilitator takes responsibility for, thus providing the volume against which facilitated emissions is estimated. Co-managers are not counted and therefore such volumes are not taken into consideration. The 2023 PCAF standard[2] allows the use of either league tables based on fees or the value of the volume.
- NWM Group has followed both the PCAF consultation paper[3] and the published standard[2] guidance to define an issuer as solely corporates that issue debt or equity capital markets instruments. Financial institutions, sovereigns, supranationals and agency issuers, as well as securitised products, are out of scope both for the guidance in the consultation paper[3] and the standard published by PCAF[2].
- In alignment with 2022 reporting, NWM Group applied a 100% weighting factor for the emissions estimation of corporate bond underwriting activities. The PCAF standard[2] requires a weighting factor of 33%.
- In line with the PCAF consultation paper[3] and the published standard[2], to estimate greenhouse gas emissions, NWM Group sourced customer-level emissions data, where possible. If customer-level data is unavailable, emission sector averages (with a PCAF data quality score of 5) are used for emission intensities from 2022 and applied against 2023 underwriting volumes[6].
- Currently, there is not a commonly agreed methodology for measuring the carbon footprint of green bonds. NWM Group shows the breakdown of conventional versus green bonds to highlight the expected difference of facilitated emissions associated with the conventional versus green bond underwriting. Sustainable-linked and sustainability bond activities are treated as conventional bonds for the purpose of estimating and reporting on facilitated emissions[5].

(1) Where NWM Group is a facilitator (active or passive) as defined by the PCAF consultation paper[3] and published standard[2].
(2) https://carbonaccountingfinancials.com/files/PCAF-PartB-Facilitated-Emissions-Standard-Dec2023.pdf
(3) September 2022 - PCAF launches public consultation on Capital Markets Facilitated Emissions methodology (carbonaccountingfinancials.com).
(4) Includes public debt: all types of bonds issued for general purposes. Facilitated debt investments in private companies (including private credit), public equity: common stock (IPOs and follow-on issuances) and preferred shares and facilitated equity investments in private companies (including private placements) are not included, since this is not business that NWM Group undertakes. Syndicated loans are within the scope of PCAF's Facilitated Emissions Standard. However, where these remain on NWM Group's balance sheet we have included them in our financed emission estimates and excluded them from our estimate of facilitated emissions.
(5) NatWest Group 2023 climate and sustainable funding and financing inclusion criteria was used to determine the assets, activities and companies eligible for inclusion. https://www.natwestgroup.com/content/dam/natwestgroup_com/natwestgroup/pdf/climate-and-sustainable-funding-and-financing-inclusion-criteria-2021-V1.3.pdf
(6) NWM Group aims to estimate facilitated emissions using the latest data available, recognising there may be a lag between the availability of emissions data and the date of record for reporting. As a consequence of this lag, more recent changes in a counterparties activities may not be reflected in the estimate of facilitated emissions. NWM Group continues to refine its estimates as NWM Group enhances its understanding, calculation methodologies and data. Also, methodologies to calculate emissions for certain sectors are still under development. Based on these limitations, NWM Group expects its estimates to change as NWM Group improves the granularity and coverage of customer climate data and develop methodologies further.

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 18 to 53) is within the scope of the Independent auditor's report.

Risk management framework

Introduction

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

The framework ensures that NWM N.V. Group's principal risks – which are detailed in this section – are appropriately controlled and managed. It sets out the standards and objectives for risk management as well as defining the division of roles and responsibilities.

This seeks to ensure a consistent approach to risk management across NWM N.V. Group. It aligns risk management with NWM N.V. Group's overall strategic objectives.

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

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

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

In addition, there is a centralised process in NWM Group to identify and manage top and emerging threats, which are those that could have a significant negative impact on its ability to meet its strategic objectives. Both top and emerging threats may incorporate aspects of – or correlate to – a number of principal risks.

Risk management framework continued

Culture

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

NWM N.V. Group expects leaders to act as role models for strong risk behaviours and practices building clarity, developing capability and motivating employees to reach the required standards set out in the intelligent risk-taking approach. Colleagues are expected to:

- Consistently role-model the values and behaviours in Our Code, based on strong ethical standards.
- Empower others to take risks aligned to NWM N.V. Group's strategy, explore issues from a fresh perspective, and tackle challenges in new and better ways across organisational boundaries.
- Manage risk in line with appropriate risk appetite.
- Ensure each decision made keeps NWM N.V. Group, colleagues, customers, communities and shareholders safe and secure.
- Understand their role in managing risk, remaining clear and capable, grounded in knowledge of regulatory obligations.
- Consider risk in all actions and decisions.
- Escalate risks and issues early; taking action to mitigate risks and learning from mistakes and near-misses, reporting and communicating these transparently.
- Challenge others' attitudes, ideas and actions.

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

Training

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

Our Code

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

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

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

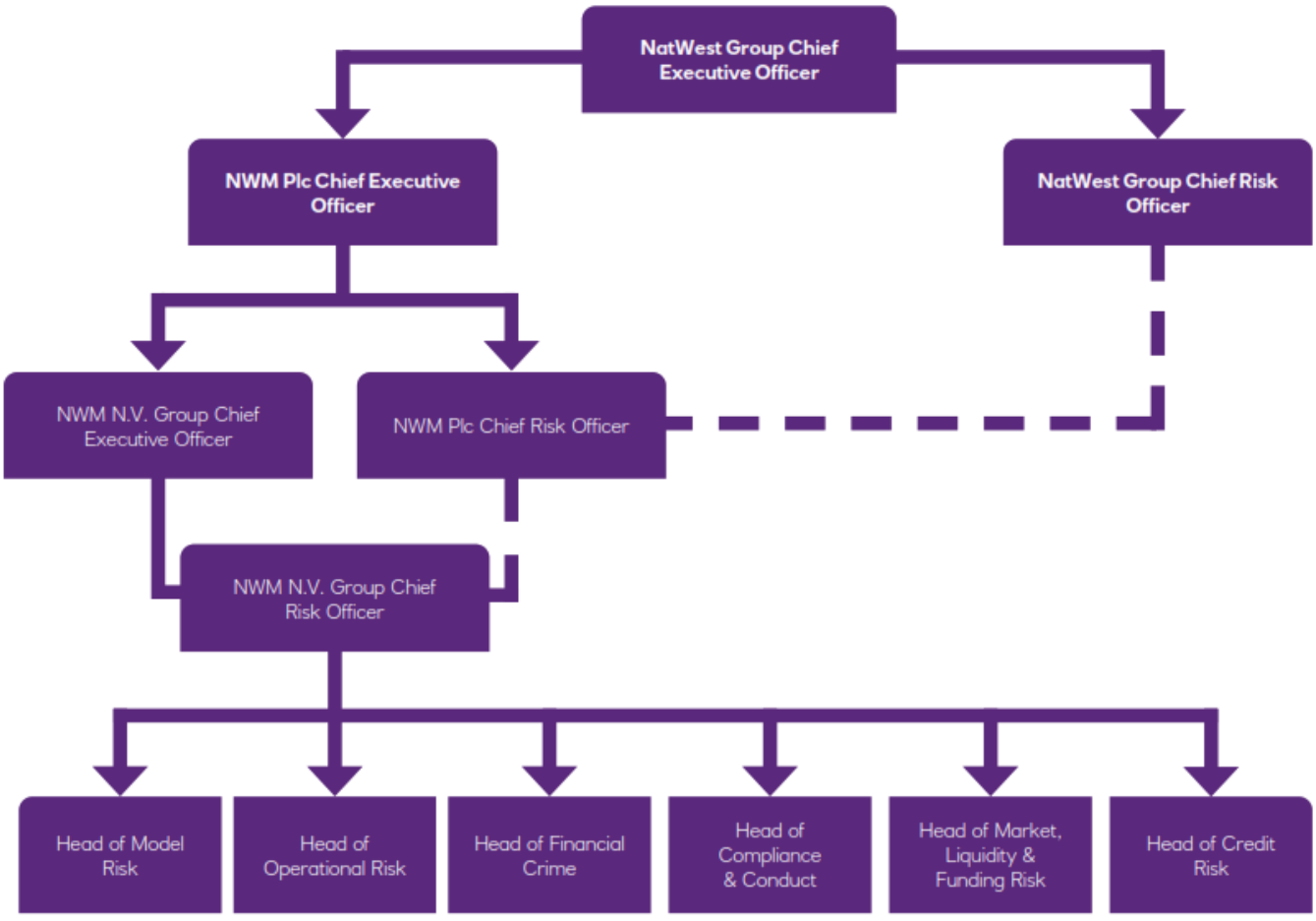
Governance

Risk management structure

While NWM N.V. Group is part of NatWest Group – and operates within NatWest Group's risk framework – the NWM N.V. Group Supervisory Board is responsible for approving and overseeing the implementation of NWM N.V. Group's business strategy (within the parameters set by the NatWest Group Board). The NWM N.V. Group Board Risk Committee provides oversight and advice on all risk related matters. Operational policies and compliance activities may be adapted in order to comply with local legal or regulatory requirements.

Service level agreements are in place between NWM N.V. Group and NatWest Group entities primarily NWM Plc to accommodate integrated risk management oversight.

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



(1) NWM N.V. Group is a wholly owned (indirect) subsidiary of NatWest Markets Group plc.
(2) The NWM N.V. Group Chief Risk Officer has a functional reporting line to the NWM Plc Chief Risk Officer.
(3) The NWM N.V. Group Risk function is independent and provides oversight of risk management activities to ensure risks are adequately monitored and controlled.
(4) The NWH Risk function provides risk management services across NatWest Group, including – where agreed – to the NWM N.V. Group Chief Risk Officer. These services are managed, as appropriate, through service level agreements.
(5) Risk management in NWM N.V. Group focuses on all material risks including credit, market, liquidity, operational, regulatory, financial crime, climate, model and conduct risk and business activities which are managed through the Risk and Control committee. The day-to-day management of capital, liquidity, funding and non-traded market risk is the overall responsibility of the Managing Board and further delegated to the Asset & Liability Management Committee.

Risk management framework continued

The following table details NWM N.V. Group's key boards and committees together with an overview of their responsibilities.

Board/Committee	Responsibilities
Supervisory Board **Membership:** Consisted of three members as at 31 December 2023.	The Supervisory Board is responsible for supervising NWM N.V. Group's management, its general affairs, and the business connected with it, as well as advising the Managing Board. The Supervisory Board is responsible for the review of all matters relative to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk management, regulatory compliance and the product approval process. There is a separate Risk and a separate Audit Committee. Its membership is composed of members of the Supervisory Board.
Board Risk Committee (BRC) **Membership:** Current membership consists of an independent member as Chairman and an independent member as a regular member.	The Board Risk Committee provides oversight and advice on current and future risk exposures, the effectiveness of the risk management framework, future risk strategy and (with the Audit Committee) internal controls required to manage risk.
Board Audit Committee **Membership:** Current membership consists of an independent member as Chairman and an independent member as regular member. The members must have thorough knowledge of the financial aspects of risk management or the necessary experience to permit a thorough assessment of risks as well as thorough knowledge of financial reporting, internal control systems, audits and accounting (relating to financial institutions or other large companies).	The Board Audit Committee: – Reviews and monitors all matters relating to accounting policies, internal control, financial reporting functions, Internal Audit, External Auditor risk assessment, regulatory compliance and the product approval process. – Establishes a procedure for the selection of an external auditor. – Assesses the monitoring of the external auditor and the statutory control of the annual accounts.
Managing Board **Membership:** Consists of three members at 31 December 2023: the Chairman and Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO).	The Managing Board reports to the Supervisory Board. It is the principal decision-making corporate body for NWM N.V. Group and is responsible for the day-to-day activities of NWM N.V. Group. The Managing Board is, among others, responsible for setting policy framework, operating structure and yearly plan (including objectives and budgets). In addition to their overall corporate responsibilities, the members of the Managing Board manage one or more units, for which they have primary responsibility.
Risk & Control Committee (RCC) **Membership:** Chaired by the CRO. Members include the CEO, the CFO, the interim COO, the N.V. General Counsel, the N.V. Treasurer, the Head of Trading, the Head of Capital Markets, Head of Sales and the Heads of the respective risk disciplines.	The responsibilities of the RCC include: – Advising the Managing Board on the risk appetite of NWM N.V. Group and receiving direction from the Managing Board on the risk appetite. – Providing input to NWM N.V. Group's risk appetite setting process in the context of NWM N.V. Group's overall risk appetite. – Overseeing the risk framework within NWM N.V. Group and reporting directly to the Managing Board on the performance of the framework and on issues arising from it. – Monitoring the actual risk profile of NWM N.V. Group, ensuring that this remains within the boundaries of the agreed risk appetite and escalating excesses to the Managing Board. Prior to escalation, the RCC can ask the appropriate owner who normally monitors and controls the risk item, to address any excess. – The remit of the Committee also includes monitoring of capital, liquidity, credit, market, conduct, financial crime, climate, operational, model, and regulatory risks within NWM N.V. Group. Changes to the Terms of Reference of the RCC must be approved by the Managing Board.

Risk management framework continued

Board/Committee	Responsibilities
Asset & Liability Management Committee (ALCo) **Membership:** Chaired by the CFO. Members include the CEO, the CRO, the interim COO, the N.V. Treasurer, the N.V. Head of Trading, Head of Sales and the Head of Financing & Risk Solutions.	The responsibilities of the ALCo include: – The overall governance responsibility for the strategic management of NWM N.V. Group's balance sheet. – To manage capital, liquidity and funding within risk appetite limits. – The liquidity, funding, foreign exchange and interest rate exposures of NWM N.V. Group's balance sheet. – The balance sheet structure and risk-weighted assets position of NWM N.V. Group. – Decisions on capital repatriation and loss coverage. – The implementation and maintenance of transfer pricing policies (although setting the liquidity spread curve remains the responsibility of NatWest Group ALCo). – The approval and implementation within NWM N.V. Group of NatWest Group Treasury policies and procedures. Responsible for oversight of retained business (shared assets).
Disclosure Committee (DC) **Membership:** Chaired by the CFO. Members include the CEO, the CRO, the N.V. Treasurer, the N.V. General Counsel, Head of NatWest Group Accounting Policy and NWM Financial Controller.	The responsibilities of the DC include: – Monitoring, evaluation and enhancing disclosure controls and procedures; and internal controls over financial reporting. – Overseeing, evaluating, and approving all significant disclosures made by NWM N.V. Group including: – The Annual Report and Accounts and corresponding interim disclosures. – Public filings to be made in connection with the announcement of financial results, excluding filings with regulators. Furthermore, the responsibilities of the DC include overseeing, evaluating and reviewing accounting issues and developments and recommendations on key accounting judgments, including risk and capital disclosures, prior to presentation to the NWM N.V. Group Managing and Supervisory Board. The DC will make recommendations to the NWM N.V. Group Managing and Supervisory Board in relation to its review of these items.

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 NWM N.V. Group Board.

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

Second line of defence

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

The second line of defence is empowered to design and maintain the risk management framework and its components. It undertakes proactive risk oversight and continuous monitoring activities to confirm that NWM N.V. Group engages in permissible and sustainable risk-taking activities.

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

Third line of defence

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

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

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

Risk appetite

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

For certain principal risks, risk capacity defines the maximum level of risk NWM N.V. Group can assume before breaching constraints determined by regulatory capital and liquidity requirements, the operational environment, and from a conduct perspective. Establishing risk capacity helps determine where risk appetite should be set, ensuring there is a buffer between

internal risk appetite and NWM N.V. Group's ultimate capacity to absorb losses.

Risk appetite framework

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

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

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

The NWM N.V. Group Supervisory Board reviews and approves the risk appetite framework.

Establishing risk appetite

In line with the risk appetite framework, risk appetite is maintained across NWM N.V. 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.

NWM N.V. Group operates within risk appetite set at NatWest Group and NWM Plc level unless specific entity level considerations need to prevail, for example, specific capital structure considerations.

In addition to operating within NatWest Group and NWM Plc risk appetite, NWM N.V. Group sets additional risk appetite limits for its own strategic and most material risks where necessary. NWM N.V. Group's risk profile is continually monitored and frequently reviewed and management focus is concentrated on all strategic risks, material risks and emerging threats. Risk profile relative to risk appetite is reported regularly to NWM N.V. Group Board and senior management.

The risk appetite statement and associated measures are approved at least annually by the Risk & Control Committee, the Managing Board and the Supervisory Board to ensure they remain appropriate and aligned to strategy.

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

Risk management framework continued

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

Identification and measurement

Identification and measurement within the risk management process comprises:

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

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

Mitigation

Mitigation is a critical aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within NWM N.V. 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

Targeted risk processes and controls are subject to independent testing and monitoring.

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

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

Regulatory oversight

NWM N.V. Group is subject to the direct supervision of a Joint Supervisory Team (JST) with the ECB and DNB.

The AFM, as an independent market conduct authority, has supervision of NWM N.V. Group in the Netherlands. Prevention of market abuse and transition to sustainable society are among the top priorities of the AFM in 2023, which are also the key focus areas for NWM N.V. Group.

During 2023, remediation programmes relating to financial crime and outsourcing were completed, with remaining remediation activities for data management, and capital models targeted to complete in 2024. The progress is shared regularly with the relevant supervisors.

Capital, liquidity and funding risk

Definition

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

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

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

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

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

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

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

Key developments in 2023

- In October 2023 NWM N.V. received a €0.3 billion dividend from Alcover A.G. after non-objection by the Swiss Financial Market Supervisory Authority (FINMA).
- Throughout 2023 NWM N.V. Group was able to raise elevated levels of deposits from its customers and continued applying an elevated liquidity buffer to absorb any potential negative impact from market uncertainties.

Regulatory framework

Capital requirements regulation and directive

The European Union (EU) has implemented the Basel III framework through the CRR and the Capital Requirements Directive (CRD). The initial package, known as CRD IV, was implemented on 1 January 2014 on a phased basis with full implementation completed on 1 January 2019.

On 7 June 2019, amendments to the CRR and CRD (known as CRR2 and CRD5 respectively) were published in the Official Journal of the European Union. The majority of these changes were implemented in June 2021.

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

Key elements of the CRR:

- Higher and better capital requirements. Banks must have a total amount of capital that corresponds to at least 8% of their assets, measured according to their risks.
  - Pillar 1 requirement of: CET1 of 4.5% of RWAs; Tier 1 of 6.0%; and total capital of 8.0%.
  - Capital buffers: 'capital conservation buffer' of 2.5% of RWAs; 'countercyclical capital buffer' of up to 2.5%; an 'other systemically important institutions buffer' for domestically or EU important institutions and, if required by a member state, an additional 'systemic risk buffer'.
- Liquidity measures. To ensure banks have sufficient liquidity, the regulation introduces two liquidity requirements:
  - The liquidity coverage ratio 100% which aims to ensure that banks have enough liquid assets (e.g. cash or other assets that can be quickly converted into cash with little or no loss of value) in the short term.
  - The net stable funding requirement of 100% which aims to ensure that banks do not rely too much on short-term funding to fund their medium- and long-term assets.
- Limiting leverage. The regulation sets out a binding leverage ratio, which aims to limit banks from financing too large a portion of their activities with debt.
  - Minimum Tier 1 leverage ratio of 3.0%.

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

Capital, liquidity and funding risk continued

Banking Union: Single Supervisory Mechanism

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

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

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

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

Capital management

NWM N.V. Group aims to maintain an appropriate level of capital to meet its business needs (which include requirements of its ultimate parent company, NatWest Group plc) and regulatory requirements, whilst operating within an agreed risk appetite. Determination of appropriate capital levels involves regular Asset & Liability Management Committee (ALCo) capital monitoring, planning and forecasts, and ICAAP. Capital plans are subjected to internal governance reviews, eventually put through Managing Board oversight and approval, as well as review of the appropriate supervisory authority.

NWM N.V. Group operates a rigorous capital planning process via ALCo aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital position of NWM N.V. Group. In the event that the projected position deteriorates below acceptable levels, NWM N.V. Group would revise business plans accordingly.

NWM N.V. Group manages changes to capital requirements from new regulation as well as model changes and the resulting impact on the Common Equity Tier 1 ratio, focusing on risk reduction and de-leveraging.

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

Liquidity and funding management

Liquidity and funding management follows a similar process to that outlined above for capital. Liquidity and funding risk tolerance forms part of NWM N.V. Group's risk appetite statement, which is reviewed and approved by the NWM N.V. Group Managing Board.

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

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

Liquidity portfolio management

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

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

Funding risk management

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

Governance

The ALCo is responsible for ensuring NWM N.V. Group maintains adequate capital, liquidity and funding at all times. The ALCo manages and plans NWM N.V. Group's adequacy levels taking into account current and projected levels and provides input to and oversees levels established within the framework of the ICAAP and ILAAP.

ALCo also plans and manages capital, liquidity and funding interaction with NatWest Group. Such interaction would need to be capital neutral to NatWest Group and are required to be structured in such a way so as to satisfy DNB, the ECB and PRA regulatory requirements. The ALCo is in turn ultimately governed by NWM N.V. Group's Managing Board, which approves ALCo and ICAAP and ILAAP decisions.

Capital, liquidity and funding risk continued

Capital ratios and risk-weighted assets

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

Capital ratios	2023 %	2022 %
Common Equity Tier 1 (CET1)	**19.0**	21.0
Tier 1	**22.1**	24.0
Total	**23.9**	25.9

Risk-weighted assets	€m	€m
Credit risk	**6,799**	6,596
Market risk	**1,103**	1,116
Operational risk	**332**	354
	8,234	8,066

- The CET1 ratio decreased from 21.0% to 19.0% driven by a decrease in CET1 capital and an increase in RWA's.
- CET1 capital decreased by €122 million as a result of the excess of dividends paid over the release of the deduction for significant investments.
- RWAs increased from €8.1 billion to €8.2 billion reflecting higher credit risk. The increase of €0.2 billion in credit risk was largely driven by an increase in client positions in the trading book and purchases of securities for investment purposes, offset by a reduction in committed undrawn facilities.

Funding sources (audited)

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

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

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

Market risk

NWM N.V. Group is exposed to traded market risk through its trading activities and to non-traded market risk through its banking activities. Traded and non-traded market risk exposures are managed and discussed separately. The traded market risk section begins below. The non-traded market risk section begins on page 30.

Traded market risk

Definition (audited)

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

Sources of risk (audited)

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

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

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

Key developments in 2023

- The year was marked by increases in key interest rates across the main central banks: the ECB main refinancing operations rate reached 4.5% in September 2023.
- The European year-on-year inflation rate decreased significantly towards the end of the year, approaching the targeted 2%.
- The European ICE Brent front-month futures price rose over US$90 per barrel on the back of the Israel-Hamas conflict.
- The EUR/CHF FX spot rate traded under parity for most of the year, as the Swiss franc was seen by the market as a safe-haven currency.

Governance (audited)

Market risk policy statements set out the governance and risk management framework. The Market Risk function independently identifies, measures, monitors, controls and challenges the risk-taking activities undertaken by the trading business, ensuring these are within the constraints of the market risk framework, policies, and risk appetite statements and measures.

NWM N.V. Group's traded market risk positions are reported monthly to the Risk and Control Committee and subsequently to the Managing and Supervisory Boards.

Risk appetite

NWM N.V. Group's qualitative appetite for traded market risk is set out in the traded market risk appetite statement.

Quantitative appetite is expressed in terms of exposure limits.

The limits at NWM N.V. Group level comprise value-at-risk (VaR) and stressed value-at-risk (SVaR). More details on these are provided on the following pages.

In addition, for each trading business, sub-business or desk, a dealing authority is defined. Dealing authorities comprise qualitative limits related to the product types within the scope of each desk, as well as quantitative metrics specific to the desk's market risk exposures. These additional limits and metrics aim to control various risk dimensions such as VaR, SVaR, exposure size measured via risk sensitivities, currency and tenor.

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

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group mitigates market risk among others by hedging transactions with NWM Group.

To ensure approved limits are not breached and that NWM N.V. Group remains within its risk appetite, triggers have been set such that if exposures exceed a specified level, action plans are developed by the relevant business and the Market Risk function and implemented.

For further information on risk appetite, refer to page 23.

Monitoring and mitigation

Traded market risk is identified and assessed by gathering, analysing, monitoring and reporting market risk information at desk, business and NWM N.V. Group-wide levels. Industry expertise, continued system developments and techniques such as stress testing are also used to enhance the effectiveness of the identification and assessment of all material market risks.

Traded market risk exposures are monitored against limits and analysed and signed off daily by the Market Risk function. A daily report summarising the position of exposures against limits at desk, business and NWM N.V. Group levels is provided to the trading desks.

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

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

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

Traded market risk continued

Measurement

NWM Group uses a comprehensive set of methodologies and techniques to measure traded market risk. At NWM N.V. Group level, these chiefly comprise VaR and SVaR. In addition, stress testing is used to identify any vulnerabilities and potential losses in excess of VaR and SVaR. The incremental risk charge is not material at NWM N.V. Group level.

Value-at-risk

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

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

NWM Group's internal VaR model is based on a historical simulation, utilising market data from the previous 500 days on an equally weighted basis. NWM N.V. Group uses the same model.

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

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

- **Back-testing** – Internal and regulatory back-testing is conducted on a daily basis. VaR model back-testing counts the number of days when a loss exceeds the corresponding daily VaR estimate, measured at a 99% confidence level.
- **Ongoing model validation** – VaR model performance is assessed both regularly, and on an ad-hoc basis, if market conditions or portfolio profile change significantly.
- **Model Risk Management review** – As part of the model lifecycle, all risk models (including the VaR model) are independently reviewed to ensure the model is still fit for purpose given current market conditions and portfolio profile. For further detail on the independent model validation carried out by Model Risk Management, refer to page 53. More information relating to pricing and market risk models is presented in the NatWest Group Pillar 3 Report.

One–day 99% traded internal VaR

The table below analyses the internal VaR for NWM N.V. Group's trading portfolios segregated by type of market risk exposure.

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

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

- NWM N.V. Group maintained open risk at a moderate level and traded VaR remained within set appetite during 2023 despite the market volatility.
- Overall, average one-day VaR remained stable year-on-year. Interest rate risk was the most significant risk driver during the year as the volatility in interest rates was captured by the VaR model.

SVaR

As with VaR, the SVaR methodology produces estimates of the potential change in the market value of a portfolio, over a specified time horizon, at a given confidence level. SVaR is a VaR-based measure using historical data from a one-year period of stressed market conditions.

A simulation of 99% VaR is run on the current portfolio for each 250-day period from 2005 to the current VaR date, moving forward one day at a time. The SVaR is the worst VaR outcome of the simulated results.

The internal traded SVaR model captures all trading book positions.

The following table shows 10-day 99% internal SVaR for the trading portfolios of NWM N.V. Group.

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

Non-traded market risk

Definition (audited)

Non-traded market risk is the risk to the value of assets or liabilities outside the trading book, or the risk to income, that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates.

Sources of risk (audited)

The key sources of non-traded market risk for NWM N.V. Group are interest rate risk, foreign exchange risk and credit spread risk.

Interest rate risk

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

Foreign exchange risk

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

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

Credit spread risk

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

Key developments in 2023

- NWM N.V. continued to apply the structural hedging programme of its common equity and reserves. At 31 December 2023, the notional amount of the structural hedge in place was €1.7 billion (2022 - €1.9 billion). NWM N.V. policy is to align the notional of the hedge to its business strategy.
- EMTNs and STMNs were issued out of Treasury and the Investor Products desk to fund NWM N.V. Group.
- NWM N.V. Group's non-traded market risk VaR remained moderate and decreased year on year given the moderate open positions in interest rate, foreign exchange and credit spread risks.
- In 2023, total one-day 99% non-traded internal VaR for NWM N.V. was €0.6 million on an average basis (2022 - €0.7 million) and €0.5 million on a period-end basis (2022 - €0.9 million).
- New clients were on-boarded during the year, with Treasury funding the expanding client flow.

Governance (audited)

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

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

Risk appetite

NWM N.V. 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. The limits at NWM N.V. Group comprise a VaR measure supplemented with SVaR, sensitivities, earnings-at-risk and economic-value-of-equity. Other limits monitored at executive governance level notably include a stress limit based on the foreign exchange sensitivity of NWM N.V. Group's CET1 ratio.

To ensure limits are not breached and that NWM N.V. Board remains within its risk appetite, triggers at NWM N.V. Board and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the business, the Non-Traded Market Risk function and Finance for implementation.

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

NWM N.V. Group's risk appetite is aligned with that of NWM Group. A comprehensive structure and controls are in place aimed at ensuring that this appetite is not exceeded. NWM N.V. Group aims to mitigate market risk, to the extent possible, by way of hedging transactions with NWM Group.

For further information on risk appetite, refer to page 23.

Monitoring and measurement

Non-traded market risk positions are reported monthly to the NWM N.V. Risk and Control Committee (RCC) and subsequently to the Managing and Supervisory Boards.

Interest rate risk

NWM N.V. Group policy is to manage interest rate sensitivity in banking book portfolios within defined risk limits which are monitored and approved by the NWM N.V. Group Risk & Control Committee. Interest rate swaps are used to hedge some exposures externally.

Key measures used to evaluate non-traded interest rate risk (NTIRR) are subject to approval granted by NWM Group model risk governance. Limits on NTIRR are set according to the Non-Trading Interest Rate and Foreign Currency Risk Policy Statement and are subject to NWM N.V. Group Risk & Control Committee approval.

NTIRR is measured using a version of the same VaR methodology that is used by NWM Group. VaR metrics are based on interest rate repricing gap reports as at the reporting date.

Non-traded market risk continued

One–day 99% banking book VaR

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

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

Foreign exchange risk

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

The table below sets out NWM N.V. Group's structural foreign currency exposures:

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

2022		
US dollar	8	8
Other non-euro	6	6
	14	14

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

Credit risk

Definition (audited)

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

Sources of risk (audited)

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

Key developments in 2023 (audited)

- Following the operational launch of NWBE Gmbh, NWM N.V. Group entered into agency agreements to continue supporting Western European customers across the ring-fence under UK regulation.
- The credit portfolio continued to perform well with no Stage 3 assets.

Governance (audited)

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

Governance activities include:

- Defining and proposing credit risk appetite measures for Board approval.
- Establishing credit risk policy, standards and toolkits which set out the mandatory limits and parameters required to ensure that credit risk is managed within risk appetite and which provide the minimum standards for the identification, assessment, management, monitoring and reporting of credit risk.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that it is being managed adequately and effectively.
- Assessing the adequacy of ECL provisions including approving key IFRS 9 inputs (such as significant increase in credit risk (SICR) thresholds) and any necessary in-model and post model adjustments through provisions and model committees.
- Development and approval of credit grading models.
- Providing regular reporting on credit risk to the Board.

The Risk & Control Committee, which operates under the delegated authority of the Managing Board, ensures that all material credit risks are identified, assessed, monitored, controlled and managed effectively (refer to page 60 for further details). The Risk & Control Committee receives input from various committees including the Credit Risk Committee for the overall credit risk profile and sector/product/asset class concentrations, as well as input from the Risk of Credit Loss Committee, the Internal Model Review Committee and the Stress Testing Committee.

Risk appetite

Credit risk appetite is approved by the Board and is set and monitored through a risk appetite framework.

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

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

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

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

Identification and measurement

Credit stewardship (audited)

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

Asset quality (audited)

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

Counterparty credit risk

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

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

Mitigation

Mitigation techniques, as set out in the appropriate credit risk toolkits and transactional acceptance standards, are used in the management of credit portfolios across NWM N.V. 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.

Credit risk continued

Assessment and monitoring

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

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

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

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

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

Problem debt management

Early problem identification

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

The aligned Risk of Credit Loss and Viability framework

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

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

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

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

Restructuring

Where customers are categorised as Risk of Credit Loss, relationships are mainly managed by the Restructuring team in NatWest Bank Plc as a service to NWM N.V. Group, however ultimate credit decisions are taken by the NWM N.V. Group Credit Team. The team protects NWM N.V. Group's capital by working with corporate and commercial customers to support their turnaround and recovery strategies and enable them to return to mainstream banking.

Forbearance (audited)

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

Credit risk continued

Provisioning for forbearance

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

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

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

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

Credit grading models

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

Credit grading models are designed to provide:

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

Impairment, provisioning and write-offs (audited)

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

NWM N.V. Group's IFRS 9 provisioning models, which use existing IRB models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the IRB models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.
Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application:

Model build:

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

Model application:

- The assessment of the SICR and the formation of a framework capable of consistent application.
- The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
- The choice of forward-looking economic scenarios and their respective probability weights.

Refer to Accounting policy 3.3 for further details.

IFRS 9 ECL model design principles (audited)

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

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

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

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

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

PD estimates

- PD models use a point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that reflect economic conditions at the reporting date. The framework utilises credit cycle indices (CCIs) for a comprehensive set of region/industry segments. Further detail on CCIs is provided in the Economic loss drivers section.
- One-year point-in-time PDs are extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric forecasting models.

Credit risk continued

LGD estimates

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

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

EAD estimates

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

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

Governance and post model adjustments (audited)

The IFRS 9 PD, EAD and LGD models are subject to NWM N.V. Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments were applied where management judged they were necessary to ensure an adequate level of overall ECL provision. All post model adjustments were subject to review, challenge and approval through model or provisioning committees.

Post model adjustments will remain a key focus area of NWM N.V. Group's ongoing ECL adequacy assessment process. A holistic framework has been established including reviewing a range of economic data, external benchmark information and portfolio performance trends with a particular focus on segments of the portfolio (both commercial and consumer) that are likely to be more susceptible to high inflation, high interest rates and supply chain disruption.

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

Significant increase in credit risk (SICR) (audited)

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

The framework comprises the following elements:

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

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

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

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

Asset lifetimes (audited)

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

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

Economic loss drivers (audited)

Introduction

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

The key economic variables in NWM N.V. Group include national gross domestic product (GDP), unemployment rate and the central bank base rate.

Economic scenarios

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

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

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

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

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

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

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

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

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

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

Credit risk continued

Economic loss drivers (audited)

The main macroeconomic variables for these scenarios are set out in table below. The compound annual growth rate (CAGR) for GDP as well as the five-year average for unemployment and the European Central Bank main refinancing rate.

Main macroeconomic variables	2023					2022				
Five-year summary	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %	Upside %	Base case %	Downside %	Extreme downside %	Weighted average %
GDP - CAGR	**2.2**	**1.2**	**0.9**	**(0.5)**	**1.1**	2.4	1.7	0.8	-	1.4
Unemployment - average	**5.7**	**6.7**	**7.0**	**10.1**	**7.0**	6.8	7.0	8.1	9.9	7.7
European Central Bank - main refinancing rate - average	**2.8**	**2.9**	**4.6**	**2.4**	**3.2**	2.7	2.9	1.3	3.7	2.6
Probability weight	**21.2**	**45.0**	**20.4**	**13.4**		18.6	45.0	20.8	15.6	

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

Probability weightings of scenarios

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

The approach involves comparing GDP paths for NWM N.V. Group's scenarios against a set of 1,000 model runs, following which, a percentile in the distribution is established that most closely corresponded to the scenario. Probability weight for base case is set first based on judgement, while probability weights for the alternate scenarios are assigned based on these percentiles scores.

The assigned probability weights were judged to be aligned with the subjective assessment of balance of the risks in the economy. The weights were broadly comparable to those used at 31 December 2022 but with slightly less downside skew. This is reasonable as the inflation outturn since then has been encouraging, with continued disinflation and a reduced risk of stagflation. However, the risks still remain elevated and there is considerable uncertainty in the economic outlook, particularly with respect to persistence and the range of outcomes on inflation. Given that backdrop, NWM N.V. Group judges it appropriate that downside-biased scenarios have higher combined probability weights than the upside-biased scenario. It presents good coverage to the range of outcomes assumed in the scenarios, including the potential for a robust recovery on the upside and exceptionally challenging outcomes on the downside. A 21.2% weighting was applied to the upside scenario, a 45.0% weighting applied to the base case scenario, a 20.4% weighting applied to the downside scenario and a 13.4% weighting applied to the extreme downside scenario.

Credit risk continued

Economic loss drivers (audited)

Annual figures

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

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

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

Worst points

	31 December 2023				31 December 2022			
Eurozone	Downside %	Quarter	Extreme downside %	Quarter	Downside %	Quarter	Extreme downside %	Quarter
GDP	(1.0)	Q3 2024	(5.6)	Q4 2024	(3.5)	Q4 2023	(4.3)	Q4 2023
Unemployment rate - peak (1)	7.3	Q3 2024	12.4	Q3 2025	9.0	Q3 2024	11.9	Q4 2024

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

Economic uncertainty (audited)

Use of the scenarios in lending

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

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

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

Model and monitoring enhancements

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

Credit risk continued

Measurement uncertainty and ECL sensitivity analysis (audited)

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

The ECL provision is sensitive to the model inputs and economic assumptions underlying the estimate.

The impact arising from the base case, upside, downside and extreme downside scenarios was simulated. In the simulations, NWM N.V. Group has assumed that the economic macro variables associated with these scenarios replace the existing base case economic assumptions, giving them a 100% probability weighting and therefore serving as a single economic scenario.

These scenarios were applied to all modelled portfolios in the analysis below, with the simulation impacting both PDs and LGDs. As expected, the scenarios create differing impacts on ECL by portfolio and the impacts are deemed reasonable. In this simulation, it is assumed that existing modelled relationships between key economic variables and loss drivers hold, but in practice other factors would also have an impact, for example, potential customer behaviour changes and policy changes by lenders that might impact on the wider availability of credit. The focus of the simulations is on ECL provisioning requirements on performing exposures in Stage 1 and Stage 2. The simulations are run on a stand-alone basis and are independent of each other; the potential ECL impacts reflect the simulated impact at 31 December 2023. Scenario impacts on SICR should be considered when evaluating the ECL movements of Stage 1 and Stage 2. In all scenarios the total exposure was the same but exposure by stage varied in each scenario.

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

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

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

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

Measurement uncertainty and ECL adequacy (audited)

- A net improvement in the economic scenarios since 2022 resulted in a reduction in modelled ECL.
- Given that continued uncertainty remained due to high inflation, high interest rates during 2023 and supply chain disruption, NWM N.V. Group utilised a framework of quantitative and qualitative measures to support the levels of ECL coverage. This included economic data, credit performance insights, supply chain contagion analysis and problem debt trends. This was particularly important for consideration of post model adjustments.
- As the effects of these economic risks evolve into 2024, there is a risk of further credit deterioration. However, the income statement effect of this should have been mitigated by the forward-looking provisions retained on the balance sheet at 31 December 2023.
- There are a number of key factors that could drive further downside to impairments, through deteriorating economic and credit metrics and increased stage migration as credit risk increases for more customers. Such factors which could impact the IFRS 9 models, include an adverse deterioration in unemployment and GDP in the economies in which NWM N.V. Group operates.

Credit risk – Banking activities

Introduction

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

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

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

Refer to Note 7 to the consolidated financial statements for balance sheet analysis of financial assets that are classified as amortised cost or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

	31 December 2023			31 December 2022		
	Gross	ECL	Net	Gross	ECL	Net
	€bn	€bn	€bn	€bn	€bn	€bn
Balance sheet total gross amortised cost and FVOCI	**10.4**			7.6		
In scope of IFRS 9 ECL framework	**9.8**			6.8		
% in scope	**95%**			89%		
Loans to customers - in scope - amortised cost	**1.0**	**-**	**1.0**	1.0	-	1.0
Loans to customers - in scope - FVOCI	**-**	**-**	**-**	-	-	-
Loans to banks - in scope - amortised cost	**0.2**	**-**	**0.2**	0.2	-	0.2
Total loans - in scope	**1.2**	**-**	**1.2**	1.2	-	1.2
Stage 1	**1.1**	**-**	**1.1**	0.9	-	0.9
Stage 2	**0.1**	**-**	**0.1**	0.3	-	0.3
Stage 3	**-**	**-**	**-**	-	-	-
Other financial assets - in scope - amortised cost	**8.2**	**-**	**8.2**	4.4	-	4.4
Other financial assets - in scope - FVOCI	**0.4**	**-**	**0.4**	1.2	-	1.2
Total other financial assets - in scope	**8.6**	**-**	**8.6**	5.6	-	5.6
Stage 1	**8.6**	**-**	**8.6**	5.6	-	5.6
Stage 2				-	-	-
Stage 3	**-**	**-**	**-**	-	-	-
Out of scope of IFRS 9 ECL framework	**0.6**	**na**	**0.6**	0.8	na	0.8
Loans to customers - out of scope - amortised cost	**-**	**na**	**-**	-	na	-
Loans to banks - out of scope - amortised cost	**-**	**na**	**-**	-	na	-
Other financial assets - out of scope - amortised cost	**0.6**	**na**	**0.6**	0.8	na	0.8
Other financial assets - out of scope - FVOCI	**-**	**na**	**-**	-	na	-

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

- Settlement balances, items in the course of collection, cash balances and other non-credit risk assets of €573 million (2022 – €800 million). These were assessed as having no ECL unless there was evidence that they were defaulted.
- Equity shares of €1 million (2022 – €45 million) as not within the IFRS 9 ECL framework by definition.

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

Contingent liabilities and commitments

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

Credit risk – Banking activities continued

Portfolio summary (audited)

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

	2023 €m	2022 €m
Loans - amortised cost and FVOCI		
Stage 1	**1,052**	944
Stage 2	**141**	303
Stage 3	**-**	-
Inter-Group (1)	**102**	393
Total	**1,295**	1,640
ECL provisions		
Stage 1	**7**	6
Stage 2	**2**	5
Stage 3	**-**	-
Total	**9**	11
ECL provisions coverage (2)		
Stage 1 (%)	**0.67**	0.64
Stage 2 (%)	**1.42**	1.65
Stage 3 (%)	**-**	-
Total	**0.75**	0.88
Other financial assets - gross exposure	**8,583**	5,564
Other financial assets - ECL provisions	**3**	1
Impairment losses		
ECL charge - third party (3)	**-**	14
Amounts written-off	**1**	48

(1) The NWM N.V. intercompany assets were classified in Stage 1. The ECL for these loans was nil (2022 – €0.1 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.
(3) Includes €1.8 million (2022 – €0.4 million) related to other financial assets and nil (2022 – €0.2 million release) relating to contingent liabilities.
(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 40 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €6.0 billion (2022 – €4.0 billion) and debt securities of €2.6 billion (2022 – €1.6 billion).
(5) NWM N.V. held collateral against third party loans in Stage 3 of nil (2022 - nil) and against Stage 1 and Stage 2 third party loans of €287 million (2022 - €185 million). Inter-group loans were uncollateralised.

– Although the portfolio continued to grow, ECL provisions slightly decreased as a result of improved macroeconomic scenarios.

– The credit portfolio remained of high quality with zero Stage 3 assets.

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

The table below shows financial assets and off-balance sheet exposures gross of ECL and related ECL provisions, impairment by sector, asset quality and geographical region based on the country of operation of the customer. The tables below show only third-party exposures and related ECL provisions, charges and write-offs.

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

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

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

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

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

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

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

Credit risk – Banking activities continued

Sector analysis – portfolio summary (audited)

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

	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
2023	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
Wholesale	**1,052**	**141**	**-**	**1,193**	**7,005**	**527**	**7**	**2**	**-**	**9**
Property	**23**	**6**	**-**	**29**	**183**	**-**	**-**	**-**	**-**	**-**
Financial institutions	**594**	**3**	**-**	**597**	**812**	**527**	**3**	**-**	**-**	**3**
Other wholesale	**435**	**132**	**-**	**567**	**6,010**	**-**	**4**	**2**	**-**	**6**
Of which:										
Agriculture	***1***	***-***	***-***	***1***	***-***	***-***	***-***	***-***	***-***	***-***
Airlines and aerospace	***3***	***-***	***-***	***3***	***35***	***-***	***-***	***-***	***-***	***-***
Automotive	***2***	***-***	***-***	***2***	***635***	***-***	***-***	***-***	***-***	***-***
Building materials	***5***	***-***	***-***	***5***	***196***	***-***	***-***	***-***	***-***	***-***
Chemicals	***13***	***-***	***-***	***13***	***77***	***-***	***-***	***-***	***-***	***-***
Industrials	***34***	***65***	***-***	***99***	***271***	***-***	***-***	***1***	***-***	***1***
Land transport and logistics	***58***	***5***	***-***	***63***	***358***	***-***	***-***	***-***	***-***	***-***
Leisure	***3***	***-***	***-***	***3***	***-***	***-***	***-***	***-***	***-***	***-***
Mining & metals	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***-***
Oil and gas	***3***	***-***	***-***	***3***	***3***	***-***	***-***	***-***	***-***	***-***
Power utilities	***130***	***-***	***-***	***130***	***3,028***	***-***	***-***	***-***	***-***	***-***
Retail	***14***	***2***	***-***	***16***	***450***	***-***	***-***	***-***	***-***	***-***
Shipping	***2***	***-***	***-***	***2***	***-***	***-***	***-***	***-***	***-***	***-***
Water & waste	***4***	***16***	***-***	***20***	***38***	***-***	***-***	***-***	***-***	***-***
Total	**1,052**	**141**	**-**	**1,193**	**7,005**	**527**	**7**	**2**	**-**	**9**

2022 (1)										
Wholesale	944	303	-	1,247	7,875	508	6	5	-	11
Property	13	113	-	126	188	-	-	1	-	1
Financial institutions	535	6	-	541	936	508	1	-	-	1
Other wholesale	396	184	-	580	6,751	-	5	4	-	9
Of which:										
Agriculture	*-*	*2*	*-*	*2*	*-*	*-*	*-*	*-*	*-*	*-*
Airlines and aerospace	*-*	*1*	*-*	*1*	*183*	*-*	*-*	*-*	*-*	*-*
Automotive	*2*	*-*	*-*	*2*	*644*	*-*	*-*	*-*	*-*	*-*
Building materials	*2*	*2*	*-*	*4*	*20*	*-*	*-*	*-*	*-*	*-*
Chemicals	*15*	*-*	*-*	*15*	*72*	*-*	*-*	*-*	*-*	*-*
Industrials	*38*	*63*	*-*	*101*	*289*	*-*	*1*	*-*	*-*	*1*
Land transport and logistics	*20*	*59*	*-*	*79*	*353*	*-*	*-*	*1*	*-*	*1*
Leisure	*1*	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*-*
Mining & metals	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Oil and gas	*4*	*-*	*-*	*4*	*545*	*-*	*-*	*-*	*-*	*-*
Power utilities	*108*	*-*	*-*	*108*	*2,897*	*-*	*1*	*-*	*-*	*1*
Retail	*-*	*-*	*-*	*-*	*486*	*-*	*-*	*-*	*-*	*-*
Shipping	*2*	*-*	*-*	*2*	*-*	*-*	*-*	*-*	*-*	*-*
Water & waste	*4*	*-*	*-*	*4*	*286*	*-*	*-*	*-*	*-*	*-*
Total	944	303	-	1,247	7,875	508	6	5	-	11

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

Credit risk – Banking activities continued

Forbearance

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

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

Credit risk – Banking activities continued

Flow statement (audited)

The flow statement that follows shows the main ECL and related income statement movements. It also shows the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures may differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact as they relate to balances at central banks. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 into Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Amounts written-off represent the gross asset written-down against accounts with ECL, including the net asset write-down for any debt sale activity.

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

Stage 2 decomposition by a significant increase in credit risk trigger

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

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

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

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

Credit risk – Trading activities

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

Derivatives (audited)

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

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

(1) The notional amount of interest rate derivatives includes €684 billion (2022 – €1,865 billion) in respect of contracts cleared through central clearing counterparties.
(2) Transactions with certain counterparties with which NWM N.V. Group has netting arrangements but collateral is not posted on a daily basis; certain transactions with specific terms that may not fall within netting and collateral arrangements; derivative positions in certain jurisdictions where the collateral agreements are not deemed to be legally enforceable.
(3) Includes transactions with securitisation vehicles and funds where collateral posting is contingent on NWM N.V. Group's external rating.
(4) Mainly large corporates with whom NWM N.V. Group may have netting arrangements in place, but operational capability does not support collateral posting.
(5) Sovereigns and supranational entities with no collateral arrangements, collateral arrangements that are not considered enforceable, or one-way collateral agreements in their favour.

Compliance and conduct risk

Definition

Compliance risk is the risk that NWM N.V. Group fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice.

Conduct risk is the risk of inappropriate behaviour towards customers, or in the markets in which NWM N.V. Group operates, which leads to poor or inappropriate customer outcomes.

The consequences of failing to meet compliance and/or conduct responsibilities can be significant and could result, for example, in legal action, regulatory enforcement, material financial loss and/or reputational damage.

Sources of risk

Compliance and conduct risks exist across all stages of NWM N.V. 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 insider information.

Key developments in 2023

- Further progress was made on the compliance agenda during 2023. Significant enhancements were made to the compliance and conduct framework with the introduction of numerous new tools to manage the risk profile. These include a compliance and conduct risk directory, new risk standards and toolkits which support NWM N.V. Group to measure and manage compliance accurately and efficiently, and a regulatory compliance operational policy framework to ensure key regulatory requirements are captured. These new tools align with the existing enterprise-wide risk management framework.
- From a conduct risk perspective, the NatWest Group-wide programme established to deliver Consumer Duty requirements met the first regulatory milestone of application to open book products and services by July 2023. The focus is now on closed book products and services, which is expected to conclude before the end of July 2024. Even though the UK consumer Duty requirements do not apply to NWM NV Group directly, NWM NV Group will apply the applicable NatWest Group standards to its relevant client population.

Governance

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

Risk appetite

The Risk appetite statement and associated measures for compliance and conduct risks are approved at least annually by the NWM N.V. Board on the relevant 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.

The Compliance and Conduct risk appetite statement and associated measures are approved by the Risk & Control Committee, the Managing Board and the Supervisory Board to ensure they remain appropriate and aligned to strategy.

A suite of risk policies, risk standards and regulatory compliance operational policies addressing compliance and conduct risks set appropriate standards across NWM N.V. Group. Examples of these include those relating to product mis-selling, customers in vulnerable situations, complaints management, cross-border activities and market abuse. Continuous monitoring and targeted assurance are carried out as appropriate.

Monitoring and measurement

Compliance and conduct risks are measured and managed through continuous assessment and regular reporting to the NWM N.V. Group Risk & Control Committee and the NWM N.V. Group Managing Board. The compliance and conduct risk framework facilitates the consistent monitoring and measurement of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into NatWest Group's strategic planning cycle.

Mitigation

Activity to mitigate the most material compliance and conduct risks is carried out across NWM N.V. 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, complaints management, mapping of priority regulatory requirements and independent monitoring activity. Internal policies help support a strong customer focus across NWM N.V.

Financial crime risk

Definition

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

Sources of risk

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

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.
- NWM N.V adopted and embedded the NatWest Group centralised hub model and One Bank approach to financial crime risk management. This centralised hub model and one bank approach has led to a comprehensive overview of our financial crime risk management overview. It is more consistent and comprehensive. There is now more alignment and the overall Group requirements are clearer.

Governance

NWM N.V. Group is represented on the Financial Crime Risk Committee (FCRC), which is chaired by NWM Group's Head of Compliance & Financial Crime and is NWM Group's principal financial crime risk management forum. The committee reviews and, where appropriate, escalates material financial crime risks

and issues across NWM Group to the NWM Executive Risk Committee and NWM Board Risk Committee. Additionally, NWM Group – including NWM N.V. Group – is represented on NatWest Group's Financial Crime Executive Steering Group, which oversees financial crime risk management, operational performance, and transformation matters across NatWest Group. Financial Crime Risk is a fixed agenda item for the NWM N.V. Group Risk & Control Committee and is regularly discussed by the NWM N.V. Group Managing Board, Board Risk Committee and Supervisory Board.

Risk appetite

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

NWM N.V. Group operates a framework with preventative and detective controls designed to mitigate the risk that it could facilitate financial crime. These controls are supported by a suite of policies, procedures and guidance to ensure they operate effectively.

Monitoring and measurement

Financial crime risks are identified and reported through continuous risk management and regular reporting to the Risk & Control Committee and the Managing Board and to NatWest Group's senior risk committees and at Board level. Quantitative and qualitative data is reviewed and assessed to measure whether financial crime risk is within NWM N.V. Group's risk appetite.

Mitigation

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

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

Climate risk

Definition

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

Sources of risk

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

Transition risks may arise from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt reassessment of customers' financial risk and may lead to falls in the value of a large range of assets. NWM N.V. Group could be exposed to transition risks directly through the costs of adaptation within economic sectors and markets as well as supply chain disruption leading to financial impacts on it and its customers. Potential indirect effects include the erosion of NWM N.V. Group's competitiveness, profitability, reputational damage and liability risk.

Key developments in 2023

- In 2023, NatWest Group conducted a range of scenario analysis exercises to test the resilience of its strategy against the impacts of climate change under different climate scenarios.
- NatWest Group continued to enhance its in-house climate risk modelling capabilities, supporting the integration of climate risk within its capital adequacy (ICAAP); and risk management processes.
- In parallel with the full roll out of first-generation qualitative climate risk scorecards for the Commercial and Institutional franchise, 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.
- 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, for implementation from 2024.
- In 2023, NWM N.V. Group started the implementation of environmental risk scorecards to support the assessment of customer-specific risk exposure across different environmental physical and transition risks. These scorecards were applied to three priority sectors: electricity generation; land transport and logistics; and commercial real estate. NWM N.V. will continue to develop the scorecards sector coverage in 2024.
- To supplement sector assessments, an initial, limited climate and environmental risk materiality assessment was piloted in NWM N.V. Group in 2022. It targeted a selected number of priority sectors (top-down approach) and customers (bottom-up approach). The assessment was expanded throughout 2023 which encompassed a refresh of the oil and gas sector, the introduction of the technology, media and telecom sector, and a bottom-up assessment of five more counterparties. This was intended to support credit risk assessments specifically, and the strategic and business model risk more broadly.

Governance

NWM N.V. Group Board is responsible for overseeing climate-related risk within NWM N.V. Group's overall business strategy and risk appetite. NWM N.V. Group participates in various NWM Group committees to ensure outcomes meet NWM N.V. Group requirements. Climate-related risk topics are also discussed, where appropriate, at NWM N.V. Group's Risk & Control Committee and NWM N.V. Group's Climate Program Delivery Meeting.

The NWM Group Climate and Sustainability Committee (CSC) is the senior NWM Group forum which has the objective of assessing and managing climate-related risks and opportunities. The CSC, which is also attended by executive members of NWM N.V. Group, supports the NWM Group CEO to discharge the delegated Senior Management Function accountability from the NatWest Group CEO for identifying and managing financial risks and opportunities arising from climate change, supported by the NWM Climate Sponsor, the nominated segment representative. For more details refer to the Governance Section of the Climate Related Disclosure on page 9.

Risk appetite

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

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

Climate risk continued

Monitoring and measurement

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

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

NWM N.V. Group regularly considers existing and emerging regulatory requirements related to climate change.

Operational risk

Definition

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

Sources of risk

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

Key developments in 2023

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

Governance

The governance arrangements in place for operational risk are aligned to the requirements set out in the NatWest Group Board-approved enterprise-wide risk management framework and are consistent with achieving safety, soundness and sustainable risk outcomes. Aligned to this, a strong operational risk management function is vital to support NWM N.V. Group 's ambitions to serve its customers better. Improved management of operational risk against defined risk appetite is vital for stability and reputational integrity.

To support ongoing oversight of the management of the operational risk profile, a NatWest Group Executive Steering Committee is in place. This forum ensures all material operational risks are monitored and managed within appetite, across NWM N.V. Group.

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

The Operational Risk appetite statement and associated measures are approved by the Risk & Control Committee, the Managing Board and the Supervisory Board 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 CEO of NWM Group – including NWM N.V. Group – as well as the senior executives of NatWest Group's other principal businesses, functions and legal entities. 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 are reported to NWM N.V. Group's Risk & Control Committee, Managing Board and Board Risk Committee. They are also shared with external auditors.

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

Monitoring and measurement

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

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

Operational risk continued

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

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

Please find on page 27 the operational risk capital figures.

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

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

Model risk

Definition

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

Sources of risk

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

Key developments in 2023

- Following extensive model remediation work, NatWest Markets N.V. returned to model risk appetite in Q2 2023. In H2 the Model risk continues to be a key focus to further strengthen the model risk appetite position which is closely monitored.
- NatWest Group's model risk management practices continued to evolve, supported by a dedicated model risk management enhancement programme, set up in response to the PRA's Supervisory Statement 1/23. An updated model risk policy was approved by the NatWest Group Board Risk Committee.
- NatWest Markets N.V. implemented the Model Risk Policy as well as Model Risk toolkits that contributed to ensure the intensity and rigour of model risk management activities is adequate considering NatWest Markets N.V. risk profile.
- 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 in NWM Group in which NWM N.V. Group participates, 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.

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

Model risk matters are escalated to senior management through the NWM Group model risk committee. The NWM N.V. Group Model Risk Committee's goal is to focus more on the model risk challenges in NWM N.V Group. It is a sub-committee of the Risk & Control Committee.

Additionally, model risk is discussed as required by the Managing Board, the Board Risk Committee and the Supervisory Board. Models used for regulatory reporting may additionally require regulatory approval before implementation. Further escalation can also be made to the NatWest Group Model Risk Oversight Committee.

Risk appetite

Model risk appetite is set in order to limit the level of model risk that NWM N.V. Group is willing to accept in the course of its business activities. NWM N.V. Group has defined limits and triggers that are specific to NWM N.V. Group and that align with NatWest Group's model risk appetite statement. Model performance is monitored against appetite on a model level by model owners in the first line of defence. Risk appetite, defined at an aggregate level, is monitored by the Risk & Control Committee. Remediation for positions outside appetite is carried out by NWM Group.

The Model Risk appetite statement and associated measures are approved at least annually by the Risk & Control Committee, the Managing Board and the Supervisory Board to ensure they remain appropriate and aligned to strategy.

Model risk continued

Monitoring and measurement

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

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

The frequency of periodic validation is aligned to the risk rating of the model. The independent validation focuses on a variety of model features, including modelling approach, the nature of the assumptions used, the model's predictive ability and complexity, the data used in the model, its implementation and its compliance with regulation.

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

Mitigation

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

Reputational risk

Definition

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

Sources of risk

The three primary drivers of reputational risk are: failure in internal risk management systems, NWM N.V processes or culture.

NWM N.V. Group's actions materially conflicting with stakeholder expectations; and contagion (when NWM N.V. Group's reputation is damaged by failures in the wider financial sector).

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

Governance

A reputational risk policy supports reputational risk management across NatWest Group. In 2022, NWM Group established the NWM Reputational Risk committee as a sub-committee of the NWM Group Executive Risk Committee. NWM NV Group is a standing member of that committee. The purpose of the Reputational Risk committee is to review matters which may give rise to reputational risk for NWM N.V. Group and NWM Group, which arise from any aspect of NWM N.V.'s business, whether from a transaction, a product, a customer or any other activity or source. The committee either approves where the risk is deemed acceptable or rejects cases to stop activity from proceeding where reputational risk is not manageable or deemed outside of appetite. When the matters presented to the forum constitute a reputational risk to NWM Group, these are reported to the NWM Group Reputational Risk Committee. NWM N.V. Group representatives take part in the NWM Group Reputational Risk Committee, to review relevant issues and discuss cases, sectors and themes that represent a material reputational risk. Material reputational risks to NatWest Group are escalated via the NWM 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.

Risk appetite

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

NWM N.V. Group seeks to identify, measure and manage risk aligned to stakeholder trust. However, reputational risk is inherent in NWM N.V. 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 in the NWM N.V. Group Risk & Control Committee and escalated, where appropriate, to NWM N.V. Group's Managing Board, and NWM N.V. Group's Board Risk Committee.

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

Mitigation

Standards of conduct are in place across NWM N.V. Group requiring strict adherence to policies, procedures and ways of working to ensure business is transacted in a way that meets – or exceeds – stakeholder expectations.

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging threats process (where sufficiently material) as well as through the NatWest Group and business level reputational risk registers.

Corporate governance

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Introduction

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

RBS Holdings N.V. (RBSH N.V.) is a wholly owned subsidiary of NatWest Markets Plc ('NWM Plc' or 'the intermediate holding company'). RBSH N.V. is the parent company of NatWest Markets N.V. (NWM N.V.). NatWest Group plc is 'the ultimate holding company'. The term 'NatWest Group' comprises NatWest Group plc and its subsidiary and associated undertakings.

NWM N.V. is a licenced bank regulated by both the De Nederlandsche Bank ('Dutch Central Bank') and the Autoriteit Financiële Markten (AFM).

Corporate governance in the Netherlands

Code Banken and the Dutch Corporate Governance Code

NWM N.V. Group ensures proper corporate governance by focusing on the Dutch Banking Code (Code Banken) which contains specific corporate governance rules and principles for all banks in the Netherlands. In addition, NWM N.V. Group also adheres, where possible, with the Dutch Corporate Governance Code although this is not a required code for NWM N.V. Group.

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

NWM N.V. Group operates in line with the requirements under the Code Banken. A further explanation on compliance with the updated Code Banken is provided on page 60 of this report.

European Banking Authority (EBA) guidelines on internal governance

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

Wet beloningsbeleid financiële ondernemingen

On 7 February 2015, the Wet beloningsbeleid financiële ondernemingen (Wbfo) came into force. With this legislation, the Dutch government ensures that financial services companies carry out a sound remuneration policy and avoid payment of excessive variable remuneration. Headline measure is the 20% bonus cap. NWM N.V. Group adheres to these principles.

Further information on the remuneration policy can be found in the 2023 NatWest Group Annual Report and Accounts, available at natwestgroup.com.

Approval of Annual Report

The Managing Board approved the Annual Report at its meeting on 15 February 2024. The Supervisory Board approved the Annual Report at its meeting on 15 February 2024. NWM N.V. Group has proposed to its Shareholders that it adopts the 2023 financial statements, as included in this Annual Report, and discharge the Managing Board and Supervisory Board in respect of their management and supervision respectively.

Boards

RBSH N.V. and NWM N.V. are limited liability companies ('naamloze vennootschap') incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance consisting of a Managing Board and a Supervisory Board. The day-to-day management of the companies is vested with the Managing Board, supervised by the Supervisory Board. The members of the Managing Board and Supervisory Board of RBS Holdings N.V. and NWM N.V. are the same.

Changes during 2023 and 2024

Ms Anne Snel stepped down as member of the NWM N.V. Supervisory Board on 25 March 2023 at the end of her term. In October 2023, Ms Angelique Slach stepped down as Chief Operating Officer of NatWest Markets N.V. and was replaced by Mr Mickey van Wieringen on an interim basis. Ms Marije Elkenbracht has notified NWM N.V. that she will step down from her Chief Risk Officer role on 1 April 2024, Mr Spencer Lloyd will lead the Risk Management Function on an interim basis. Furthermore, Ms Angelique Slach has stepped down and Ms Marije Elkenbracht will be stepping down as members of the NWM N.V. Managing Board. A search is underway to identify their permanent successors in both capacities.

The report of the Supervisory Board

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

The Supervisory Board supervised the execution of the strategy by challenging and advising the Managing Board on client focus, timing and speed. These items have been discussed during all the meetings that took place during 2023. In addition, the Supervisory Board completed its self-evaluation in Q4 2023.

The tasks of the Supervisory Board

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

In performing their duties, the members of the Supervisory Board are guided by the interests of NWM N.V. Group, and the businesses connected to it, taking into account the relevant interests of NWM N.V. Group's stakeholders. Certain powers are vested in the Supervisory Board, including the approval of certain resolutions of the Managing Board. An overview of the powers of the Supervisory Board can be found in the Corporate Governance manual of NWM N.V. Group.

Members of the Supervisory Board

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

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

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

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

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

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

They also undertake a series of meetings with the management of NWM N.V. Group to gain insight and understanding of NWM N.V. Group and its enterprises.

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

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

Activities of the Supervisory Board

Risk and audit topics are discussed on a regular basis and a report with deliberations and findings is prepared for each regular meeting. This included discussion on progress on the remediation programmes.

Specific nomination and remuneration topics are also discussed on a regular basis. As a result of the transition to ECB supervision 1 January 2024, specific Remuneration and Nomination Committees have been established.

During 2023, the Supervisory Board worked alongside NatWest Group and NWM Plc Remuneration Committees to ensure the implementation of a restrained and long-term remuneration policy that is aligned with the organisation's strategy and risk appetite for NWM N.V. Group. The Supervisory Board extensively discussed remuneration at two of its meetings highlighting the focus that this topic continues to receive in the organisation.

In addition, the Supervisory Board through its Audit Committee had regular interaction with the external auditor EY presented their audit plan, key audit matters, audit progress and the outcome of their audit work of the NWM N.V Group.

Regular and ad-hoc Supervisory Board meetings were held during 2023. All members of the Supervisory Board have complied with the requirement to attend meetings on a frequent basis.

Composition of the Supervisory Board

The members of the Supervisory Board as at 15 February 2024 are as follows:

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

Robert Begbie

Chair of the Supervisory Board

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

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

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

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

Maarten Klessens

Vice-Chair of the Supervisory Board and Chair of the Board Risk and Audit Committees

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

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

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

Annelies van der Pauw

Chair of the Board Remuneration and Nomination Committees

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

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

The Report of the Managing Board

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

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

The Chairman of the Managing Board leads the members of the Managing Board in its overall management of NWM N.V. Group to achieve its performance goals and ambitions. The Chairman of the Managing Board is the main point of liaison with the Supervisory Board. The Chief Financial Officer is responsible for the financial affairs of NWM N.V. Group. Alongside their overall corporate responsibilities, the members of the Managing Board are responsible for the management of the control and support functions. The Managing Board has delegated certain tasks to several Managing Board committees which are described on page 59 of this report.

Composition of the Managing Board

The members of the Managing Board as at 15 February 2024 are as follows:

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

Vincent Goedegebuure

Chief Executive Officer and Chairman of the Managing Board

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

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

Cornelis Visscher

Chief Financial Officer

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

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

Marije Elkenbracht

Chief Risk Officer

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

Managing Board committees

In order to provide effective oversight and leadership, the Managing Board has three sub-committees; the Risk & Control Committee (RCC), the Asset & Liability management Committee (ALCo) and the Disclosure Committee.

Risk & Control Committee (RCC)

The RCC oversees the risk framework within NWM N.V. Group, monitors the actual risk profile and advises the Managing Board on these matters. Its scope is both financial as well as non-financial risk within NWM N.V. Group.

Asset & Liability Committee (ALCo)

The Managing Board has delegated to the ALCo the responsibility for the management of capital, liquidity, interest rate and foreign exchange risk. This includes responsibility for reviewing, approving and allocating balance sheet, capital, liquidity and funding limits.

Disclosure Committee

The Disclosure Committee advises and assists the Managing Board in fulfilling its responsibilities for overseeing the accuracy and timeliness of public disclosures made by NWM N.V. Group. This inter alia includes advising the Managing Board on the disclosure of financial information.

Code of conduct

NatWest Group's Code of Conduct (Our Code) informs everyone what to expect of each other, what to do when unsure of a decision, and where to go for advice when needed. It is available at www.natwestgroup.com/who-we-are/about-natwest-group/our-values.html, or upon request by contacting the Company Secretariat at the telephone number listed on page 127.

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

NWM N.V. Group has a conflicts of interest management policy in place which requires identification of personal and institutional level conflict of interest situations relevant to its specific business activities. The policy helps ensure that conflicts are prevented or managed, so they do not adversely impact the Group's customers and/ or stakeholders.

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

Relations with shareholders

Rights of shareholders

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

Meetings of shareholders and convocation

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

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

Employees

Our colleagues

As at 31 December 2023, NWM N.V. Group employed approximately 250 people within continuing operations. Details of related costs are included in Note 3 to the consolidated financial statements.

Employee consultation

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

Inclusion

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

The Dutch Banking Code (Code Banken)

Introduction

The Code Banken was drawn up by the Netherlands Bankers' Association (NVB) and is mandatory for NWM N.V. Group as stated in Book 2 of the Civil Code.

The Code Banken offers specific provisions, but underlying these provisions, its aim is to instil learning in the banking sector following the financial crisis. Drawing lessons and implementing change with the aim to restore trust among all our stakeholders, clients, staff, investors and society at large. NatWest Group, including NWM N.V. Group, has undergone, and continues to undergo, profound change following the crisis and is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Corporate Governance codes and the global footprint of NatWest Group

NWM N.V.'s ultimate parent company is NatWest Group plc. When implementing the Code Banken, the Managing Board and Supervisory Board of NWM N.V. consider the effects of similar codes of conduct implemented across NatWest Group with the aim to align all businesses within the wider NatWest Group.

Compliance with the Code Banken

NWM N.V. Group considers the Code Banken as an important yardstick for the way banks draw lessons from the crisis. NWM N.V. Group takes account of all relevant remuneration regulatory regimes, including the Code Banken and the requirements as included in the Dutch Financial Supervision Act, in designing and implementing its remuneration policy as well as NWM N.V. Group's corporate governance structure.

Supervisory Board

The required expertise and experience are well embedded in the Supervisory Board providing for an independent board with a diverse composition. The Supervisory Board consists of an executive of NatWest Group with broad banking experience in addition to three independent members. A defined process for the engagement and recruitment of a Supervisory Board member has been established.

If a vacancy for a new member exists, a new member is sought based on an established supervisory board profile to ensure that the knowledge and expertise obtained when filling the vacancy is fully complementing the composition of the board. This profile is amended to reflect the specific requirements for the role.

If the position of Chairman of the Supervisory Board would become vacant, a specific profile would be drawn up to ensure alignment with the specific tasks attributed to the role.

All Supervisory Board members have committed themselves to fulfil their responsibilities as board members to the best of their ability. Their attendance at meetings is recorded. The Board furthermore operates according to a set of rules included in the Corporate Governance manual. These have been agreed by all Board members. The remuneration received by Supervisory Board members is not dependent on NWM N.V. Group's results. In addition, a lifelong learning programme covering aspects as included in the Code Banken now also includes specific training on Climate & Environmental related risks.

Managing Board

The composition of the Managing Board of NWM N.V. Group ensures that all business areas and all control and support functions are well represented on the board. The board currently comprises a Chief Executive Officer (CEO), a Chief Financial Officer (CFO) and a Chief Risk Officer (CRO). To further clarify the specifics of each role on the board and to ensure adherence to agreements made on procedure and governance, a Corporate Governance manual has been prepared.

The Managing Board will continuously ensure a prudent risk appetite, based on the risk appetite framework approved by the Supervisory Board. The risk appetite framework shall be approved by the Supervisory Board at least once a year and is actively monitored during the year. Any material changes in the interim shall also require the Supervisory Board's approval. The Managing Board takes the interests of all stakeholders (e.g. employees, clients, shareholders) into account in their decision making. The Managing Board recognises that duty of care for clients is an important component of doing business.

In line with the requirement of the Code Banken, Managing Board members take the Banker's Oath.

The principles in the Banker's Oath are incorporated into NatWest Group's code of conduct which is issued to all new employees joining NWM N.V. Group.

Risk Policy

The Managing Board has arranged risk management in an adequate manner to ensure the Managing Board is aware in good time of any material risks run by the bank and to enable the Managing Board to manage these risks properly. The Chief Risk Officer reports into the Chief Executive Officer. The Managing Board, through its sub committees, the RCC and the ALCo, takes any decision that is of material significance to the risk profile, the capital position or the liquidity impact.

The Supervisory Board reviews and discusses the risk profile of NWM N.V. Group during each of its meetings. This is based on a risk appetite statement which it reviews on a regular (i.e. a minimum of once a year) basis. More information on the risk organisation of NWM N.V. Group can be found on pages 21 to 24 of this report.

Audit

To ensure the function's independence, the Head of NWM N.V. Internal Audit reports to the Chair of the Audit Committee of NWM N.V. and the Chief Audit Executive, NWM Plc, who in turn reports to the Chair of the Audit Committee of NWM Plc. Internal Audit reports its opinion and findings on the quality of the control framework, the system of governance and the risk management of NWM N.V. Group to the Supervisory Board on a bi-annual basis and provides the Supervisory Board with their audit review in the remaining quarters of the year. Internal Audit furthermore presents its annual audit plan to the Supervisory Board. The Managing Board shall ensure that a systemic audit is conducted of the risks managed in relation to the business activities of NWM N.V. Group.

The external auditor was invited to share his audit plan which summarizes key areas of audit focus, and amongst others audit progress and the outcome of the audit work including the findings and observations on the key audit matters with the Supervisory Board on bi-annual basis. The audit committee discussed amongst others the following topics with the external auditor: 'Transfer pricing arrangements and valuation of deferred tax assets', 'Valuation of financial instruments with higher risk characteristics', 'Expected Credit Losses' and ' IT systems and controls impacting financial reporting'.

Remuneration Policy

Set out below is an overview of the NWM N.V. Group Remuneration Policy.

Remuneration

This section contains disclosures which are required in accordance with EU regulatory requirements and the Basel Committee on Banking Supervision Pillar 3 disclosure requirements. They also take into account the European Banking Authority (EBA) guidelines on sound remuneration policies and the applicable Dutch remuneration rules. It should be read in conjunction with the remuneration section of the RBS Holdings N.V. Pillar 3 Report which contains a number of quantitative remuneration disclosures and can be found on natwestgroup.com as well as the Directors' Remuneration Report set out in the NatWest Group 2023 ARA.

Remuneration policy for all colleagues

NWM N.V. is an indirectly owned subsidiary of NatWest Group, its remuneration policy is fully aligned to NatWest Group's remuneration policy principles with amendments only to comply with applicable Dutch remuneration rules. The NWM N.V. Group's remuneration policy is annually reviewed and approved by the Supervisory Board.

The remuneration policy supports the business strategy and is designed to promote the long-term success of NatWest Group and NWM N.V. It aims to reward the delivery of good performance provided this is achieved in a manner consistent with NatWest Group values and within acceptable risk parameters.

The remuneration policy applies the same principles to everyone, including Material Risk Takers (MRTs), with some minor adjustments where necessary to comply with local regulatory requirements. The main elements of the policy are set out below.

Base salary

The purpose is to provide a competitive level of fixed cash remuneration.

Operation

We review base salaries annually to ensure they reflect the talents, skills and competencies the individual brings to the business.

Role-based allowance

Certain MRT roles receive role-based allowances. The purpose is to provide fixed pay that reflects the skills and experience required for the role.

Operation

Role-based allowances are fixed allowances which form an element of overall fixed remuneration for regulatory purposes. They are based on the role the individual performs.

They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are subject to a minimum three-year retention period.

Benefits and pension

The purpose is to provide a range of flexible and competitive benefits.

Operation

In most jurisdictions, benefits or a cash equivalent are provided from a flexible benefits account.

Pension funding forms part of fixed remuneration and NatWest Group does not provide discretionary pension benefits.

Annual bonus

The purpose is to support a culture where individuals recognise the importance of helping people, families and businesses to thrive and are rewarded for superior performance. Certain roles are not eligible for an annual bonus. Annual bonus is offered to colleagues, including MRTs, the executive directors and members and attendees of NatWest Group's senior executive committees, as it is appropriate for them to have some variable pay at risk if performance is not at the required level.

Operation

The annual bonus pool is based on a balanced scorecard of measures including financial, customer, people and culture, climate, financial capability and enterprise. Allocation from the pool depends on the performance of the business area and the individual.

We use a structured performance management framework to support individual performance assessment. This is designed to assess performance against longer-term business requirements across a range of financial and non-financial metrics. It also evaluates adherence to internal controls and risk management. We use a balanced scorecard to align with the business strategy. Each individual will have defined measures of success for their role.

We also take risk and conduct performance into account. Control functions are assessed independently of the business units that they oversee. Performance goals and remuneration are set according to the priorities of the control area, not the targets of the businesses they support. The NatWest Group Chief Risk Officer and the NatWest Group Chief Audit Executive have the authority to escalate matters to NatWest Group Board level if management do not respond appropriately.

Independent control functions exist for NWM N.V. Multiple reporting lines are in place into the legal entity CEOs and the NWM Plc Control Function Head.

The variable remuneration of colleagues who work the majority of their time in the Netherlands will, as a rule, not exceed 20% of fixed pay. For colleagues who work the majority of their time outside the Netherlands, their variable remuneration will, as a rule, not exceed 100% of fixed pay.

For awards made in respect of the 2023 performance year, immediate cash awards continue to be limited to a maximum of £2,000. In line with regulatory requirements, for MRTs, 40% of awards under £500,000 will be deferred over four, five or seven years. This rises to 60% for awards over £500,000. For MRTs, a minimum of 50% of any variable pay is delivered in shares and a 12-month retention period applies to the shares after vesting. Although relevant amount has been stated in GBP above, the threshold is determined based on EUR equivalent.

Guaranteed awards may only be granted for new hires in exceptional circumstances in compensation for awards forgone at their previous company and are limited to first year of service. NatWest Group does not offer sign-on awards. Retention awards are only used in truly exceptional circumstances such as major restructuring and where the individual is a 'flight risk' and is viewed as critical to the successful operation of the business or delivery of a business critical project. Whilst no performance conditions are attached to retention awards, the colleague must continue to deliver to the standard expectations of conduct, behaviour and minimum performance levels prior to the award vesting.

Severance payments and/or arrangements can be made to colleagues who leave NatWest Group in certain situations, including redundancy. Such payments are calculated by a predetermined formula set out within the relevant social plans, policies, agreements or local laws. Where local laws require, there is a cap on the maximum amount that can be paid.

The definition of MRTs is contained in the fifth Capital Requirements Directive (CRD V). This includes any staff that receives:
(i) remuneration of EUR 500,000 or more; or
(ii) remuneration which is higher than the average remuneration that is awarded to senior management.

Listed institutions are allowed to use share-linked instruments to fulfil the requirement of paying a portion of remuneration in instruments. Remuneration policies need to be gender-neutral and based on equal pay for women and men for equal work or work of equal value. Last, CRD V provides that the remuneration principles will not apply on a consolidated basis to subsidiaries that are subject to other specific EU remuneration requirements. This is however subject to exceptions including where the subsidiary's staff's activities have a direct material impact on the business of the institutions within the group.

Restricted Share Plan (RSP) awards

The purpose and operation of RSP awards is explained in detail in the Directors' Remuneration Report. NatWest Group provides executive directors and certain members of NatWest Group's senior executive committees with RSP awards which are delivered entirely in shares. Any awards made are subject to a performance assessment prior to grant and a further assessment against underpin criteria prior to vesting.

Sharing in Success awards

The purpose and operation of the Sharing in Success awards is explained in detail in the NatWest Group Directors' Remuneration Report. Our new Sharing in Success scheme for all employees (individuals eligible to participate and who remain employed by the NatWest Group on the award date), is intended to recognise One Bank behaviours, drive a performance culture with purpose-led outcomes and further align colleagues with our strategic direction. For 2023, we measured success based on financial performance, our approach to risk, helping our customers thrive, living up to our climate commitments and delivering value for shareholders. All colleagues are eligible to receive a Sharing in Success award, and these awards are delivered entirely in shares.

Criteria for identifying MRTs

The EBA, as well as the PRA Rulebook and FCA Handbook, have issued criteria for identifying MRT roles, which includes those staff whose activities have a material influence over NatWest Group's performance or risk profile. These criteria are both qualitative (based on the nature of the role) and quantitative (based on the amount a colleague is paid).

In 2023, MRTs were identified for 12 legal entities (including at parent, holding company and consolidated levels) within NatWest Group. This included NWM N.V. The MRT criteria are applied for each of these entities, and consequently many MRTs are identified in relation to more than one entity.

The qualitative criteria can be summarised as: staff within the management body; senior management; other staff with key functional or managerial responsibilities including for risk management; and staff who individually, or as part of a Committee, have authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.

The quantitative criteria are: individuals earning £660,000 or more in the previous year; individuals earning less than £660,000 in the previous year, but more than a threshold set at the higher of £440,000 or the average total earnings of the management body and senior management for the relevant legal entity and who can impact the risk profile of a material business unit; and individuals in the top 0.3% of earners of the relevant legal entity for the previous year. Although quantitative criteria are stated in GBP above, the criteria for European entities is applied based on local currency equivalent. In addition to the qualitative and quantitative criteria, NatWest Group has applied its own minimum standards to identify roles that are considered to have a material influence over its risk profile.

Personal hedging strategies

The conditions attached to discretionary share-based awards prohibit the use of any personal hedging strategies to lessen the impact of a reduction in the value of such awards. Recipients explicitly acknowledge and accept these conditions when any share-based awards are granted

Risk in the remuneration process

The approach to remuneration within NatWest Group and NWM N.V. promotes effective risk management through having a clear distinction between fixed remuneration (which reflects the role undertaken by an individual) and variable remuneration (which is directly linked to performance and can be risk-adjusted). Fixed pay is set at an appropriate level to discourage excessive risk-taking and which would allow NatWest Group and NWM N.V. to pay zero variable pay.

We achieve focus on risk through clear inclusion of risk in performance goals, performance reviews, the determination of variable pay pools, incentive plan design and the application of malus and clawback. The NatWest Group Performance and Remuneration Committee (RemCo) is supported in this by the NatWest Group Board Risk Committee (BRC) and the Risk function, as well as independent oversight by the Internal Audit function.

We use a robust process to assess risk performance, including how risk has been managed against the appetite levels agreed by the NatWest Board. We consider a range of measures, specifically: capital; earnings stability; liquidity and funding risk; credit risk; market risk; pension risk; compliance & conduct risk; financial crime; model risk; climate risk; operational risk and reputational risk. We also consider our overall risk culture.

Remuneration arrangements are in line with regulatory requirements and we fully disclosed and discussed with regulators where appropriate.

Variable pay determination

For the 2023 performance year, NatWest Group operated a robust control function-led multi-step process to assess performance and determine the appropriate bonus pool by business area and function. At multiple points throughout the process, we made reference to NatWest Group-wide business performance (from both affordability and appropriateness perspectives).

The process uses financial, customer, people and culture, climate, financial capability and enterprise measures to consider a balanced scorecard of performance assessments at the level of each business area or function. We then undertake risk and control assessments at the same level to ensure performance achieved without appropriate consideration of risk, risk culture and conduct controls, is not inappropriately rewarded.

BRC reviews any material risk and conduct events and, if appropriate, an underpin may be applied to the individual business and function bonus pools or to the overall bonus pool. BRC may recommend a reduction of a bonus pool if it considers that risk and conduct performance is unacceptable or that the impact of poor risk management has yet to be fully reflected in the respective inputs.

Following further review against overall performance and conduct, taking into account input from the CFO on affordability, shareholder alignment and capital and liquidity adequacy, the NatWest CEO will make a final recommendation to the RemCo, informed by all the previous steps and their strategic view of the business. The RemCo will then make an independent decision on the final bonus pool taking all of these earlier steps into account. Bonus funding is allocated by the NatWest Group RemCo at a franchise level which in the case of NWM N.V. will be at the NWM Plc parent entity level. The allocation for NWM N.V. is determined by the NatWest Markets Subsidiary RemCo in cooperation with the NatWest Markets CEO. The NWM N.V. Supervisory Board has the opportunity to review the allocation to ensure it is fit for purpose for the entity and to ensure it meets capital adequacy requirements at the NWM N.V. level.

The assessment process for RSP awards to executive directors and other eligible senior executives uses our internal ratings scale to determine whether satisfactory performance has been delivered in the year prior to grant. A further assessment of performance against underpin criteria including risk considerations takes place before vesting.

Remuneration and culture

NatWest Group continues to assess conduct and its impact on remuneration as part of the annual NatWest Group-wide bonus pool process and also via the accountability review framework. Many colleagues receive fixed pay only, which provides them with greater security and allows them to fully focus on the needs of the customer. The RemCo will continue to review workforce remuneration and the alignment of incentives and reward with culture.

The governance of culture is clearly laid out. Senior management function roles have clearly defined accountabilities which are taken into account in their performance and pay decisions. The Board and Sustainable Banking Committee also play essential roles in building cultural priorities. Frameworks are in place to measure progress.

Accountability review process and malus/clawback

We introduced the accountability review process in 2012 to identify any material failure of risk management, material error or employee misbehaviour and to ensure accountability for those events. This allows NatWest Group to respond to instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. Potential outcomes under the accountability review process are:

- malus - to reduce (to zero if appropriate) the amount of any unvested variable pay awards prior to payment;
- clawback - to recover awards that have already vested; and
- in-year bonus reductions - to adjust variable pay that would have otherwise been awarded for the current year.

As part of the acceptance of variable pay awards, colleagues must agree to terms that state that malus and clawback may be applied. Any variable pay awarded to MRTs is subject to clawback for seven years from the date of grant. This period can be extended to 10 years for MRTs who perform a 'senior management function' under the Senior Managers Regime where there are outstanding internal or regulatory investigations at the end of the normal seven-year clawback period. Awards to other colleagues (non-MRTs) are subject to clawback for 12 months from each vesting date.

During 2023 a number of issues and events were considered under the accountability review framework. No adjustments were made as part of accountability reviews undertaken in 2023 for any colleagues in NWM N.V.

Management's report on internal control over financial reporting under the Dutch Corporate Governance Code

Although NWM N.V. Group is not obliged to adhere to the Corporate Governance Declaration for the purposes of Corporate Governance Degree (Besluit Corporate Governance), NWM N.V.'s Managing Board has decided nevertheless to adhere to the best practice provision I.4.3 of the Dutch Corporate Governance Code and to systematically review the operation of the internal risk management and control system during the year under review, and to state its adequacy and effectiveness.

NWM N.V. Group's internal risk management and control system is a process, effected by the Managing Board, management, and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with laws and regulations.

Based on the current situation, the preparation of the 2023 Annual Report and Accounts on a going-concern basis is justified (best practice 1.4.3.iii). For further information, please refer to Note Accounting policies of the Consolidated Annual Financial Statements. The material risks and uncertainties that may affect NWM N.V. Group's continuity for the 12-month period following the preparation of this report are discussed in different sections of this 2023 Annual Report and Accounts including but not being limited to the "Risk and capital management" and "Risk Factors" section (best practice provision 1.4.3.iv). Risk and capital management on pages 18 to 53, elaborate on NWM N.V. Group's identified risks, such as capital, liquidity and funding risk, credit risk, market risk, conduct risk, operational risk, business risk and reputational risk. NWM N.V.'s Managing Board hereby confirms that, to the best of its knowledge the 2023 Annual Report and Accounts provides sufficient insights into any material failings in the effectiveness of the internal risk management and control systems (best practice provision 1.4.3.i).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

NWM N.V.'s Managing Board assessed the effectiveness of the internal control over financial reporting during 2023. Based on its assessment, NWM N.V.'s Managing Board has concluded that, the internal risk management and control systems of NWM N.V. Group provide reasonable assurance that the financial reporting for 2023 does not contain any material inaccuracies (best practice provision 1.4.3.ii).

Managing Board
Amsterdam, 15 February 2024

Management's report on the 2023 Annual Report and Accounts for purposes of Section 5:25 sub 2 Financial Supervision Act

The Managing Board certifies that, to the best of their knowledge:

- the financial statements give a true and fair view, in all material respects, of the assets, liabilities, financial position and profit of NWM N.V. Group and its consolidated entities; and
- the Annual Report gives a true and fair view, in all material respects, of NWM N.V. Group and its consolidated entities as at 31 December 2023 and their state of affairs during 2023; and the 2023 Annual Report and Accounts describes the material risks that NWM N.V. Group is facing.

Managing Board
Amsterdam, 15 February 2024

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Consolidated income statement

For the year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest receivable		**453**	81
Interest payable		**(321)**	(62)
Net interest income	1	**132**	19
Fees and commissions receivable		**202**	206
Fees and commissions payable		**(23)**	(20)
Income from trading activities		**2**	-
Other operating income		**(44)**	32
Non-interest income	2	**137**	218
Total income		**269**	237
Staff costs		**(79)**	(75)
Premises and equipment		**(6)**	(8)
Other administrative expenses		**(82)**	(76)
Depreciation and amortisation		**(2)**	(2)
Operating expenses	3	**(169)**	(161)
Profit before impairments		**100**	76
Impairment losses	12	**-**	(14)
Operating profit before tax		**100**	62
Tax credit/(charge)	6	**8**	(9)
Profit for the year		**108**	53
Attributable to:			
Ordinary shareholders		**84**	38
Paid-in-equity holders		**24**	15
		108	53

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

Consolidated statement of comprehensive income

For the year ended 31 December 2023

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

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

The accompanying notes on pages 76 to 110, the accounting policies on pages 70 to 75 and the audited sections of the Financial review and Risk and capital management on pages 1 to 5 and 18 to 53 form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2023

	Note	2023 €m	2022 €m
Assets			
Cash and balances at central banks	7	**5,979**	3,961
Trading assets	10	**4,693**	4,440
Derivatives	11	**9,890**	12,335
Settlement balances		**565**	739
Loans to banks - amortised cost	7	**236**	223
Loans to customers - amortised cost	7	**951**	1,024
Amounts due from holding companies and fellow subsidiaries	7	**3,174**	1,951
Other financial assets	13	**2,605**	1,673
Other assets	14	**95**	90
Total assets		**28,188**	26,436
Liabilities			
Bank deposits	7	**411**	150
Customer deposits	7	**4,531**	1,046
Amounts due to holding companies and fellow subsidiaries	7	**3,952**	4,359
Settlement balances		**679**	608
Trading liabilities	10	**4,637**	3,998
Derivatives	11	**8,814**	11,114
Other financial liabilities	15	**2,805**	2,441
Subordinated liabilities	16	**293**	365
Other liabilities	17	**65**	64
Total liabilities		**26,187**	24,145
Total equity		**2,001**	2,291
Total liabilities and equity		**28,188**	26,436

The accompanying notes on pages 76 to 110, the accounting policies on pages 70 to 75 and the audited sections of the Financial review and Risk and capital management on pages 1 to 5 and 18 to 53 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2023

	2023 €m	2022 €m
Share capital and share premium - at 1 January (1)	**1,700**	1,700
Capital restructuring (2)	**(150)**	-
At 31 December	**1,550**	1,700
Paid-in-equity - at 1 January and 31 December	**250**	250
FVOCI reserve- at 1 January	**(11)**	4
Unrealised gains/(losses)	**4**	(20)
Realised losses	**4**	5
At 31 December	**(3)**	(11)
Cash flow hedging reserve - at 1 January	**(10)**	-
Amount recognised in equity (3)	**31**	(19)
Amount transferred from equity to earnings (4)	**7**	9
At 31 December	**28**	(10)
Foreign exchange reserve - at 1 January	**6**	13
Recycled to profit or loss on disposal of business	**-**	(7)
At 31 December	**6**	6
Retained earnings - at 1 January	**356**	280
Profit attributable to ordinary shareholders and other equity owners	**108**	53
Paid-in-equity dividends paid	**(24)**	(15)
Ordinary dividends paid	**(392)**	-
Capital restructuring (2)	**150**	-
Realised losses in period on FVOCI equity shares - gross	**(3)**	-
Remeasurement of the retirement benefit schemes	**-**	1
Changes in fair value of credit in financial liabilities designated at FVTPL	**(25)**	37
At 31 December	**170**	356
Total equity at 31 December	**2,001**	2,291
Attributable to:		
Ordinary shareholders	**1,751**	2,041
Paid-in-equity holders	**250**	250
	2,001	2,291

(1) Includes Ordinary share capital of €50,004 (2022 - €50,004) – Refer to Note 18 for further details.
(2) On 31 March 2023, after obtaining regulatory permission, NWM N.V. executed a capital restructuring, converting €150 million of share premium to retained earnings.
(3) 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 where they rose. The portfolio of hedging instruments is predominantly receive fixed swaps.
(4) As referred in Note 11, the amount transferred from equity to the income statement is recorded within net interest income in balances at central banks as per Note 1.

The accompanying notes on pages 76 to 110, the accounting policies on pages 70 to 75 and the audited sections of the Financial review and Risk and capital management on pages 1 to 5 and 18 to 53 form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2023

	Note	2023 €m	2022 €m
Cash flows from operating activities			
Operating profit before tax		**100**	62
Adjustments for:			
Non-cash and other items	23	**(47)**	9
Changes in operating assets and liabilities	23	**6,441**	106
Income taxes paid		**(4)**	(4)
Net cash flows from operating activities (1)		**6,490**	173
Cash flows from investing activities			
Sale and maturity of other financial assets		**1,894**	1,128
Purchase of other financial assets		**(2,853)**	(1,751)
Income received on other financial assets		**85**	6
Purchase of property and equipment		**-**	(2)
Net cash flows from investing activities		**(874)**	(619)
Cash flow from financing activities			
Redemption of subordinated liabilities	24	**(92)**	(240)
Interest paid on subordinated liabilities	24	**(12)**	(21)
Dividends paid		**(416)**	(15)
Net cash flows from financing activities		**(520)**	(276)
Effects of exchange rate changes on cash and cash equivalents		**(4)**	11
Net increase/(decrease) in cash and cash equivalents		**5,092**	(711)
Cash and cash equivalents at 1 January		**6,518**	7,229
Cash and cash equivalents at 31 December	25	**11,610**	6,518

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

The accompanying notes on pages 76 to 110, the accounting policies on pages 70 to 75 and the audited sections of the Financial review and Risk and capital management on pages 1 to 5 and 18 to 53 form an integral part of these financial statements.

Accounting policies

1. Corporate information

NatWest Markets N.V. (NWM N.V.) is a public limited liability company, incorporated under Dutch law on 30 May 1990 and registered at Claude Debussylaan 94, 1082 MD Amsterdam, the Netherlands. NWM N.V. Group provides financial services principally in Europe.

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

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

Our consolidated financial statements were signed and authorised for issue by the Managing Board on 16 February 2024 and by the Supervisory Board on 16 February 2024. The right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for an amendment of the financial statements.

2. Basis of preparation

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

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

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

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

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

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

How Climate risk affects our accounting judgements and estimates

Business planning

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

Information used in 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 including the deferred tax assets recognised. Some physical and transition risks can manifest in the shorter term. The following items represent the most significant effects:

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

Accounting policies

3. Critical accounting policies

The judgments and assumptions involved in our accounting policies that are considered by the Board to be the most important to the portrayal of our financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by us would affect our reported results.

Management's consideration of uncertainty is outlined in the relevant sections of this. document, including the ECL estimate in the Risk and capital management section.

Information used for significant estimate

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

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

3. Critical accounting policies continued

3.1. Deferred tax

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

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

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

3.2. Fair value – financial instruments

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

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

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

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

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

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

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

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. Following a significant increase in credit risk, ECL are adjusted from 12 months to lifetime. This will lead to a higher impairment charge.

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

Judgment is exercised as follows:

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

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

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

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

Business loans are generally written off within five years.

4. Material accounting policies

4.1. Revenue recognition

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

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in income from trading activities or other operating income as relevant. Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

4.2. Staff costs

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

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

4.3. Foreign currencies

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

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

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

4.4. Provisions

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

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

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

4.5. Tax

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

Accounting for taxes is judgmental 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 judgments and estimates. Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

4.6. Financial instruments

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

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

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

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

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

4. Material accounting policies continued

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.

Financial liabilities are classified into one of following measurement categories:

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

4.7. Financial guarantee contracts

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

4.8. Netting

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

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.

4.9. Capital instruments

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

4.10. Derivatives and hedging

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

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

Hedge accounting

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

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

Cash flow hedge

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

4. Material accounting policies continued

Discontinuation of hedge accounting

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting i.e., the hedge is not highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the documented risk management strategy; the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. For cash flow hedging the cumulative unrealised gain or loss is reclassified from equity to the income statement when the hedged cash flows occur or, if the forecast transaction results in the recognition of a financial asset or financial liability, when the hedged forecast cash flows affect the income statement. Where a forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

5. Future accounting developments

International Financial Reporting Standards

Effective 1 January 2024

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

Effective 1 January 2025

- Lack of Exchangeability (Amendments to IAS 21)

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

1 Net interest income

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

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

For accounting policy information refer to Accounting policy 4.1.

2 Non-interest income

	2023 €m	2022 €m
Fees and commissions receivable		
- Lending and financing	**19**	21
- Underwriting fees	**55**	51
- Other (1)	**128**	134
Total	**202**	206
Fees and commissions payable	**(23)**	(20)
Net fees and commissions	**179**	186
Interest rate	**2**	-
Income from trading activities	**2**	-
Changes in the fair value of financial assets and liabilities designated at fair value through profit or loss (2)	**(41)**	9
Loss on redemption of subordinated liabilities (3)	**-**	(82)
Gain on redemption of subordinated debt asset (3)	**-**	105
Loss on sale of securities	**(1)**	(5)
Other income (4)	**(2)**	5
	(44)	32
Non-interest income	**137**	218

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

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

3 Operating expenses

	2023 €m	2022 €m
Staff costs	**77**	74
Temporary and contract costs	**2**	1
Premises and equipment	**6**	8
Other administrative expenses (1,2)	**84**	78
Operating expenses	**169**	161

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

For accounting policy information refer to Accounting policy 4.2.

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

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

4 Geographical segmental analysis

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

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

2023	Netherlands €m	RoW €m	Total €m
Interest receivable	**452**	**1**	**453**
Interest payable	**(321)**	**-**	**(321)**
Net fees and commissions	**109**	**70**	**179**
Income from trading activities (dealing profits)	**(3)**	**5**	**2**
Other operating income	**(42)**	**(2)**	**(44)**
Total income	**195**	**74**	**269**
Operating profit before tax	**97**	**3**	**100**
Total assets	**27,856**	**332**	**28,188**
Total liabilities	**25,998**	**189**	**26,187**
Contingent liabilities and commitments	**7,525**	**-**	**7,525**

2022			
Interest receivable	81	-	81
Interest payable	(62)	-	(62)
Net fees and commissions	111	75	186
Income from trading activities (dealing profits)	-	-	-
Other operating income	37	(5)	32
Total income	167	70	237
Operating profit before tax	61	1	62
Total assets	25,786	650	26,436
Total liabilities	23,911	234	24,145
Contingent liabilities and commitments	8,409	-	8,409

5 Auditor's remuneration

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

	2023 €m	2022 €m
Fees for the audit of NWM N.V. Group's annual accounts	**1.5**	1.3
Audit related services (1)	**0.9**	1.0
Total audit and audit related services	**2.4**	2.3

(1) Fees incurred in relation to regulatory audits and statutory audits of subsidiaries and branches.

The total fees of Ernst & Young Accountants LLP in the Netherlands, charged to NWM N.V. and its consolidated group entities amounted to €1.1 million (2022 - €0.9 million). There are no non-audit related services rendered to NWM N.V. Group.

6 Tax

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

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

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

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

For accounting policy information see Accounting policies 3.1 and 4.5.

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

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

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

Critical accounting policy: Deferred tax

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

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

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

6 Tax continued

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

- The 5 year forecast period;
- The future macro-economic environment of NWM N.V.;
- Transfer pricing model parameters;
- The impact of strategic decisions made since 2019;
- Decisions to be made within the strategy of NWM N.V.;
- Dutch tax law.

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

Dutch tax law

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

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

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

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

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

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

7 Financial instruments - classification

Judgment: classification of financial assets

Classification of financial assets between amortised cost and fair value through other comprehensive income requires a degree of judgment 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 judgment is made in assessing terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including contingent and leverage features, non-recourse arrangements and features that could modify the time value of money.

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

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

Assets	MVFTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Cash and balances at central banks			**5,979**		**5,979**
Trading assets	**4,693**				**4,693**
Derivatives	**9,890**				**9,890**
Settlement balances			**565**		**565**
Loans to banks - amortised cost (1)			**236**		**236**
Loans to customers - amortised cost			**951**		**951**
Amounts due from holding companies and fellow subsidiaries	**2,740**	**-**	**419**	**15**	**3,174**
Other financial assets	**1**	**402**	**2,202**		**2,605**
Other assets				**95**	**95**
31 December 2023	**17,324**	**402**	**10,352**	**110**	**28,188**
Cash and balances at central banks			3,961		3,961
Trading assets	4,440				4,440
Derivatives	12,335				12,335
Settlement balances			739		739
Loans to banks - amortised cost (1)			223		223
Loans to customers - amortised cost			1,024		1,024
Amounts due from holding companies and fellow subsidiaries	1,406	-	535	10	1,951
Other financial assets	1	1,309	363		1,673
Other assets				90	90
31 December 2022	18,182	1,309	6,845	100	26,436

Liabilities	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Bank deposits (2)			**411**		**411**
Customer deposits			**4,531**		**4,531**
Amounts due to holding company and fellow subsidiaries	**2,708**	**-**	**1,221**	**23**	**3,952**
Settlement balances			**679**		**679**
Trading liabilities	**4,637**				**4,637**
Derivatives	**8,814**				**8,814**
Other financial liabilities	**-**	**535**	**2,270**		**2,805**
Subordinated liabilities (3)		**273**	**20**		**293**
Other liabilities (4)			**9**	**56**	**65**
31 December 2023	**16,159**	**808**	**9,141**	**79**	**26,187**
Bank deposits (2)			150		150
Customer deposits			1,046		1,046
Amounts due to holding company and fellow subsidiaries	2,857	-	1,480	22	4,359
Settlement balances			608		608
Trading liabilities	3,998				3,998
Derivatives	11,114				11,114
Other financial liabilities	-	370	2,071		2,441
Subordinated liabilities (3)		251	114		365
Other liabilities (4)			8	56	64
31 December 2022	17,969	621	5,477	78	24,145

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

7 Financial instruments – classification continued

Financial instruments – financial assets and liabilities that can be offset

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

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

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

8 Financial instruments – valuation

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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.

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

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

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

Valuation

Fair value hierarchy

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

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

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

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

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

8 Financial instruments – valuation continued

Valuation techniques

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

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

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

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

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

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

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

Inputs to valuation models

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

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

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

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

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

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

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

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

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

Valuation control

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

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

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

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

8 Financial instruments – valuation continued

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

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

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

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

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

Key areas of judgment

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 NWM N.V. Group means some products remain classified as level 3. Level 3 indicates a significant level of pricing uncertainty, where expert judgment is used. As such, extra disclosures are required in respect of level 3 instruments.

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

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

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

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

8 Financial instruments – valuation continued

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

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

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

8 Financial instruments – valuation continued

Valuation adjustments

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

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

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

Funding valuation adjustments (FVA)

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

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

Credit valuation adjustments (CVA)

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

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

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

Bid-offer

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

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

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

Product and deal specific

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

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

Own credit

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

8 Financial instruments – valuation continued

Level 3 additional information

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

Level 3 ranges of unobservable inputs

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

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

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

8 Financial instruments – valuation continued

Level 3 sensitivities

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

Alternative assumptions

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

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

Other considerations

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

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

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

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

8 Financial instruments – valuation continued

Movement in level 3 assets and liabilities

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

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

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

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

8 Financial instruments – valuation continued

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

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

2023	Carrying value €m	Fair value €m	Fair value hierarchy level Level 2 €m	Level 3 €m	Items where fair value approximates carrying value €m
Financial assets					
Cash and balances at central banks	**5,979**	**5,979**	**-**	**-**	**5,979**
Settlement balances	**565**	**565**	**-**	**-**	**565**
Loans to banks	**236**	**236**	**-**	**-**	**236**
Loans to customers	**951**	**951**	**-**	**951**	**-**
Amounts due from holding companies and fellow subsidiaries	**419**	**419**	**-**	**102**	**317**
Other financial assets - securities	**2,202**	**2,194**	**196**	**1,998**	**-**
2022					
Financial assets					
Cash and balances at central banks	3,961	3,961	-	-	3,961
Settlement balances	739	739	-	-	739
Loans to banks	223	223	79	103	41
Loans to customers	1,024	989	-	989	-
Amounts due from holding companies and fellow subsidiaries	535	535	-	393	142
Other financial assets - securities	363	411	-	411	-
2023					
Financial liabilities					
Bank deposits	**411**	**411**	**-**	**397**	**14**
Customer deposits	**4,531**	**4,531**	**-**	**4,502**	**29**
Amounts due to holding companies and fellow subsidiaries	**1,221**	**1,225**	**154**	**898**	**173**
Settlement balances	**679**	**679**	**-**	**-**	**679**
Other financial liabilities					
Debt securities in issue	**2,269**	**2,269**	**1,509**	**760**	**-**
Subordinated liabilities	**20**	**21**	**21**	**-**	**-**
2022					
Financial liabilities					
Bank deposits	150	150	-	150	-
Customer deposits	1,046	1,046	-	1,039	7
Amounts due to holding companies and fellow subsidiaries	1,480	1,482	152	1,013	317
Settlement balances	608	608	-	-	608
Other financial liabilities					
Debt securities in issue	2,071	2,073	1,076	997	-
Subordinated liabilities	114	120	120	-	-

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

Short-term financial instruments

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

Loans to banks and customers

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

Debt securities and subordinated liabilities

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

Bank and customer deposits

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

9 Financial instruments - maturity analysis

Remaining maturity

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

	2023			2022		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	**5,979**	**-**	**5,979**	3,961	-	3,961
Trading assets	**4,688**	**5**	**4,693**	4,399	41	4,440
Derivatives	**3,849**	**6,041**	**9,890**	4,742	7,593	12,335
Settlement balances	**565**	**-**	**565**	739	-	739
Loans to banks - amortised cost	**236**	**-**	**236**	223	-	223
Loans to customers - amortised cost	**316**	**635**	**951**	178	846	1,024
Amounts due from holding companies and fellow subsidiaries (1)	**3,157**	**2**	**3,159**	1,266	675	1,941
Other financial assets	**617**	**1,988**	**2,605**	1,375	298	1,673
Liabilities						
Bank deposits	**310**	**101**	**411**	100	50	150
Customer deposits	**4,523**	**8**	**4,531**	1,038	8	1,046
Amounts due to holding companies and fellow subsidiaries (2)	**3,928**	**1**	**3,929**	4,186	151	4,337
Settlement balances	**679**	**-**	**679**	608	-	608
Trading liabilities	**4,617**	**20**	**4,637**	3,928	70	3,998
Derivatives	**4,073**	**4,741**	**8,814**	4,764	6,350	11,114
Other financial liabilities	**2,246**	**559**	**2,805**	1,588	853	2,441
Subordinated liabilities	**-**	**293**	**293**	94	271	365
Lease liabilities	**2**	**6**	**8**	2	5	7

(1) Amounts due from holding companies and fellow subsidiaries relating to non-financial instruments of €15 million (2022 - €10 million) have been excluded from the table.
(2) Amounts due to holding companies and fellow subsidiaries relating to non-financial instruments of €23 million (2022 – €22 million) have been excluded from the table.

Assets and liabilities by contractual cash flows up to 20 years

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

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

The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by NWM N.V. Group depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.
The principal amounts of financial liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal, are excluded from the table along with interest payments after 20 years.

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

9 Financial instruments - maturity analysis continued

2023	0 - 3 months €m	3 - 12 months €m	1 - 3 years €m	3 - 5 years €m	5 - 10 years €m	10 - 20 years €m
Assets by contractual maturity up to 20 years						
Cash and balances at central banks	**5,979**	**-**	**-**	**-**	**-**	**-**
Settlement balances	**565**	**-**	**-**	**-**	**-**	**-**
Loans to banks - amortised cost	**236**	**-**	**-**	**-**	**-**	**-**
Loans to customers - amortised cost	**45**	**332**	**476**	**201**	**24**	**-**
Amounts due from holding companies and fellow subsidiaries (1)	**419**	**-**	**-**	**-**	**-**	**-**
Other financial assets (2)	**170**	**257**	**171**	**11**	**323**	**979**
	7,414	**589**	**647**	**212**	**347**	**979**
Liabilities by contractual maturity up to 20 years						
Bank deposits	**14**	**301**	**101**	**-**	**-**	**-**
Customer deposits	**3,919**	**618**	**-**	**-**	**-**	**18**
Amounts due to holding companies and fellow subsidiaries (3)	**1,071**	**150**	**1**	**-**	**-**	**-**
Settlement balances	**679**	**-**	**-**	**-**	**-**	**-**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**273**
Other financial liabilities	**542**	**1,703**	**178**	**308**	**9**	**115**
Lease liabilities	**1**	**1**	**3**	**3**	**-**	**-**
	6,226	**2,773**	**283**	**311**	**9**	**406**
Guarantees and commitments - notional amount						
Guarantees (4)	**527**	**-**	**-**	**-**	**-**	**-**
Commitments (5)	**6,898**	**-**	**-**	**-**	**-**	**-**
	7,425	**-**	**-**	**-**	**-**	**-**

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

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

10 Trading assets and liabilities

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

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

For accounting policy information refer to Accounting policy 3.2.

11 Derivatives

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

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

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

11 Derivatives continued

Hedge accounting using derivatives

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

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

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

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

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

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

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

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

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

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

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

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

11 Derivatives continued

Derivatives in hedge accounting relationships

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

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

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

Hedge ineffectiveness

Hedge ineffectiveness recognised in other operating income comprised.

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

The main sources of ineffectiveness for interest rate risk hedge accounting relationships are:

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

11 Derivatives continued

Maturity of notional hedging contracts

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

2023	0-3 months €bn	3-12 months €bn	1-3 years €bn	3-5 years €bn	5-10 years €bn	Over 10 years €bn	Total €bn
Fair value hedging							
Interest rate risk							
Hedging liabilities	**-**	**0.3**	**-**	**-**	**-**	**-**	**0.3**
2022							
Fair value hedging							
Interest rate risk							
Hedging liabilities	-	0.1	0.3	-	-	-	0.4
2023							
Cash flow hedging							
Interest rate risk							
Hedging assets	**0.1**	**0.2**	**0.6**	**0.2**	**0.6**	**-**	**1.7**
2022							
Cash flow hedging							
Interest rate risk							
Hedging assets	-	0.2	0.6	0.4	0.6	-	1.8

Average fixed interest rates

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

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

11 Derivatives continued

Analysis of hedged items and related hedging instruments

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

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

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

Analysis of cash flow and foreign exchange hedge reserve

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

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

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

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

12 Loan impairment provisions

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

	2023 €m	2022 €m
Loans - amortised cost		
Stage 1	**1,052**	944
Stage 2	**141**	303
Stage 3	**-**	-
Inter-Group (1)	**102**	393
Total	**1,295**	1,640
ECL provisions		
Stage 1	**7**	6
Stage 2	**2**	5
Stage 3	**-**	-
Total	**9**	11
ECL provisions coverage (2)		
Stage 1 (%)	**0.67**	0.64
Stage 2 (%)	**1.42**	1.65
Stage 3 (%)	**-**	-
Total	**0.75**	0.88
Other financial assets - Gross exposure	**8,583**	5,564
Other financial assets - ECL provision	**3**	1
Impairment (releases)/losses		
ECL charge - third party (3)	**-**	14
Amounts written off	**1**	48

(1) The NWM N.V. Group intercompany assets were classified in Stage 1. The ECL for these loans was nil (2022 – €0.1 million).
(2) ECL provisions coverage is calculated as ECL provisions divided by loans – amortised cost and FVOCI. It is calculated on loans and total ECL provisions, including ECL for other (non-loan) assets and unutilised exposure. Some segments with a high proportion of debt securities or unutilised exposure may result in a not meaningful coverage ratio.
(3) Includes €1.8 million (2022 – €0.4 million) related to other financial assets and nil (2022 – €0.2 million release) relating to contingent liabilities.
(4) The table shows gross loans only and excludes amounts that are outside the scope of the ECL framework. Refer to page 40 for Financial instruments within the scope of the IFRS 9 ECL framework for further details. Other financial assets within the scope of the IFRS 9 ECL framework were cash and balances at central banks totalling €6.0 billion (2022 – €4.0 billion) and debt securities of €2.6 billion (2022 – €1.6 billion).
(5) NWM N.V. Group held collateral against third party loans in Stage 3 of nil (2022 - nil) and against Stage 1 and Stage 2 third party loans of €287 million (2022 - €185 million). Inter-group loans were uncollateralised.

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 policies Note 3.3 sets out how the expected loss approach is applied. At 31 December 2023, customer loan impairment provisions amounted to €9 million (2022 - €11 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 judgments that are potentially significant to the estimate of impairment losses. For further information and sensitivity analysis, refer to Risk and capital management – Measurement uncertainty and ECL sensitivity analysis section.

IFRS 9 ECL model design principles

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

Approach for multiple economic scenarios (MES)

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

13 Other financial assets

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

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

14 Other assets

	2023 €m	2022 €m
Property and equipment	24	27
Deferred tax	63	52
Other assets	8	11
	95	90

(1) Refer to note 6 for information on Deferred tax.

15 Other financial liabilities

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

For accounting policy information refer to Accounting policies 4.6 and 4.9

16 Subordinated liabilities

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

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

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

17 Other liabilities

	2023 €m	2022 €m
Lease liabilities	**8**	7
Provisions for liabilities and charges	**5**	5
Accruals	**23**	22
Deferred income	**10**	12
Current tax	**4**	3
Deferred tax	**2**	3
Other liabilities	**13**	12
Total	**65**	64

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

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

For accounting policy information see Accounting policies Note 4.

18 Share capital and reserves

NWM N.V.'s share capital at 31 December 2023 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided or by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive rights, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Share premium reserve

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

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

On 31 March 2023, after obtaining regulatory permission, NWM N.V. executed a capital restructuring, converting €150 million of share premium to other reserves.

Ordinary dividends

In 2023, NWM N.V. paid ordinary dividends of €392 million (2022 – nil).

Paid-in-equity

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

19 Structured entities

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

Unconsolidated structured entities

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

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

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

20 Asset transfers

Transfers that do not qualify for derecognition

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

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

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

Assets pledged as collateral

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

21 Capital resources

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

	2023 €m	2022 €m
Tier 1		
Controlling interests	1,806	2,056
Adjustment for:		
- Other regulatory adjustments (1)	(236)	(364)
Common equity Tier 1	1,570	1,692
Hybrid capital	250	250
Additional Tier 1	250	250
Total Tier 1	1,820	1,942
Tier 2		
Subordinated debt	150	150
Deductions from Tier 2 capital	2	-
Total Tier 2 capital	152	150
Total regulatory capital	1,972	2,092

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

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

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

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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 NWM N.V. Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of NWM N.V. Group's expectation of future losses.

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

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

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

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

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

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

Risk-sharing agreements

NWM Plc and NWM N.V. have limited risk-sharing arrangements to facilitate the smooth provision of services to NatWest Markets' customers.

The arrangements, which NWM Plc recognises as financial guarantees within Amounts due to subsidiaries, include:

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

Obligations with ABN AMRO Bank N.V.

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

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

Litigation and regulatory matters

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

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

22 Memorandum items continued

In many of the Matters, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the relevant proceedings and regulatory matters or as a result of adverse impacts or restrictions on NWM N.V. Group's reputation, businesses and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before the probability of a liability, if any, arising can reasonably be estimated in respect of any Matter. NWM N.V. 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 NWM N.V. Group may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending or contesting Matters, even for those for which NWM N.V. Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all Matters affect the amount and timing of any potential economic outflows for both matters with respect to which provisions have been established and other contingent liabilities in respect of any such Matter.

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

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

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

NatWest Group is involved in ongoing litigation and regulatory matters that are not described below but are described on pages 378 to 383 in NatWest Group's Annual Report & Accounts 2023. NatWest Group expects that in future periods, additional provisions and economic outflows relating to Matters that may or may not be currently known by NatWest Group will be necessary, in amounts that are expected to be substantial in some instances. While NWM N.V. Group may not be directly involved in such NatWest Group matters, any final adverse outcome of those matters may also have an adverse effect on NWM N.V. Group.

For a discussion of certain risks associated with NWM N.V. 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 pages 159 to 161.

Litigation

FX litigation

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

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

Madoff

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

US Anti-Terrorism Act litigation

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

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

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

22 Memorandum items continued

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

Regulatory matters

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

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

23 Non-cash and other items

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

	2023 €m	2022 €m
Impairment losses	-	14
Depreciation and amortisation	2	2
Change in fair value taken to profit or loss on subordinated liabilities	17	(105)
Elimination of foreign exchange differences	2	(6)
Other non-cash items	2	4
Income receivable on other financial assets	(86)	(6)
Loss on sale of other financial assets	1	5
Interest payable on subordinated liabilities	13	19
Loss on redemption of subordinated liabilities	-	82
Charges and releases on provisions	2	-
Non-cash and other items	(47)	9
Change in operating assets and liabilities		
Change in trading assets	1,477	(296)
Change in derivative assets	2,475	(4,587)
Change in settlement balance assets	174	(348)
Change in loans to banks	28	(28)
Change in loans to customers	75	(379)
Change in amounts due from holding companies and fellow subsidiaries	80	(127)
Change in other financial assets	30	(30)
Change in other assets	2	-
Change in bank deposits	261	150
Change in customer deposits	3,485	166
Change in amounts due to holding companies and fellow subsidiaries	(407)	436
Change in settlement balance liabilities	71	422
Change in trading liabilities	639	1,918
Change in derivative liabilities	(2,300)	2,260
Change in other financial liabilities	355	534
Change in other liabilities	(4)	15
Change in operating assets and liabilities	6,441	106

24 Analysis of changes in financing during the year

	Share capital, share premium and paid-in-equity		Subordinated liabilities[1]	
	2023 €m	2,022 €m	2023 €m	2,022 €m
At 1 January	1,950	1,950	515	802
Redemption of subordinated liabilities			(92)	(240)
Interest paid on subordinated liabilities			(12)	(21)
Net cash outflows from financing activities	-	-	(104)	(261)
Capital restructuring	(150)	-		
Effects of foreign exchange			(2)	15
Changes in fair value of subordinated liabilities			17	(105)
Interest payable on subordinated liabilities			13	19
Loss on redemption of subordinated liabilities			-	82
Other	-	-	4	(37)
At 31 December	1,800	1,950	443	515

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

25 Analysis of cash and cash equivalents

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

	2023 €m	2022 €m
Cash and balances at central banks	**5,979**	3,961
Trading assets	**2,968**	1,239
Loans to banks including intragroup balances (1)	**2,663**	1,318
Cash and cash equivalents	**11,610**	6,518

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

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

26 Remuneration of the Managing Board and Supervisory Board

Remuneration of the Managing Board

The Managing Board during the year comprised the following members:

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

Members receive pension benefits through their employment in NatWest Group.

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

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

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

Remuneration of the Supervisory Board

The Supervisory Board during the year comprised the following members:

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

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

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

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

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

27 Related parties

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

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

Transfer pricing

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

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

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

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

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 - €0.5 billion). The total contingent liabilities and commitments transferred from NWM N.V. to NatWest Bank Plc in 2023 was nil (2022 - nil). An amount of €0.1 billion (2022 – nil) of contingent liabilities and commitments was transferred from NWM N.V. to NWM Plc. As part of a larger initiative to increase the diversity of the banking book portfolio, €0.3 billion of contingent liabilities and commitments and €0.1 billion of drawn balances were transferred from NatWest Bank Plc to NWM N.V. in 2022.

Transactions and balances with the UK Government

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

Transactions with directors or key management

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

27 Related parties continued

Holding companies and fellow subsidiaries

Transactions NWM N.V. Group enters with its holding companies and fellow subsidiaries also meet the definition of related party transactions. The table below discloses transactions between NWM N.V. 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	**3**	**5**	**8**	11	-	11
Interest payable	**(54)**	**(6)**	**(60)**	(15)	(2)	(17)
Fees and commissions receivable	**128**	**-**	**128**	132	3	135
Fees and commissions payable	**(9)**	**(2)**	**(11)**	(8)	(3)	(11)
Other administration expenses (1)	**(10)**	**(40)**	**(50)**	(7)	(36)	(43)
	58	**(43)**	**15**	113	(38)	75

(1) Includes internal service recharges of €49 million (2022 - €43 million).

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

	2023			2022		
	Holding company	Fellow subsidiaries	Total	Holding company	Fellow subsidiaries	Total
	€m	€m	€m	€m	€m	€m
Assets						
Trading assets	**2,740**	**-**	**2,740**	1,406	-	1,406
Loans to banks - amortised cost	**75**	**6**	**81**	358	15	373
Loans to customers - amortised cost	**20**	**-**	**20**	21	-	21
Settlement balances	**291**	**27**	**318**	141	-	141
Other assets	**15**	**-**	**15**	10	-	10
Amounts due from holding companies and fellow subsidiaries	**3,141**	**33**	**3,174**	1,936	15	1,951
Derivatives (1)	**3,059**	**-**	**3,059**	4,140	-	4,140
Liabilities						
Trading liabilities	**2,708**	**-**	**2,708**	2,857	-	2,857
Bank deposits - amortised cost	**917**	**-**	**917**	1,102	-	1,102
Other financial liabilities - subordinated liabilities	**150**	**-**	**150**	150	-	150
Settlement balances	**153**	**-**	**153**	222	4	226
Other liabilities	**10**	**14**	**24**	9	15	24
Amounts due to holding companies and fellow subsidiaries	**3,938**	**14**	**3,952**	4,340	19	4,359
Derivatives (1)	**2,770**	**-**	**2,770**	3,777	-	3,777

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

28 Post balance sheet events

Ms Marije Elkenbracht has notified NWM N.V. that she will step down as member of the NWM N.V. Managing Board and as NWM N.V. Chief Risk Officer from 1 April 2024. Mr. Spencer Lloyd will lead the NWM N.V. risk management function on an interim basis and recruitment to find a permanent successor has commenced.

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

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Parent Company financial statements

Basis of preparation

NWM N.V. financial statements are prepared in accordance with the requirements in Title 9 Book 2 of the Dutch Civil Code. The NWM N.V. Group prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies applied in NWM N.V. financial statements are the same as those applied in the consolidated financial statements on pages 70 to 75.

Investments in subsidiaries are accounted for using the equity method.

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

Future accounting developments

International Financial Reporting Standards

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

Company income statement for the year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest receivable		**451**	81
Interest payable		**(321)**	(63)
Net interest income	1	**130**	18
Income from subsidiaries and associates	12	**(2)**	(8)
Fees and commissions receivable		**202**	206
Fees and commissions payable		**(23)**	(20)
Net fees and commissions income	2	**179**	186
Results from financial transactions (1)	2	**(40)**	31
Other income (1)	2	**2**	10
Total income		**269**	237
Staff costs	3	**(78)**	(75)
Other expenses		**(88)**	(84)
Depreciation and amortisation		**(2)**	(2)
Operating expenses before impairment losses		**(168)**	(161)
Impairment losses	11	**-**	(15)
Operating expenses including impairment losses		**(168)**	(176)
Operating profit before tax		**101**	61
Tax credit/(charge)	5	**7**	(8)
Profit for the year		**108**	53
Attributable to:			
Ordinary shareholders		**84**	38
Paid-in-equity holders		**24**	15

(1) Comparatives have been re-presented to aid comparability.

The accompanying notes on pages 114 to 127 form an integral part of these financial statements.

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

	Note	2023 €m	2022 €m
Assets			
Cash and balances at central banks	8	**5,979**	3,961
Short term government paper		**248**	786
Loans to banks (1), (2)	4,8,11	**6,402**	3,261
Loans to customers (3), (4)	4,8,11	**2,297**	4,230
Derivatives (5)	7	**9,890**	12,335
Debt securities	6	**2,292**	697
Equity securities		**1**	3
Investments in subsidiaries	12	**160**	419
Property and equipment	15	**8**	7
Other assets (6)	14	**969**	952
Total assets		**28,246**	26,651
Bank deposits (7)	8	**6,110**	5,352
Customer deposits (8)	8	**7,418**	4,269
Derivatives (9)	7	**8,814**	11,114
Debt securities in issue	6	**2,524**	2,124
Other liabilities (10)	18	**926**	978
Provisions	18	**10**	8
Subordinated liabilities (11)	17	**443**	515
Total liabilities		**26,245**	24,360
Share capital and share premium account		**1,550**	1,700
Revaluation reserves		**26**	(13)
Legal reserves		**103**	359
Other reserves		**20**	(43)
Paid-in-equity		**250**	250
Unappropriated results		**52**	38
Total equity	20	**2,001**	2,291

(1) Loans to banks include amounts due from holding company and fellow subsidiaries of €2,822 million (2022 - €1,769 million).
(2) Loans to banks include amounts held for trading of €6,125 million (2022 - €2,708 million). Of this €5,075 million is reverse repos (2022 - €1,233 million). Collateral given €735 million (2022 - €820 million). Other loans €315 million (2022 - €655 million).
(3) Loans to customers include amounts due from holding company and fellow subsidiaries of €37 million (2022 - €38 million).
(4) Loans to customers include amounts held for trading of €1,308 million (2022 - €3,183 million). Of this €131 million is reverse repos (2022 - €1,367 million). Collateral given €1,165 million (2022 - €1,730 million). Other loans €12 million (2022 - €41 million).
(5) Derivative assets include amounts due from holding company and fellow subsidiaries of €3,059 million (2022 - €4,140 million).
(6) Other assets include amounts due from holding company and fellow subsidiaries of €331 million (2022 - €152 million).
(7) Bank deposits include amounts due to holding company and fellow subsidiaries of €3,626 million (2022 - €3,959 million).
(8) Customer deposits include amounts due to holding company and fellow subsidiaries of €60 million (2022 – €220 million).
(9) Derivative liabilities include amounts due to holding company and fellow subsidiaries of €2,771 million (2022 - €3,777 million).
(10) Other liabilities include amounts due to holding company and fellow subsidiaries of €176 million (2022 - €250 million).
(11) Subordinated liabilities include amounts due to holding company and fellow subsidiaries of €150 million (2022 - €150 million).
(12) As at 31 December 2023 contingent liabilities and commitments were €7,525 million (2022 - €8,409 million).

The accompanying notes on pages 114 to 127 form an integral part of these financial statements.

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

	2023 €m	2022 €m
Share capital and share premium (1)		
At 1 January	**1,700**	1,700
Capital restructuring (2)	**(150)**	-
At 31 December	**1,550**	1,700
Revaluation reserves		
At 1 January	**(13)**	-
Changes in equity securities and debt securities at fair value through other comprehensive income	**1**	(3)
Changes in cash flow hedge reserve (3) (4)	**38**	(10)
At 31 December	**26**	(13)
Legal reserves		
At 1 January	**359**	384
Changes in foreign exchange reserve	**-**	(7)
Changes in non-distributable profit participations	**(256)**	(18)
At 31 December	**103**	359
Other reserves		
At 1 January	**(43)**	(197)
Transfer from unappropriated results	**-**	110
Ordinary dividends paid	**(322)**	-
Changes in non-distributable profit participations	**256**	-
Changes in fair value of credit in financial liabilities designated at FVTPL	**(25)**	37
Capital restructuring (2)	**150**	-
Remeasurement of retirement benefit schemes	**-**	1
Other movements	**4**	6
At 31 December	**20**	(43)
Paid-in-equity - at 1 January and 31 December	**250**	250
Unappropriated results		
At 1 January	**38**	110
Transfer to other reserves	**-**	(110)
Net result for the year	**108**	53
Paid-in-equity interim dividends paid	**(24)**	(15)
Ordinary dividends paid	**(70)**	-
At 31 December	**52**	38
Total equity as at 31 December	**2,001**	2,291

(1) Includes Ordinary share capital of 50,004 (2022 - €50,004) – refer to Note 20 for further details.
(2) On 31 March 2023, after obtaining regulatory permission, NWM N.V. executed a capital restructuring, converting €150 million of share premium to other reserves.
(3) The decrease in the debit balance in the cash flow hedging reserve is mainly driven by GBP receive fixed swaps as interest rates have decreased in the year. This has reversed losses taken in previous years where interest rates had increased.
(4) In €31 million (2022 - €19 million debit) was recognised in equity and €7 million (2022 - €9 million) was transferred from equity to earnings. The amount transferred from equity to the income statement is recorded as net interest income.

1 Net interest income

	2023 €m	2022 €m
Loans to customers	**145**	42
Balances at central banks and loans to banks	**298**	28
Amounts due from holding companies and fellow subsidiaries	**8**	11
Interest receivable	**451**	81
Balances with banks	**4**	10
Customer deposits	**175**	7
Amounts due to holding companies and fellow subsidiaries	**61**	17
Subordinated liabilities	**5**	15
Other financial liabilities	**76**	14
Interest payable	**321**	63
Net interest income	**130**	18

2 Non-interest income

	2023 €m	2022 €m
Fees and commissions receivable	**202**	206
Fees and commissions payable	**(23)**	(20)
Net fees and commissions (1)	**179**	186
Results from financial transactions (2)	**(40)**	31
Other operating income	**2**	10

(1) Fees and commissions is mainly driven by transfer pricing income from NWM Plc (in the UK) of €128 million (2022 - €130 million).
(2) 2023 was mainly driven by fair value changes of structured deposits due to rising interest rates and by legacy items. 2022 includes a net gain of €23 million related to a liability management exercise.

Refer to Note 2 and Note 27 to the consolidated financial statements for further details.

3 Operating expenses

	2023 €m	2022 €m
Wages and salaries	**62**	59
Social security costs	**10**	11
Pension costs	**6**	5
- defined contribution schemes	**6**	5
Staff costs	**78**	75

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

This includes 120 persons which were employed in the Netherlands at 31 December 2023 (2022 – 113). The average number of persons employed in the Netherlands, rounded to the nearest hundred, during the year was 100 (2022 - 100).

Refer to Note 5 to the consolidated financial statements for details on auditor's remuneration.

4 Segmental analysis

The geographical analyses in the tables below have been compiled on the basis of location of the counterparty.

2023	Netherlands €m	Rest of Europe €m	RoW €m	Total €m
Loans - amortised cost and FVOCI	**166**	**726**	**268**	**1,160**

2022				
Loans - amortised cost and FVOCI	115	922	177	1,214

Refer to Note 4 to the consolidated financial statements for further details on segments.

5 Tax

Refer to Note 6 to the consolidated financial statements for further details.

6 Debt securities - assets

	Debt securities			
2023	Central and local government - US €m	Financial institutions €m	Other debt €m	Total €m
Fair value through other comprehensive income	**90**	**-**	**-**	**90**
Amortised cost	**-**	**-**	**2,202**	**2,202**
Total	**90**	**-**	**2,202**	**2,292**

2022				
Fair value through other comprehensive income	233	100	-	333
Amortised cost	-	-	364	364
Total	233	100	364	697

Debt securities in issue - liabilities

Debt Securities in Issue in both periods represent listed and unlisted instruments. Refer to Note 15 to the consolidated financial statements for further details.

7 Derivatives

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

The following table shows the notional amounts and fair values of NWM N.V.'s derivatives.

	2023			2022		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
	€bn	€m	€m	€bn	€m	€m
Exchange rate contracts	**349**	**5,510**	**5,584**	341	7,053	7,112
Interest rate contracts	**1,139**	**4,379**	**3,223**	2,257	5,281	3,999
Credit derivatives	**1**	**1**	**7**	1	1	3
Total	**1,489**	**9,890**	**8,814**	2,599	12,335	11,114

Refer to Note 11 to the consolidated financial statements for further details.

8 Financial instruments – classification

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

	MFVTPL	FVOCI	Amortised cost	Other assets	Total
	€m	€m	€m	€m	€m
Assets					
Cash and balances at central banks			**5,979**		**5,979**
Short term government paper	**-**	**248**	**-**		**248**
Loans to banks (1)	**6,125**	**-**	**277**		**6,402**
Loans to customers (1)	**1,308**	**-**	**989**		**2,297**
Derivatives	**9,890**				**9,890**
Debt securities	**-**	**90**	**2,202**		**2,292**
Equity securities	**1**	**-**	**-**		**1**
Investments in subsidiaries				**160**	**160**
Property and equipment				**8**	**8**
Other assets			**883**	**86**	**969**
31 December 2023	**17,324**	**338**	**10,330**	**254**	**28,246**
Cash and balances at central banks			3,961		3,961
Short term government paper	-	786	-		786
Loans to banks (1)	2,708	-	553		3,261
Loans to customers (1)	3,138	30	1,062		4,230
Derivatives	12,335				12,335
Debt securities	-	333	364		697
Equity securities	3	-	-		3
Investments in subsidiaries				419	419
Property and equipment				7	7
Other assets			881	71	952
31 December 2022	18,184	1,149	6,821	497	26,651

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

8 Financial instruments – classification continued

	Held-for-trading €m	DFV €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities					
Bank deposits (2)	**4,782**	**-**	**1,328**		**6,110**
Customer deposits (2)	**2,545**	**281**	**4,592**		**7,418**
Derivatives	**8,814**				**8,814**
Debt securities in issue	**-**	**254**	**2,270**		**2,524**
Other liabilities (3)	**18**	**-**	**841**	**67**	**926**
Provisions			**1**	**9**	**10**
Subordinated liabilities	**-**	**273**	**170**		**443**
31 December 2023	**16,159**	**808**	**9,202**	**76**	**26,245**
Bank deposits (2)	4,099	-	1,253		5,352
Customer deposits (2)	2,689	314	1,266		4,269
Derivatives	11,114				11,114
Debt securities in issue	-	53	2,071		2,124
Other liabilities (3)	68	-	841	69	978
Provisions				8	8
Subordinated liabilities	-	251	264		515
31 December 2022	17,970	618	5,695	77	24,360

(1) Includes third party reverse repos of €2,638 million (2022 - €482 million) in loans to banks, and €131 million (2022 - €1,367 million) in loans to customers.
(2) Includes third party repos of €1,270 million (2022 - €266 million) in bank deposits, and €347 million (2022 - €158 million) in customer deposits.
(3) Includes lease liabilities of €8 million (2022 - €7 million).

Financial instruments – financial assets and liabilities that can be offset

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

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

(1) The net IFRS offset balance of €899 million (2022 – €1,046 million) relates to variation margin netting reflected on other balance sheet lines.
(2) Excludes balances with holding company and fellow group subsidiaries.

9 Financial instruments – valuation

For further information relating to the following tables, refer to Note 8 to the consolidated financial statements.

Valuation hierarchy

The following table shows the financial instruments carried at fair value on the balance sheet by valuation hierarchy.

	2023				2022			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Short term government paper	**248**	**-**	**-**	**248**	513	273	-	786
Loans to banks	**-**	**6,125**	**-**	**6,125**	-	2,708	-	2,708
Loans to customers	**-**	**1,304**	**4**	**1,308**	-	3,101	67	3,168
Derivatives	**-**	**9,851**	**39**	**9,890**	-	12,279	56	12,335
Debt securities	**90**	**-**	**-**	**90**	333	-	-	333
Equity securities	**-**	**-**	**1**	**1**	-	-	3	3
Total financial assets held at fair value	**338**	**17,280**	**44**	**17,662**	846	18,361	126	19,333
Liabilities								
Bank deposits	**-**	**4,782**	**-**	**4,782**	-	4,099	-	4,099
Customer deposits	**-**	**2,826**	**-**	**2,826**	-	3,003	-	3,003
Derivatives	**-**	**8,689**	**125**	**8,814**	-	10,938	176	11,114
Debt securities in issue	**-**	**254**	**-**	**254**	-	53	-	53
Other liabilities	**-**	**18**	**-**	**18**	51	17	-	68
Subordinated liabilities	**-**	**273**	**-**	**273**	-	251	-	251
Total financial liabilities held at fair value	**-**	**16,842**	**125**	**16,967**	51	18,361	176	18,588

(1) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred. There were no significant transfers between level 1 and level 2.

(2) 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 whether the reference counterparty's obligations are liquid or illiquid.

For further information on the level 3 movements and sensitivities, refer to Note 8 to the consolidated financial statements.

9 Financial instruments - fair value of financial instruments not carried at fair value

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

2023	Carrying value €m	Fair value €m	Fair value hierarchy level Level 2 €m	Level 3 €m	Items where fair values approximate carrying value €m
Financial assets					
Cash and balances at central banks	**5,979**	**5,979**	**-**	**-**	**5,979**
Loans to banks	**277**	**277**	**-**	**82**	**195**
Loans to customers	**989**	**989**	**-**	**989**	**-**
Debt securities	**2,202**	**2,194**	**196**	**1,998**	**-**
Other assets - settlement balances	**883**	**883**	**-**	**-**	**883**
Financial liabilities					
Bank deposits	**1,328**	**1,329**	**-**	**1,295**	**34**
Customer deposits	**4,592**	**4,591**	**-**	**4,562**	**29**
Debt securities in issue	**2,270**	**2,269**	**1,509**	**760**	**-**
Other liabilities - settlement balances	**832**	**832**	**-**	**-**	**832**
Subordinated liabilities	**170**	**175**	**175**	**-**	**-**

2022					
Financial assets					
Cash and balances at central banks	3,961	3,961	-	-	3,961
Loans to banks	553	553	79	433	41
Loans to customers	1,062	1,026	-	1,026	-
Debt securities	364	411	-	411	-
Other assets - settlement balances	881	881	-	-	881
Financial liabilities					
Bank deposits	1,253	1,253	-	1,163	90
Customer deposits	1,266	1,266	-	1,259	7
Debt securities in issue	2,071	2,073	1,076	997	
Other liabilities - settlement balances	834	834	-	-	834
Subordinated liabilities	264	272	272	-	-

10 Financial instruments - maturity analysis

Remaining maturity

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

	2023								
	Repayable on demand	0-1 months	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Maturity not relevant
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets									
Cash and balances at central banks	5,979	-	-	-	-	-	-	-	-
Short term government paper	-	50	99	99	-	-	-	-	-
Loans to banks	1,159	3,575	1,666	-	-	-	-	2	-
Loans to customers	1,165	173	27	52	240	200	286	154	-
Derivatives	-	1,335	1,233	448	833	529	918	4,594	-
Debt securities	-	203	-	-	109	28	16	1,936	-
Equity securities	-	-	-	-	-	-	-	-	1
Other assets (1)	-	883	-	-	-	-	-	-	-
Liabilities									
Bank deposits	1,528	3,766	137	154	424	101	-	-	-
Customer deposits	2,229	3,803	497	520	81	-	279	9	-
Derivatives	-	1,408	1,223	548	894	571	1,116	3,054	-
Debt securities in issue	-	279	263	549	1,153	75	88	117	-
Other liabilities (2)	-	832	-	-	1	3	23	-	-
Subordinated liabilities	-	-	-	-	150	-	-	293	-

	2022								
	Repayable on demand	0-1 months	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Maturity not relevant
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Assets									
Cash and balances at central banks	3,961	-	-	-	-	-	-	-	-
Short term government paper	-	-	235	149	402	-	-	-	-
Loans to banks - amortised cost	970	1,534	102	-	-	-	-	655	-
Loans to customers - amortised cost	1,726	1,310	255	2	-	326	492	119	-
Derivatives	-	1,755	1,469	595	923	971	1,229	5,393	-
Debt securities	-	190	46	193	-	94	-	174	-
Equity securities	-	-	-	-	-	-	-	-	3
Other assets (1)	-	881	-	-	-	-	-	-	-
Liabilities									
Bank deposits	1,113	4,089	-	-	100	50	-	-	-
Customer deposits	2,573	576	598	149	240	-	114	19	-
Derivatives (3)	-	1,746	1,527	568	923	1,128	1,565	3,657	-
Debt securities in issue	-	234	333	256	627	600	74	-	-
Other liabilities (2)	-	834	-	1	1	2	54	17	-
Subordinated liabilities	-	-	-	94	-	150	-	271	-

(1) Includes settlement balances of €883 million (2022 - €881 million).
(2) Includes settlement balances of €832 million (2022 - €834 million), short positions of €18 million (2022 - €68 million) and lease liabilities of €9 million (2022 - €7 million).
(3) Comparatives have been re-presented to aid comparability.

10 Financial instruments - maturity analysis continued

Assets and liabilities by contractual cash flow maturity

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

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

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

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

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

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

2023	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	5,979	-	-	-	-	-
Short term government papers	149	99	-	-	-	-
Loans to banks	277	-	-	-	-	-
Loans to customers	83	332	477	201	24	-
Debt securities	3	118	165	11	323	979
Other assets	883	-	-	-	-	-
	7,374	549	642	212	347	979
2023						
Liabilities by contractual maturity						
Bank deposits	931	301	101	-	-	-
Customer deposits	3,969	618	15	308	-	36
Debt securities in issue	542	1,702	163	-	10	107
Other liabilities	833	1	4	3	-	-
Subordinated liabilities	-	150	-	-	-	273
	6,275	2,772	283	311	10	416
Guarantees and commitments notional amount						
Guarantees (1)	527	-	-	-	-	-
Commitments (2)	6,898	-	-	-	-	-
	7,425	-	-	-	-	-

For notes to this table refer to the following page.

10 Financial instruments - maturity analysis continued

2022	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	3,961	-	-	-	-	-
Short term government papers	234	551	-	-	-	-
Loans to banks	554	-	-	-	-	-
Loans to customers	43	196	652	195	102	-
Debt securities	48	199	111	97	119	109
Other assets	881	-	-	-	-	-
	5,721	946	763	292	221	109

2022						
Liabilities by contractual maturity						
Bank deposits	1,103	101	50	-	-	-
Customer deposits	1,068	396	-	121	-	36
Debt securities in issue	566	883	674	-	-	-
Other liabilities	834	2	3	2	-	-
Subordinated liabilities	-	94	150	-	-	251
	3,571	1,476	877	123	-	287
Guarantees and commitments notional amount						
Guarantees (1)	508	-	-	-	-	-
Commitments (2)	7,801	-	-	-	-	-
	8,309	-	-	-	-	-

(1) The NWM N.V. is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The NWM N.V. expects most guarantees it provides to expire unused. For further information, refer to Note 22 to the consolidated financial statements.

(2) The NWM N.V. 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. The NWM N.V. does not expect all facilities to be drawn, and some may lapse before drawdown.

11 Loan impairment provisions

	Loans - amortised cost & FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2023	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Wholesale	**1,020**	**140**	**-**	**1,160**	**7,005**	**527**	**7**	**2**	**-**	**9**
Property	**23**	**6**	**-**	**29**	**183**	**-**	**-**	**-**	**-**	**-**
Financial institutions	**562**	**2**	**-**	**564**	**812**	**527**	**3**	**-**	**-**	**3**
Other wholesale	**435**	**132**	**-**	**567**	**6,010**	**-**	**4**	**2**	**-**	**6**
Of which:										
Agriculture	***1***	**-**	**-**	***1***	**-**	**-**	**-**	**-**	**-**	**-**
Airlines and aerospace	***3***	**-**	**-**	***3***	***35***	**-**	**-**	**-**	**-**	**-**
Automotive	***2***	**-**	**-**	***2***	***635***	**-**	**-**	**-**	**-**	**-**
Building materials	***5***	**-**	**-**	***5***	***196***	**-**	**-**	**-**	**-**	**-**
Chemicals	***13***	**-**	**-**	***13***	***77***	**-**	**-**	**-**	**-**	**-**
Industrials	***34***	***65***	**-**	***99***	***271***	**-**	**-**	1	**-**	1
Land transport and logistics	***58***	***5***	**-**	***63***	***358***	**-**	**-**	**-**	**-**	**-**
Leisure	***3***	**-**	**-**	***3***	**-**	**-**	**-**	**-**	**-**	**-**
Mining & metals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Oil and gas	***3***	**-**	**-**	***3***	***3***	**-**	**-**	**-**	**-**	**-**
Power utilities	***130***	**-**	**-**	***130***	***3,028***	**-**	**-**	**-**	**-**	**-**
Retail	**14**	**2**	**-**	**16**	***450***	**-**	**-**	**-**	**-**	**-**
Shipping	***2***	**-**	**-**	***2***	**-**	**-**	**-**	**-**	**-**	**-**
Water & waste	***4***	16	**-**	***20***	***38***	**-**	**-**	**-**	**-**	**-**
Total	**1,020**	**140**	**-**	**1,160**	**7,005**	**527**	**7**	**2**	**-**	**9**

2022										
Wholesale	912	302	-	1,214	7,875	508	6	5	-	11
Property	13	113	-	126	188	-	-	1	-	1
Financial institutions	503	5	-	508	936	508	1	-	-	1
Other wholesale	396	184	-	580	6,751	-	5	4	-	9
Of which:										
Agriculture	*-*	*2*	*-*	*2*	*-*	*-*	*-*	*-*	*-*	*-*
Airlines and aerospace	*-*	*1*	*-*	*1*	*183*	*-*	*-*	*-*	*-*	*-*
Automotive	*2*	*-*	*-*	*2*	*644*	*-*	*-*	*-*	*-*	*-*
Building materials	*2*	2	*-*	*4*	*20*	*-*	*-*	*-*	*-*	*-*
Chemicals	*15*	*-*	*-*	*15*	*72*	*-*	*-*	*-*	*-*	*-*
Industrials	*38*	*63*	*-*	*101*	*289*	*-*	1	*-*	*-*	1
Land transport and logistics	*20*	*59*	*-*	*79*	*353*	*-*	*-*	1	*-*	*1*
Leisure	*1*	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*-*
Mining & metals	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Oil and gas	*4*	*-*	*-*	*4*	*545*	*-*	*-*	*-*	*-*	*-*
Power utilities	*108*	*-*	*-*	*108*	*2,897*	*-*	*1*	*-*	*-*	*1*
Retail	*-*	*-*	*-*	*-*	*486*	*-*	*-*	*-*	*-*	*-*
Shipping	*2*	*-*	*-*	*2*	*-*	*-*	*-*	*-*	*-*	*-*
Water & waste	*4*	*-*	*-*	*4*	*286*	*-*	*-*	*-*	*-*	*-*
Total	912	302	-	1,214	7,875	508	6	5	-	11

Refer to Note 12 to the consolidated financial statements for further details.

12 Investments in Group undertakings

The parent company's subsidiary undertakings, participating interests and branches at 31 December 2023 are shown below:

Group interest 100%	Notes	Group interest <100%	Notes
Alcover A.G.	*i, (1)*	Eris Finance S.R.L	*ii, (5)*
Alternative Investment Fund B.V.	*i, (2)*	Maja Finance S.R.L	*iii, (5)*
KEB Investors, L.P.	*i, (3)*		
RBS Hollandsche N.V.	*i, (2)*		
RBS Investments (Ireland) Ltd	*i, (4)*		
RBS Nominees (Ireland) Ltd	*i, (4)*		

Branches geographic location
France, Germany, Italy, Sweden

Key:

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

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

All subsidiaries and participating interests operate principally in their country of incorporation. The list of participating interests for which statements of liability have been issued, has been filed with the Chamber of Commerce in Amsterdam. Some of NWM N.V.'s subsidiaries and participating investments are regulated entities and therefore their ability to transfer funds to NWM N.V. is subject to regulatory approvals.

Changes in investments in subsidiaries

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

	2023 €m	2022 €m
At 1 January	**419**	440
Income from subsidiaries	**(2)**	(8)
Capital repatriation/dividends received (1)	**(261)**	-
Other changes	**4**	(13)
At 31 December	**160**	419

(1) 2023 includes a dividend of €260 million from Alcover A.G.

13 Financial assets – other

Credit risk impairments - refer to Note 12 to the consolidated financial statements and the Risk and capital management - Credit risk section for further details.

Non-traded market risk - refer to the Risk and capital management - Non-traded market risk section for details on structural foreign exchange exposure.

14 Other assets

	2023 €m	2022 €m
Settlement balances	**883**	881
Prepaid expenses	**1**	1
Accrued income	**4**	5
Deferred tax	**63**	52
Other	**18**	13
	969	952

15 Property and equipment

	2023		
	Right-of-use €m	Computer equipment €m	Total €m
Cost or valuation			
At 1 January 2023	**12**	**5**	**17**
Additions	**3**	**-**	**3**
At 31 December 2023	**15**	**5**	**20**
Accumulated impairment, depreciation and amortisation			
At 1 January 2023	**6**	**4**	**10**
Charge for the year	**2**	**-**	**2**
At 31 December 2023	**8**	**4**	**12**
Net book value at 31 December	**7**	**1**	**8**
Cost or valuation			
At 1 January 2022	12	4	16
Additions	-	1	1
At 31 December 2022	12	5	17
Accumulated impairment, depreciation and amortisation			
At 1 January 2022	5	3	8
Disposals	(1)	-	(1)
Charge for the year	2	1	3
At 31 December 2022	6	4	10
Net book value at 31 December	6	1	7

16 Contingent liabilities and commitments and contractual obligations for future expenditure not provided in the accounts

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 the NWM N.V. 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 the NWM N.V.'s expectation of future losses. In relation to contingent liabilities and commitments and contractual obligations for future expenditure, refer to Note 22 to the consolidated financial statements for further details.

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

17 Subordinated liabilities

Refer to Note 16 to the consolidated financial statements for further details.

18 Other liabilities and provisions

Other liabilities	2023 €m	2022 €m
Short positions in securities	**18**	68
Settlement balances	**832**	834
Accruals	**23**	22
Deferred Income	**10**	22
Other liabilities	**43**	32
Total	**926**	978

Provisions for liabilities and charges	2023 €m	2022 €m
Taxation	**4**	2
Other	**6**	6
	10	8

Arising out of its normal business operations, the NWM N.V. is party to legal proceedings in the Netherlands, United Kingdom, the United States of America and other jurisdictions. Litigation provisions at 31 December 2023 related to numerous proceedings; no individual provision is material. Detailed descriptions of the NWM N.V.'s legal proceedings and discussion of the associated uncertainties are given in Note 22 to the consolidated financial statements.

19 Asset transfers

Refer to Note 20 to the consolidated financial statements for further details.

20 Equity

Share capital

NWM N.V.'s share capital at 31 December 2023 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. Its authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50. All issued ordinary shares have been fully paid. Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash. In the event of the dissolution and liquidation of NWM N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

Share premium account

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

Revaluation reserves

Revaluation reserves consist of €28 million cash flow hedge reserve compared to €10 million debit in 2022, €2 million debit equity securities at fair value through other comprehensive income reserve compared to nil in 2022, and nil debt securities at fair value through other comprehensive income reserve compared to €3 million debit in 2022.

Legal reserves

Legal reserves consist of €87 million non-distributable profit participations (2022 - €343 million), €10 million non-distributable reserve shares (2022 - €10 million) and €6 million foreign exchange reserve (2022 - €6 million).

Paid-in-equity

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

Ordinary dividends

In 2023, NWM N.V. paid ordinary dividends of €392 million (2022 – nil).

Capital

Capital requirements were met during 2023. Refer to the Risk and capital management section on pages 25 to 27.

21 Profit appropriation

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

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

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

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

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

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

Proposed profit appropriation

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

	2023	2022
	€m	€m
Addition to reserves	**10**	-
Available for dividend distribution	**42**	38
	52	38

22 Incorporation and registration

NWM N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Claude Debussylaan 94, 1082 MD Amsterdam, Netherlands and is entered in the Trade Register of the Amsterdam Chamber of Commerce under no. 33002587.

23 Remuneration of the Managing Board and Supervisory Board

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

24 Related parties

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

25 Post balance sheet events

Ms Marije Elkenbracht has notified NWM N.V. that she will step down as member of the NWM N.V. Managing Board and as NWM N.V. Chief Risk Officer from 1 April 2024. Mr. Spencer Lloyd will lead the NWM N.V. risk management function on an interim basis and recruitment to find a permanent successor has commenced.

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

The publication of these accounts was approved by the Supervisory Board on 15 February 2024. The financial statements will be presented for adoption at the forthcoming General Meeting. With regard to the adoption of the financial statements of NWM N.V., the Articles of Association state: 'The resolution to adopt the financial statements will be passed by an absolute majority of votes validly cast be the General Members' Council.'

Amsterdam, 15 February 2024

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

Other information

Articles of Association

The description set out below is a summary of the material information relating to the Company's share capital, including summaries of certain provisions of the Articles of Association and applicable Dutch law in effect at the relevant date. The Articles of Association of NWM N.V. were last amended by a notarial deed executed by Mr B.J. Kuck, civil law notary in Amsterdam on 30 April 2018, under register entry number 33002587.

As stated in the Articles of Association the object of the Company is:

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

Shares and voting rights

The company's share capital at 31 December 2023 consisted of 11,112 issued and fully paid ordinary shares of €4.50 each. The Company's authorised share capital amounts to €225,000. It comprises 41,500 ordinary shares, each with a nominal value of €4.50 and 8,500 preference shares, each with a nominal value of €4.50.

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

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts will be distributed to the shareholders of ordinary shares on a pro-rata basis (art 39.3).

Relations with shareholders

Rights of shareholders

Any resolution to amend the Articles of Association or dissolve NWM N.V. may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board. A copy of the proposal containing the literal text of the proposed amendments shall be made available for inspection by the holders of shares of NWM N.V. at the offices of NWM N.V. and at the offices stated in the convocation to the meeting, from the day of convocation to the end of the Meeting. Each Shareholder may obtain a full copy of the proposal free of charge.

Meetings of shareholders and convocation

General meetings of shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General meetings of shareholders shall be held as frequently as deemed necessary by the Managing Board or the Supervisory Board and when required by law or by the Articles of Association. General meetings of shareholders shall be convened by the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company's offices.

Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

Code of conduct

The code of conduct applies to everyone who works for the NWM N.V. Group.

It promotes honest and ethical conduct, including the handling of actual or apparent conflicts of interest between personal and professional relationships. The NWM N.V. Group recognises that personal conduct, business integrity and the NWM N.V. Group's security are crucial, and the code of conduct serves to inform those who work for us of the NWM N.V. Group's expectations of their behaviour and practices.

The code of conduct is available on the NatWest Group's website, natwestgroup.com, and will be provided to any person without charge, upon request, by contacting Company Secretariat on the telephone number listed below.

Important addresses

Corporate Governance & Regulatory Affairs

Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands
Telephone: + 31 20 464 26 99
Email: nvcorporategovernancesecretariat@natwestmarkets.com

Investor Relations

250 Bishopsgate
London EC2M 4AA
Telephone: +44 (0)207 672 1758
Email: investor.relations@natwest.com

Registered office

Claude Debussylaan 94
1082 MD Amsterdam
The Netherlands

Website

https://www.natwestmarkets.com/natwest-markets/about-us/board-and-governance/natwest-markets-n-v-.html

Independent auditors' report

To: the shareholder and supervisory board of NatWest Markets N.V.

Our opinion

We have audited the financial statements for the financial year ended 2023 of NatWest Markets N.V. (NWM N.V., the Company or the group) based in Amsterdam, the Netherlands. The financial statements comprise the consolidated and the parent company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2023 and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted in the European Union (EU-IFRSs) and with Part 9 of Book 2 of the Dutch Civil Code.
- The accompanying parent company financial statements give a true and fair view of the financial position of NWM N.V. as at 31 December 2023 and of its result for 2023 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- The consolidated balance sheet as at 31 December 2023
- The following statements for the year ended 31 December 2023: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity and the consolidated cash flow statement
- The notes comprising material accounting policy information and other explanatory information

The parent company financial statements comprise:

- The company balance sheet as at 31 December 2023.
- The company income statement for the year ended 31 December 2023.
- The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of NWM N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

NWM N.V. is a licensed bank which operates as an investment banking firm serving corporates and financial institutions in the European Economic Area ('EEA'). The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We determined materiality and identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€20 million (2022: €19 million)
Benchmark applied	1% of total equity (2022: 1%)
Explanation	Based on our professional judgement, a benchmark of 1% of total equity is an appropriate quantitative indicator of materiality and it reflects the focus of users of the financial statements on the financial position of the company. Equity is the basis for determining regulatory capital and dividend payment capacity.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of €1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

NWM N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements. The banking activities of NWM N.V. are structured in geographical segments: the Netherlands and the rest of the world. Further, NWM N.V. has one insurance subsidiary in Switzerland that is in run-off.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We assigned a full scope to the banking activities in the geographical segments mentioned above which are managed centrally and audited by the group audit team. We assigned specific scope or specified procedures to the EY component teams of central operations. The EY component teams of central operations performed audit procedures under our coordination and supervision, focused on for example commercial lending, credit, treasury, and financial control and reporting functions. For the component in Switzerland, we specified the procedures to be performed by our Swiss EY member firm. We sent detailed instructions covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. Based on our risk assessment, we determined the level of involvement in component audits. We have visited the component teams of central functions in the United Kingdom, reviewed key working papers and conclusions, met with local management teams and obtained an understanding of key processes. We interacted regularly with the component teams during various stages of the audit. We evaluated the reporting and conclusions from the component teams.

Our audit scope resulted in a nearly full coverage of total equity, total assets and net profit.

By performing the procedures mentioned above at components of the group, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics, treasury, income tax and transfer pricing and have made use of our own experts in the areas of valuations of derivatives and expected credit losses.

Our focus on climate-related risks and the energy transition

Climate change and the energy transition are high on the public agenda and lead to significant change for many businesses and society. The Managing Board reported in the "Climate-related disclosures" section of the annual report and accounts how NWM N.V. is addressing climate-related and environmental risks also taking into account related regulatory and supervisory guidance and recommendations.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the effects of the energy transition are taken into account in estimates and significant assumptions especially in the area of "Valuation of financial instruments with higher risk characteristics", "Valuation of deferred tax assets" and "Expected Credit Losses" as disclosed in Note "Accounting Policies- Presentation of financial statements- How Climate risk affects our accounting judgments and estimates", as well as in the design of relevant internal control measures.

Furthermore, we read the other information included in the annual report and accounts and considered whether there is any material inconsistency between non-financial information in the section "Climate-related disclosures" and "Climate risk" of the annual report and the financial statements.

Based on our work performed, we have included the impact of climate change on the financial statements in the key audit matters "Valuation of financial instruments with higher risk characteristics including related income from trading activities" and "Expected Credit Losses".

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Our audit response related to fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of NMW N.V. and its environment and the components of the system of internal control, including the risk assessment process and the Managing Board's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes.

We refer to section "Risk factors" of the annual report and accounts 2023 for the Managing Board's (fraud) risk assessment

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption, in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

We addressed the risks related to management override of controls, as this risk is present in all companies. For these risks we have performed procedures among other things to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in Note "Accounting Policies – Critical accounting policies" to the financial statements. We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties.

As described in our key audit matter " Valuation of financial instruments with higher risk characteristics", we considered the risks of management bias that may represent a risk of material misstatement due to fraud and the presumed risk of fraud in revenue recognition in connection with valuation of financial instruments with higher risk characteristics which requires significant judgement. Further, we considered the risk of management bias that may represent a risk of material misstatement due to fraud in connection with the recognition of deferred tax assets as described in our key audit matter "Transfer pricing arrangements and recognition of deferred tax assets".

We considered available information and made enquiries of relevant executives, directors, internal audit, legal, compliance, human resources and business heads and the Supervisory Board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations

We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Managing Board specifically about the procedures management performs to be compliant with the banking regulations, inspection of the integrity risk analysis (SIRA), reading minutes, inspection of internal audit and compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. With regard to the identified shortcomings in the areas of financial crime, data management, internal models and outsourcing arrangements in prior years, we assessed whether NWM N.V, has an adequate process in place to evaluate the impact of non-compliance for its activities and financial reporting and, where relevant, whether NWM N.V. implemented remediation plans. Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in Note "Basis of preparation" to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, the Managing Board made a specific assessment of NWM N.V.'s ability to continue as a going concern and to continue its operations for the foreseeable future. We discussed and evaluated the specific assessment with the Managing Board exercising professional judgment and maintaining professional skepticism.

We considered whether the Managing Board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events or conditions that may cast significant doubt on the company's ability to continue as a going concern, also focusing on whether the company will continue to meet the regulatory solvency requirements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify material uncertainties about going concern. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter "Identified shortcomings in the areas of financial crime, data management, internal models and outsourcing arrangements" which was included in our last year's auditor's report, is not considered a key audit matter for this year due to the progress made by NWM N.V. in addressing the identified shortcomings during 2023.

Risk	Our audit approach
Transfer pricing arrangements and recognition of deferred tax assets	
NWM Group plc, which includes NWM N.V. and its branches, applies a transfer pricing framework, including a set of profit allocation models for its activities based on cost plus, return on equity and revenue split. The transfer pricing arrangements related to intergroup transactions and services require the application of judgment and require compliance with complex local tax regulations. NWM N.V. received transfer pricing revenues of EUR 128 million in 2023 (2022: 130 million). Given the judgment applied in the selection of the transfer pricing models and assumptions used, we identified a risk that transfer pricing revenues are misstated. Further, NWM N.V. has significant taxable losses and tax credits of approximately EUR 3 billion. Based on its strategic plans, NWM N.V. expects to generate taxable income for future periods and recognized a deferred tax asset of EUR 63 million as at 31 December 2023 (2022: EUR 52 million). Due to the high level of estimation uncertainty involved over the assumptions and judgments used for forecasting future taxable income, including the allocation of transfer pricing income among NWM N.V. branches, we identified risks of management override of controls with regard to the recognition of deferred tax assets. Reference is made to the 'Accounting Policies' to the consolidated financial statements, Note 2 'Non-interest income', Note 6 'Tax' and Note 27 'Related Parties'.	We have obtained an understanding of the entity's controls, including control activities, evaluated the design and implementation of internal controls across the processes relevant to transfer pricing arrangements and recognition of deferred tax assets. This included, amongst other, controls governing budget processes, transfer pricing model inputs, post model adjustments, posting of journal entries and disclosures. With the support of our internal transfer pricing and income tax specialists, we have assessed the completeness, measurement and accuracy of transfer pricing income and related documentation. In order to understand and evaluate management's judgements, we have considered the status of current tax authority enquiries and correspondences, current estimates and developments in the tax environment and challenged management's key assumptions. We have evaluated whether NWM N.V. has appropriately applied the requirements of the IAS 1- Presentation of Financial Statements, IAS 12- Income Taxes and IFRIC 23- Uncertain Tax Positions and whether the methods for making estimates are appropriate and were applied consistently in connection with the recognition of deferred tax assets and transfer pricing income. We have tested how management has assessed the recognition of deferred tax assets and the data on which these were measured. We have evaluated the appropriateness of the methods and the reasonableness of assumptions used, mainly being the approved forecast of taxable income for future periods, including transfer pricing income. We obtained an understanding of back testing procedures performed by NWM N.V. and tested the outcome of these procedures to conclude on the reliability of the forecast of the taxable income. Furthermore, we have evaluated the outcome of alternative scenarios and sensitivity analyses to assess if the deferred tax asset recognized is within a reasonable range. Finally, we have evaluated the completeness and accuracy of the disclosures relating to the deferred tax assets and transfer pricing arrangements in compliance with EU-IFRSs. This includes evaluation of particularly whether disclosures adequately convey the degree of estimation uncertainty and the range of possible outcomes.
Key observations	
We are satisfied that the models and assumptions used by management to determine transfer pricing income and deferred tax assets are reasonable. The related disclosures in the financial statements are considered adequate and appropriate and meet the requirements under EU-IFRSs.	

Risk	Our audit approach
Valuation of financial instruments with higher risk characteristics including related income from trading activities	
The valuation of those financial instruments with higher risk characteristics can include both significant judgement and the risk of inappropriate recognition of income from trading activities through incorrect pricing as outlined below. The fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on data inputs where there is limited market observability. Areas which required management estimates and significant judgement include: – **Complex models** – Complex model dependent valuations of financial instruments, which include interest rate swaps linked to pre-payment behaviour and interest rate options with exotic features; – **Inputs used in valuation of illiquid instruments ("Illiquid Inputs")** - Pricing inputs and calibrations for illiquid instruments. Additionally derivative instruments whose valuation is dependent on discount rates associated with complex collateral arrangements; and – **Fair value adjustments** - The appropriateness of fair value adjustments made to derivative valuations including Credit Valuation Adjustments (CVA). We identified risks of management override of controls and considered that the manipulation of income from trading activities recognition is most likely to arise through the inappropriate valuation of these instruments given the level of judgement involved. Reference is made to 'Market Risk' section of the 'Risk and capital management' section of the annual report and accounts.	We evaluated the design and tested operating effectiveness of controls relating to financial instrument valuation and related income statement measurement including independent price verification, valuation models governance, collateral management, income statement analysis and the associated controls over relevant information technology systems. We also observed the Valuation Committee meetings where valuation inputs, assumptions and adjustments were discussed and approved. We involved our financial instrument valuation and modelling specialists to assist us in performing procedures including the following: – **Complex models:** Testing complex model-dependent valuations by performing independent revaluation to assess the appropriateness of models and the adequacy of assumptions and inputs used by NWM N.V.; – **Illiquid inputs:** Independently re-pricing instruments that had been valued using illiquid pricing inputs, using alternative pricing sources where available, to evaluate management's valuation; – **Fair value adjustments:** Comparing fair value adjustment methodologies to current market practice and assessing the appropriateness and adequacy of the valuation adjustment framework in light of market practice and changes in the risk profile of the underlying portfolio; and revaluing a sample of counterparty level CVAs, and independently challenging illiquid CVA inputs. Throughout our audit procedures we considered the current uncertain geopolitical and economic outlook, including market volatility and the impact of climate change on the valuation of financial instruments, particularly in relation to long-dated illiquid positions. In addition, we assessed whether there were any indicators of aggregate bias in financial instrument marking and methodology assumptions. We performed back-testing analyses of recent trade activity and asset disposals to evaluate the drivers of significant differences between book value and trade value and to assess the impact on the fair value of similar instruments within the portfolio. We performed an analysis of significant collateral discrepancies with counterparties to assess the potential impact on the fair value of the underlying (and similar) financial instruments.
Key observations	
We are satisfied that the models and assumptions used by management to reflect the fair value of financial instruments with higher risk characteristics and the recognition of related income are reasonable and in accordance with EU-IFRS.	

Risk	Our audit approach
Expected Credit Losses	
On 31 December 2023, NWM N.V. reported total gross loans of €1,295 million (2022: €1,640 million) and €9 million of expected credit loss (hereafter: "ECL") provisions under IFRS 9 'Financial Instruments' (2022: €11 million). Impairment releases were nil compared to €14 million impairment losses in 2022. Reference is made to 'Credit Risk' in the 'Risk and capital management' section, 'Accounting policies' to the consolidated financial statements and Note 12 'Loan impairment provisions'. Determining the appropriate ECL requires management judgement. Estimates can be subjective and there remains uncertainty related to the current geopolitical and economic outlook. Given the nature of the loan portfolio we assessed that the most significant factor impacting ECL is the completeness of stage 3 assets due to the risk that default events impacting stage 1 and 2 loans are not captured or appropriately evaluated on a timely basis.	We evaluated the design and tested operating effectiveness of credit monitoring controls. This includes our evaluation of the governance process, where we observed the Group Provision Committee meetings, where judgements and estimates with respect to ECL are discussed and approved. We evaluated the criteria used to allocate a financial asset to stage 3 in accordance with IFRS 9. To test appropriate staging of loan facilities, for a sample of loans, we recalculated the staging of assets based on management's criteria to assess if they were allocated to the appropriate stage. We assessed whether credit reviews performed by management appropriately considered relevant risk factors and identified events of default. Our testing focused on borrowers who may have a higher risk of default and considered the impact of climate change.
Key observations	
We are satisfied that loans have been identified as Stage 3 where appropriate and were recognised in accordance with IFRS 9. We concur with the related disclosures in the financial statements.	

Risk	Our audit approach
IT systems and controls impacting financial reporting	
As discussed in the 'Risk factors' section under 'Operational and IT resilience risk', NWM N.V.'s IT environment is complex and pervasive to the operations and financial reporting of NWM N.V. due to the large volume of transactions processed in various locations daily. The risk is also impacted by the greater dependency on other NatWest Group entities and third-parties, increasing use of cloud platforms, decommissioning of legacy systems and migration to new systems. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. Such controls contribute to mitigating the risk of potential fraud or errors in financial reporting as a result of changes to applications and data. We therefore consider the IT systems and controls impacting the financial reporting a key audit matter.	We evaluated the design and tested operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. During our planning and test of design phases of our audit, we performed procedures to assess the cybersecurity program and how management evaluates cyber risks. We tested user access by assessing the controls in place for in-scope applications, in particular those pertaining to the addition and periodic recertification of users' access. We continued to focus on key controls enforced by the 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. We tested change management controls in relation to amendments to applications. We tested IT application and controls over data interfaces between applications. A number of systems are outsourced to third party service providers. For these systems, 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 address 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 in the scope of our audit 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. We assessed automated controls within business processes and the reliability of relevant reports used as part of manual controls. This included assessing the integrity of system interfaces, the completeness and accuracy of data feeds, automated calculations and specific input controls. Where control deficiencies were identified, we tested remediation activities performed by management and compensating controls in place and assessed what additional testing procedures were necessary to mitigate any residual risk.
Key observations	
We are satisfied that IT controls impacting financial reporting are designed and operating effectively.	

Report on other information included in the Annual Report and Accounts

The annual report and accounts contain other information in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code for the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of NWM N.V. on 22 July 2016, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRSs and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. The Managing Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Managing Board
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

In this respect we also submit an additional report to the Audit Committee of the Supervisory Board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 15 February 2024

Ernst & Young Accountants LLP

J.G. Kolsters

Risk factors

Principal Risks and Uncertainties

Set out below are certain risk factors that could have a material adverse effect on NWM N.V. 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 top and emerging risk section, 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 NWM N.V. Group.

Economic and political risk

NWM N.V. Group, its customers and its counterparties face continued economic and political risks and uncertainties in the UK, European and global markets, including as a result of inflation and interest rates, supply chain disruption and geopolitical developments.

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

In addition, financial markets are susceptible to severe events evidenced by, or resulting in, rapid depreciation in asset values, which may be accompanied by a reduction in asset liquidity. Under these conditions, hedging and other risk management strategies may not be as effective at mitigating losses as they would be under more normal market conditions. Moreover, under these conditions, market participants are particularly exposed to trading strategies employed by many market participants simultaneously (and often automatically) and on a large scale, increasing NWM N.V. Group's counterparty risk. NWM N.V. Group's risk management and monitoring processes seek to quantify and mitigate NWM N.V.

Group's exposure to extreme market moves. However, market events have historically been difficult to predict and NWM N.V. Group, its customers and its counterparties could realise significant losses if extreme market events were to occur.

NWM N.V. Group is affected by global economic and market conditions. Uncertain and volatile economic conditions can create a challenging operating environment for financial services companies such as NWM N.V. Group. The outlook for the global economy remains uncertain including due to: GDP growth, inflation and changing interest rates, changing asset prices (including residential and commercial property), elevated energy, 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 or global financial systems, market volatility and change, fluctuations in the value of the pound sterling and euro, new or extended economic sanctions, economic volatility in the UK or globally, volatility in commodity prices, political uncertainty or instability (for example the upcoming European Parliament and US presidential elections, and the UK general election to take place before February 2025), or concerns regarding sovereign debt or sovereign credit ratings, changing demographics in the markets that NWM N.V. Group serves, increasing social and other inequalities, or rapid changes to the economic environment due to the adoption of technology, automation and artificial intelligence, or due to climate change, and/or other sustainability-related risks. See also '*Changes in interest rates will continue to affect NWM N.V. Group's business and results*''. Any of the above developments could have a material adverse effect on NWM N.V. Group directly (for example, as a result of credit losses) or indirectly (for example, by impacting global economic growth and financial markets and NWM N.V. Group's clients and their banking needs).

NWM N.V. 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 (for example the Russia-Ukraine and Israel-Hamas conflicts), terrorist acts or threats, protectionist policies or trade barriers, tax changes, 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, may have a material adverse effect on the business and performance of NWM N.V. Group, including as a result of the direct or indirect impact on UK, regional or global trade and/or NWM N.V. 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, which may further change the UK political landscape. Heightened political uncertainty could lead to a loss of confidence in the UK, which could in turn, negatively impact the economy and companies operating in the UK. NatWest Group also faces political uncertainty in Scotland as a result of a possible Scottish independence referendum. Scottish independence may adversely affect NatWest Group both in relation to entities incorporated in Scotland and in other jurisdictions. Any changes to Scotland's relationship with the UK or the EU would adversely affect the environment in which NatWest Group plc and its subsidiaries operate and may require further changes to NatWest Group (including NWM Group's and NWM N.V. Group's structure), independently or in conjunction with other mandatory or strategic structural and organisational changes, any of which could adversely affect NWM N.V. Group. See '*Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group*'.

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

Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group.

As a result of the UK's withdrawal from the EU, certain aspects of the services provided by NatWest Group require local licences or individual equivalence decisions (temporary or otherwise) by relevant regulators. In late 2021 the European Commission proposed legislation that would require non-EU firms to establish a branch or subsidiary in the EU before providing 'banking services' in the EU. When these proposals become law all 'banking services' provided by NatWest Group (of which NWM N.V. Group forms part) in the EU may be licensable activities in each EU member state in which it provides such services and member states may not be permitted to offer bilateral permissions to financial institutions outside the EU allowing them to provide such 'banking services' except in limited circumstances. Furthermore, failure to extend existing equivalence determinations, exemptions and derogations in relation to regulations such as margin and clearing regulations or capital regulations, may adversely affect customer engagement and/or may significantly negatively impact the operating model and business operations of NWM Group (of which NWM N.V. Group forms part).

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

Transfers in relation to NatWest Group's Western European corporate portfolio (principally consisting of term funding and revolving credit facilities) may also affect NWM Group of which NWM N.V. Group is a part of. See also, '*The transfer of NatWest Group's Western European corporate portfolio involves certain risks*.'

The long-term effects of Brexit and the uncertainty regarding NatWest Group's EU operating model may adversely affect NWM Group and NWM N.V. Group's business. These may be exacerbated by wider UK and global macroeconomic trends and events which may significantly impact NWM N.V. 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. Significant uncertainties remain as to whether and what equivalence determinations will be made by the various regulators, whether the proposed EEA licenced subsidiary is granted a banking licence, whether banking services will be harmonised across the EEA and, therefore, what the respective legal and regulatory arrangements will be, under which NWM Group and its subsidiaries (including NWM N.V. Group) will operate.

This divergence could lead to further market fragmentation. These risks and uncertainties may require costly changes to NWM N.V. Group's EU operating model. NWM N.V. Group may not be able to respond to these changes effectively, in a timely manner, or at all.

The actions taken by regulators in response to any new or revised bank regulation and other rules affecting financial services, may adversely affect NWM Group, including its business, non-UK operations, group structure, compliance costs, intragroup arrangements and capital requirements. The legal and political uncertainty, and any actions taken as a result of this uncertainty, as well as the approach taken by regulators and new or amended rules, could have a significant adverse impact on NWM N.V. Group's businesses, non-UK operations and/or legal entity structure, including NWM N.V. Group, including attendant operating, compliance and restructuring costs, level of impairments, capital requirements, changes to intragroup arrangements, increased complexity of the regulatory environment and tax implications and as a result may adversely affect the profitability, competitive position, business model and product offering of NWM Group and NWM N.V. Group.

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

Changes in interest rates will continue to affect NWM N.V. Group's business and results.

NWM N.V. Group's performance is affected by changes in interest rates. Benchmark overnight interest rates increased in 2023, although forward rates at 31 December 2023 suggested interest rates may begin to fall in 2024.

On the one hand, stable interest rates support predictable income flow and less volatility in asset and liability valuations, although persistently low and negative interest rates, may adversely affect NWM N.V. Group.

On the other hand, volatility in interest rates may result in unexpected outcomes both for interest income and asset and liability valuations which may adversely affect NWM N.V. 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 an adverse effect on some asset and derivative valuations, for example. Furthermore, customer and investor responses to rapid changes in interest rates can have an adverse impact on NWM N.V. Group. For example, customers may make deposit choices that provide them with higher returns than those then being offered by NWM N.V. Group, and NWM N.V. Group may not respond with competitive products as rapidly, for example following an interest rate change which may in turn decrease NWM N.V. Group's net interest income.

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

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

NatWest Group plc is the ultimate parent company of NWM N.V. 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 NatWest Group's (including NWM N.V. Group) other securities.

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

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

In addition, as a wholly owned subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM plc and NatWest Group plc directly and indirectly control NWM N.V. Group's corporate policies and strategic direction. The interests of NatWest Group plc as an equity holder of NWM N.V. Group and as its ultimate parent and the interests of the C&I business segment may differ from the interests of NWM N.V. Group or of potential investors in NWM N.V. Group's securities.

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

Strategic risk

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

As part of NatWest Group's strategy, NWM Group's own strategy has evolved to focus on serving NatWest Group's corporate and institutional customer base, via the creation of NatWest Group's C&I business segment (which combines the previously separately reporting NatWest Group's Commercial, NatWest Markets and RBS International businesses). Since the quarter ending 30 March 2022, NatWest Group plc has been reporting its results under the C&I operating segment structure, although NWM Plc continues to also report on a standalone legal entity basis. The C&I business segment was created to promote closer operational and strategic alignment to support NatWest Group growth, with more integrated services to customers across NatWest Group entities, within and outside the ring-fenced banks, with the potential increased risk of breach of the UK ring-fencing regime requiring effective conflicts of interest policies. As a result of further focusing on NatWest Group's core C&I customers, NWM Group's prospects have become further dependent on the success and strategy of NatWest Group.

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

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

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

NWM Group has implemented a shared services model and transfer pricing arrangements with some entities within NatWest Group's ring-fenced sub- group (including NatWest Bank Plc and The Royal Bank of Scotland Plc). NWM Group therefore relies directly or indirectly on NatWest Group entities to provide services to itself and its clients. This reliance has increased as a result of NWM Group joining NatWest Group's C&I business segment.

A failure of NWM Group to receive these services may result in operational risk for NWM N.V. Group. See, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses*'. In addition, any change to the cost and/or scope of services provided by NatWest Group may impact NWM Group's (including NWM N.V. Group's) competitive position and its ability to meet its other targets.

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

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

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

To improve efficiencies and best serve customers following Brexit, NWM Group expects that certain assets, liabilities, transactions and activities of NatWest Group (including NatWest Group's Western European corporate portfolio principally consisting of term funding and revolving credit facilities) (the 'Transfer Business'), may be: (i) transferred from the ring-fenced subgroup of NatWest Group to NWM Group, and/or (ii) transferred to the ring-fenced subgroup of NatWest Group from NWM Group, subject to regulatory and customer requirements. The timing, success and quantum of any of these transfers remain uncertain as is the impact of these transactions on its results of operations. As a result, this could have a material adverse effect on NWM Group's (including NWM N.V. Group) future results, financial condition, prospects, and/or reputation.

Financial resilience risk

NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands. NWM N.V. has repurposed its banking licence, and NWM N.V. Group may be subject to further changes.

As part of NatWest Group's strategy, NWM N.V. is NatWest Group's banking and trading entity located in the Netherlands, serves EEA customers, and became a NWM Plc subsidiary in November 2019. In addition, although the head office for NWM N.V. is located in Amsterdam, NWM N.V. Group also operates branches in France, Germany, Italy, and Sweden. On 13 November 2023, the European Central Bank ('ECB') confirmed that RBS Holdings N.V. and its subsidiary NWM N.V. were classified as a "significant supervised group". As a result, the ECB assumed direct supervision of NWM N.V. on 1 January 2024. Direct supervision could have an adverse impact on NWM N.V. Group's business strategy, operating model (including any compliance cost) and prudential and regulatory requirements.

As a subsidiary of NWM Plc (and ultimately NatWest Group plc), NWM N.V. utilises a number of NWM Group and NatWest Group systems, policies and frameworks (via a shared services model) including in relation to: technology (including innovation) and network infrastructure, marketing, risk frameworks, financial accounting systems, reporting, on-boarding processes, model development and validation, certain administrative and legal services and governance. In addition, the products that NWM N.V. offers are based on those offered by NWM Plc. See also, '*Operational risks (including reliance on third party suppliers and outsourcing of certain activities) are inherent in NWM N.V. Group's businesses*'. As such, any changes made to systems, policies, frameworks or products of NatWest Group or NWM Group may have a corresponding adverse effect on NWM N.V.

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

NWM Group, including NWM N.V. Group, may not achieve its ambitions, targets and guidance it communicates, generate returns or implement its strategy effectively.

NWM N.V. Group is subject to transfer pricing arrangements with NWM Plc (NWM N.V.'s parent company). Arm's length transfer pricing legislation in both the Netherlands and UK requires that, for transactions between related parties, each entity is rewarded on the same basis as two independent parties negotiating a contract covering the same activities. The transfer pricing arrangements between NWM N.V. and NWM Plc require approval by both counterparties and are subject to audit and/or assessment by Dutch and UK tax authorities. A portion of NWM N.V. Group's income derives from transfer pricing income received from NatWest Group entities. Should the level of such income change as a result of regulatory intervention or otherwise, this may have a material and adverse effect on NWM N.V. Group's profitability. As part of NatWest Group's strategy, NWM N.V. Group has set a number of financial, capital and operational targets including in respect of: balance sheet and cost-reduction measures, CET1 ratio targets (for NWM Plc and NWM N.V.), MREL targets, leverage ratio targets (for NWM Plc and NWM N.V.), targets in relation to local regulation, funding plans and requirements, employee engagement, diversity and inclusion as well as climate strategy (including its climate and sustainable funding and financing targets) and customer satisfaction targets.

NWM N.V. Group's ability to meet its ambitions, targets and guidance (including its CET1 ratio target), and make discretionary capital distributions and to successfully fulfil its strategy is subject to various internal and external factors, risks and uncertainties. These include but are not limited to: global macroeconomic, political, market and regulatory uncertainties, operational risks and risks relating to NWM N.V. Group's business model and strategy (including risks associated with climate and other sustainability-related issues).

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

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

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

In addition, challenging trading conditions may adversely affect NWM N.V. Group's business and its ability to achieve its targets and guidance and execute its strategy. Furthermore, NWM N.V. Group's strategy may not be successfully executed, or it may not meet its ambitions, targets, guidance, and expectations.

Any of the above may lead NWM N.V. Group to not meet its ambitions, target, guidance and expectations, to not be viable, competitive or profitable, and may have a material adverse effect on NWM N.V. Group's future results, financial condition, prospects, and/or reputation.

NWM N.V. may not meet the prudential regulatory requirements for capital.

NWM N.V. Group is required by the ECB to maintain adequate financial resources. Adequate capital provides NWM N.V. Group with financial flexibility in the face of turbulence and uncertainty in the global economy and specifically in its core European operations.

NWM Plc's and NWM N.V.'s target CET1 ratios (see the targets set forth in each respective entity's Outlook section) are based on regulatory requirements, internal modelling and risk appetite (including under stress). As at 31 December 2023, NWM N.V. Group's CET1 ratio (on a consolidated basis) was 19.0%. NWM N.V.'s current capital strategy is based on the management of RWAs and other capital management initiatives.

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

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

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

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

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

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

Liquidity and the ability to raise funds continues to be a key area of focus for NWM N.V. Group and the industry as a whole. NatWest Group and NWM N.V are required by regulators in the UK, the EU and other jurisdictions in which they undertake regulated activities to maintain adequate liquidity and funding resources. To satisfy its liquidity and funding requirements, NWM N.V. Group may therefore access sources of liquidity and funding through deposits and wholesale funding, including debt capital markets and trading liabilities such as repurchase agreements. As at 31 December 2023, NWM N.V. Group held €4.97 billion in deposits from banks and customers. The level of deposits and wholesale funding may fluctuate due to factors outside NWM N.V. Group's control.

These factors include: loss of clients, changes in customer behaviour, loss of client and/or investor confidence (including in individual NWM N.V. Group entities or the European banking sector or the banking sector as a whole), changes in interest rates, government support, increasing competitive pressures for bank funding or the reduction or cessation of deposits and other funding by counterparties, any of which could result in a significant outflow of deposits or reduction in wholesale funding within a short period of time. See also, '*— NWM N.V. Group has significant exposure to counterparty and borrower risk*'.

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

NWM N.V. Group engages from time to time in 'fee based borrow' transactions whereby collateral (such as government bonds) is borrowed from counterparties on an unsecured basis in return for a fee. This borrowed collateral may be used by NWM N.V. Group to finance parts of its balance sheet, either in its repo financing business, derivatives portfolio or more generally across its balance sheet. If such 'fee based borrow' transactions are unwound whilst used to support the financing of parts of NWM N.V. Group balance sheet, then unsecured funding from other sources would be required to replace such financing. There is a risk that NWM N.V. Group would be unable to replace such financing on acceptable terms or at all, which may have an adverse effect on its liquidity position and may adversely affect NWM N.V. Group. In addition, because 'fee base borrow' transactions are conducted off-balance sheet (due to the collateral being borrowed) investors may find it more difficult to gauge NWM N.V. Group's creditworthiness, which may be affected if these transactions were to be unwound in a stress scenario. Any lack of, or perceived lack of, creditworthiness may adversely affect NWM N.V. Group.

Macroeconomic developments and political uncertainty, changes in interest rates, and market volatility could affect NWM N.V. Group's ability to access sources of liquidity and funding on satisfactory terms, or at all. This may result in higher funding costs and failure to comply with regulatory capital, funding and leverage requirements. As a result, NWM N.V. Group and its subsidiaries could be required to change their funding plans and/or their operations. This could exacerbate funding and liquidity risk, which could have a negative effect on NWM N.V. Group.

As at 31 December 2023, NWM N.V. Group reported a liquidity coverage ratio of 144% on a solo basis. If its liquidity position were to come under stress and if NWM N.V. Group is unable to raise funds through deposits, wholesale funding sources, or other reliable funding sources, on acceptable terms or at all, its liquidity position would likely be adversely affected. This would mean that NWM N.V. Group might be unable to: meet deposit withdrawals on demand or satisfy buy back requests, repay borrowings as they mature, meet its obligations under committed financing facilities, comply with regulatory funding requirements, undertake certain capital and/or debt management activities, or fund new loans, investments and businesses.

If, under a stress scenario, the level of liquidity falls outside of NWM N.V. Group's risk appetite, there are a range of recovery management actions that NWM N.V. Group could take to manage its liquidity levels, but any such actions may not be sufficient to restore adequate liquidity levels. NWM N.V. Group must maintain a recovery plan acceptable to its regulator, such that a breach of NWM N.V. Group's applicable liquidity requirements would trigger consideration of NWM N.V.'s recovery plan. This in turn may prompt consideration of NatWest Group's recovery plan to attempt to remediate a deficient liquidity position.

NWM N.V. Group may need to liquidate assets to meet its liabilities, including disposals of assets not previously identified for disposal to reduce its funding or payment commitments or trigger the execution of certain management actions or recovery options. This could also lead to higher funding costs and/or changes to NWM N.V. Group's funding plans or its operations. In a time of reduced liquidity or market stress, NWM N.V. Group may be unable to sell some of its assets or may need to sell assets at depressed prices, which in either case may adversely affect NWM N.V. Group.

NWM N.V. Group independently manages liquidity risk on a stand-alone basis, including through holding its own liquidity portfolio. It has restricted access to liquidity or funding from other NatWest Group entities. As a result, NWM N.V.'s liquidity position could be adversely affected, which may also require assets to be liquidated or may result in higher funding costs which may adversely affect NWM N.V. Group's margins and profitability. NWM N.V.'s management of its own liquidity portfolio and the structure of capital support are subject to operational and execution risk, as NWM N.V. is required to meet its own liquidity and capital requirements.

Continuing market volatility may have a negative effect on NWM N.V. Group's access to liquidity and funding, which could mean that NWM N.V. Group is required to adapt its funding plan or change its operations and could adversely affect NWM N.V. Group. Market volatility may also result in increases to leverage exposure.

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

NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group.

NWM N.V. Group has funding requirements based on its current and anticipated business activities and is reliant on frequent access to the capital markets for funding, at a cost that can be passed through to its customers.

This access entails execution risk, regulatory risk, risk of reduced commercial activity, risk of loss of market confidence in NWM N.V. Group if it cannot finance its activities and risk of a ratings downgrade, which could be influenced by a number of internal or external factors, including, those summarised in '*NWM N.V. Group, its customers and its counterparties face continued economic and political risks and uncertainty in the UK, European and global markets, including as a result of inflation and interest rates, supply chain disruption and geopolitical developments,*' and '*Continuing uncertainty regarding the effects and extent of the UK's post Brexit divergence from EU laws and regulation, and NWM N.V.'s post Brexit EU operating model may continue to adversely affect NWM Plc (NWM N.V.'s parent company) and its operating environment and NatWest Group plc (NWM N.V.'s ultimate parent company) and may have an indirect effect on NWM N.V. Group*'.

In addition, NWM N.V. receives capital and funding from NatWest Group plc and NWM N.V. is therefore reliant on the willingness of NatWest Group plc to fund its internal capital targets. NWM N.V. Group has set target levels for different tiers of capital as percentages of its RWAs. The level of capital and funding required for NWM N.V. to meet its internal targets is therefore a function of the level of RWAs and its leverage exposure in NWM N.V. and this may vary over time.

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

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

NWM N.V. may not manage its capital, liquidity or funding effectively which could trigger the execution of certain management actions or recovery options.

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

NatWest Group may also address a shortage of capital in NWM N.V. by providing parental support to NWM N.V., subject to evidence that the conditions set out in Article 23 of the BRRD, as implemented into Dutch law article 3:301 and 3:305 of the Dutch Financial Markets Supervision Act ('FMSA') have been met. NatWest Group's and/or NWM N.V.'s regulator may also request that NWM N.V. Group carry out additional capital management actions. The Bank of England has identified single point-of- entry at NatWest Group plc, as the preferred resolution strategy for NatWest Group.

However, under certain conditions set forth in the BRRD, as implemented by the FMSA, DNB or the SRB, also have the power to execute the 'bail-in' of certain securities of NWM N.V. without further action at NatWest Group level.

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

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

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

Rating agencies regularly review NatWest Group plc, NWM Plc, NWM N.V. and other NatWest Group entities' credit ratings and outlooks. NWM N.V. 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 limitations: credit rating agencies' assessment of NWM N.V. Group's strategy and management's capability; its financial condition including in respect of profitability, asset quality, capital, funding and liquidity, and risk management practices; the level of political support for the sectors and regions in which NWM N.V. Group operates; the implementation of structural reform; the legal and regulatory frameworks applicable to NWM N.V. Group's legal structure; business activities and the rights of its creditors; changes in rating methodologies; changes in the relative size of the loss-absorbing buffers protecting bondholders and depositors; the competitive environment, political, geopolitical and economic conditions in NWM N.V. Group's key markets (including interest rates and inflation, supply chain disruptions and the outcome of any further Scottish independence referendum); any reduction of the UK's sovereign credit rating and market uncertainty.

In addition, credit ratings agencies are increasingly taking into account sustainability-related factors, including climate, environmental, social and governance related risk, as part of the credit ratings analysis, as are investors in their investment decisions. See also '*A reduction in the ESG ratings of NatWest Group or NWM Group (including NWM N.V. Group) could have a negative impact on NatWest Group's or NWM Group (including NWM N.V. Group)'s reputation and on investors' risk appetite and customers' willingness to deal with NatWest Group, NWM Group or NWM N.V. Group.*'

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

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

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

The markets within which NWM N.V. Group operates are highly competitive, and NWM N.V. Group expects such competition to continue and intensify in response to various changes including: evolving customer behaviour, technological changes (including digital currencies and other instruments, stablecoins, and the growth of digital banking, such as from fintech entrants), competitor behaviour, new entrants to the market (including non-traditional financial services providers who may have competitive advantages in scale, technology and consumer engagement), competitive foreign exchange offerings, industry trends resulting in increased disaggregation or unbundling of financial services, or conversely the reintermediation of traditional banking services, and the impact of regulatory actions and other factors. In particular, developments in the financial sector resulting from new or more competitive banking and lending products and services offered by rapidly evolving incumbents, challengers (including shadow banks and alternative lenders, i.e. entities which carry out activities of a similar nature to banks without the same regulatory oversight) and new entrants such as technology companies (which may result in a shift in customer behaviour) and the introduction of disruptive technology, may impede NWM N.V. Group's ability to grow or retain its market share and impact its revenues and profitability. Moreover, innovations such as biometrics, artificial intelligence (including generative artificial intelligence), automation, the cloud, blockchain, cryptocurrencies and quantum computing may rapidly facilitate industry transformation.

Increasingly, many of the products and services offered by NWM N.V. Group are, and will become, more technology intensive, including through digitalisation, automation and the use of artificial intelligence. NWM N.V. Group's ability to develop or acquire such services (which also comply with applicable and evolving regulations) and their integration in NWM N.V. Group's systems and controls has become increasingly important to retaining and growing NWM N.V. Group's competitiveness, market share and client businesses across its geographical footprint. There is a risk that NWM N.V. Group's innovation strategy which includes investment in its IT capability intended to improve its core infrastructure and client interface capabilities as well as investments and strategic partnerships with third party technology providers will be successful or that it will allow NWM N.V. Group to successfully offer innovative products and services in the future.

Certain of NWM N.V. Group's current or future competitors may be more successful in implementing technologies than NWM N.V. Group for delivering products or services to their clients, which may adversely affect its competitive position. NWM N.V. Group may also fail to identify future opportunities or fail to derive benefits from technologies in a context of technological innovation, changing customer behaviour and changing regulatory demands, resulting in increased competition from traditional banking businesses as well as new providers of financial services (including technology conglomerates with strong brand recognition, that may be able to develop financial services at a lower cost base). NWM N.V. Group's competitors may also be better able to attract and retain clients and key employees, may have more effective IT systems, and may have access to lower cost funding and/or be able to attract deposits or provide investment-banking services on more favourable terms than NWM N.V. Group. As mentioned above, NWM N.V. operates a shared services model in relation to technology and innovation. Although NWM N.V. Group invests in new technologies and participates in industry and research-led initiatives aimed at developing new technologies, such investments may be insufficient or ineffective, especially given NWM N.V. Group's focus on its cost efficiencies.

This may limit additional investment in areas such as financial innovation and could affect NWM N.V. Group's offering of innovative products or technologies for delivering products or services to clients, and in turn affecting its competitive position. NWM Group and NWM N.V. 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. Any of the above may limit additional investment in areas such as innovation and could affect NWM Group's offering of innovative products or technologies for delivering products or services to customers and its competitive position. Furthermore, the development of innovative products depends on NWM Group and NWM N.V. Group's ability to effectively produce, acquire, or manage underlying high-quality data, failing which its ability to offer innovative products may be compromised.

If NWM N.V. Group is unable to offer competitive, attractive and innovative products that are also profitable and rolled out in a timely manner, it will lose market share, incur losses on some or all of its initiatives and lose opportunities for growth. In this context, NWM N.V. Group is investing in the automation of certain solutions and interactions within its customer-facing businesses, including through automation and artificial intelligence. Such initiatives may result in operational, reputational and conduct risks if the technology used is not used appropriately, is defective, inadequate or is not fully integrated into NWM N.V. Group's current solutions, systems, and controls. There is a risk that such initiatives will deliver the expected cost savings and investment in technology (including automated processes and artificial intelligence) will likely also result in increased costs for NWM N.V. Group.

In addition, NatWest Group's strategy, as well as employee remuneration constraints may also have an impact on NWM N.V. Group's ability to compete effectively. Intensified competition from incumbents, challengers and new entrants as well as disintermediation by large technology companies could affect NWM Group and NWM N.V. Group's ability to provide satisfactory returns.

Moreover, activist investors have increasingly become engaged and interventionist in recent years, which may pose a threat to NatWest Group's strategic initiatives.

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

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

NWM N.V. 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 and NWM N.V Group is subject to stress testing by the ECB. Stress tests are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward- looking capital planning processes that account for the risks associated with their business profile. If the stress tests reveal that a bank's existing regulatory capital buffers are not sufficient to absorb the impact of the stress, then it is possible that NatWest Group and/or NWM Group may need to take action to strengthen their capital positions.

Failure by NatWest Group (or NWM N.V. Group) to meet its quantitative and qualitative requirements of the stress tests set forth by its UK regulators or the ECB, as applicable, may result in: NatWest Group's (and/or NWM N.V. Group's) regulators requiring NatWest Group (or NWM N.V. Group) to generate additional capital, reputational damage, increased supervision and/or regulatory sanctions and/or loss of investor confidence.

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

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

NWM N.V., a subsidiary of NWM Plc, has a portfolio of loans and loan commitments to Western European corporate customers. As a result, through the NWM N.V. business and NWM Group's other activities, NWM Group has exposure to many different sectors, customers and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and other counterparties are inherent in a wide range of NWM N.V. Group's businesses. These risks may be concentrated for those businesses for which client income is heavily weighted towards a specific geographic region, industry or client base.

Furthermore, these risks are likely to increase due to the expected transfer of NatWest Group's Transfer Business. See '*The transfer of NatWest Group's Western European corporate portfolio involves certain risks*'.

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

The credit quality of NWM N.V. Group's borrowers and other counterparties may be affected by global macroeconomic and political uncertainties and a further deterioration in prevailing economic and market conditions. These include factors relating to interest rates and inflation, changing asset prices, energy prices, supply chain disruption, changes to monetary and fiscal policy, armed conflicts, and changes in the legal and regulatory landscape in countries where NWM N.V. Group is exposed to credit risk (including the extent of the UK's post-Brexit divergence from EU laws and regulation). Any further deterioration in these conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality or impact the enforcement of contractual rights, increasing credit risk.

NWM N.V. Group is exposed to the financial sector, including sovereign debt securities, financial institutions, financial intermediation providers (including providing facilities to financial sponsors and funds, backed by assets or investor commitments) and securitised products (typically senior lending to special purpose vehicles backed by pools of financial assets).

Concerns about, or a default by, a financial institution or intermediary could lead to significant liquidity problems and losses or defaults by other financial institutions, since the commercial and financial soundness of many financial institutions and intermediaries is closely related and interdependent as a result of credit, trading, clearing and other relationships. Any perceived lack of creditworthiness of a counterparty or borrower may lead to market-wide liquidity problems and losses for NWM N.V. Group. In addition, the value of collateral may be correlated with the probability of default by the relevant counterparty ('wrong way risk'), which would increase NWM N.V. Group's potential loss. This systemic risk may also adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which NWM N.V. Group interacts on a regular basis. See also, '*— NWM N.V. Group is reliant on access to the capital markets to meet its funding requirements. The inability to do so may adversely affect NWM N.V. Group*', and '*NWM N.V. Group may not meet the prudential regulatory requirements for liquidity and funding or may not be able to adequately access sources of liquidity and funding, which could trigger the execution of certain management actions or recovery options*'. As a result, adverse changes in borrower and counterparty credit risk may cause additional impairment charges under IFRS 9, increased repurchase demands, higher costs, additional write-downs and losses for NWM N.V. Group and an inability to engage in routine funding transactions.

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

Going forward, NWM N.V. 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 judgments used in the MES and ECL assessment at 31 December 2023 may not prove to be adequate resulting in incremental ECL provisions for NWM N.V. Group.

Due to NWM N.V. Group's exposure to the financial industry, it also has exposure to shadow banking entities (i.e., entities which carry out activities of a similar nature to banks without the same regulatory oversight). NWM N.V. Group is required to identify and monitor its exposure to shadow banking entities, implement and maintain an internal framework for the identification, management, control and mitigation of the risks associated with exposure to shadow banking entities, and/or ensure effective reporting and governance in respect of such exposure. If NWM N.V. Group is unable to properly identify and monitor its shadow banking exposure, maintain an adequate framework, or ensure effective reporting and governance in respect of shadow banking exposure.

Any of the above may adversely affect NWM N.V. Group's future results, financial condition, prospects, and/or reputation.

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

Given the complexity of NWM N.V. Group's business, strategy and capital requirements, NWM N.V. Group relies on analytical and other models for a wide range of purposes, including to manage its business, assess the value of its assets and its risk exposure, as well as to anticipate capital and funding requirements (including to facilitate NatWest Group's mandated stress testing). In addition, NWM N.V. Group utilises models for valuations, credit approvals, calculation of loan impairment charges on an IFRS 9 basis, financial reporting and for financial crime (criminal activities in the form of money laundering, terrorist financing, bribery and corruption, tax evasion and sanctions as well as external or internal fraud (collectively, 'financial crime')). NWM N.V. Group's models, and the parameters and assumptions on which they are based, are periodically reviewed.

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

NWM N.V. Group's financial statements are sensitive to underlying accounting policies, judgments, estimates and assumptions.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, exposures and RWAs. While estimates, judgments 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, judgments and assumptions (particularly those involving the use of complex models). Further, accounting policy and financial statement reporting requirements increasingly require management to adjust existing judgments, estimates and assumptions for the effects of climate-related, sustainability and other matters that are inherently uncertain and for which there is little historical experience which may affect the comparability of NWM N.V. 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, judgments and assumptions.

Accounting policies deemed critical to NWM N.V. Group's results and financial position, based upon materiality and significant judgments and estimates, involve a high degree of uncertainty and may have a material impact on its results. For 2023, these include loan impairments, fair value, deferred tax and conduct and litigation provisions. These are set out in the section '*Critical accounting policies*'.

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

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

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

NWM N.V. Group's trading assets amounted to €4,693million as at 31 December 2023. The valuation of financial instruments, including derivatives, measured at fair value can be subjective, in particular where models are used which include unobservable inputs. Generally, to establish the fair value of these instruments, NWM N.V. Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently credible, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In these circumstances, NWM N.V. Group's internal valuation models require NWM N.V. Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain.

Any of these factors could require NWM N.V. Group to recognise fair value losses which may adversely affect NWM N.V. Group's income generation and financial position.

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

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

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

The BRRD establishes a common approach within the EU for the recovery and resolution of banks. In the UK and the Netherlands, the BRRD has been implemented via national legislation which grants powers to a national resolution authority (the 'NRA'). The UK implementation of the BRRD remains in force now that the Brexit transition has ended.

In Europe (which for the avoidance of doubt excludes the UK) the BRRD is also (partly) implemented by a directly binding regulation which established a Single Resolution Mechanism ('SRM') and a single EU Resolution Board ('SRB') with powers which exceed the powers of the EU NRAs.

United Kingdom – NatWest Group plc and its UK subsidiaries

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

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 UK Banking Act, in circumstances where a stabilisation power is not also used, the UK Banking Act still requires the Authorities to respect the hierarchy on insolvency when using the write-down and conversion power. Further, holders of debt instruments which are subject to the power may, however, have ordinary shares transferred to or issued to them by way of compensation.

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

The Netherlands – NWM N.V.

The BRRD and the SRM provide the SRB and DNB (the 'N.V. Authorities', and together with the UK Authorities, the 'Authorities') with substantial powers to resolve and stabilise financial institutions incorporated in the Netherlands. The N.V. Authorities are responsible for resolution in relation to RBS Holdings N.V. and its subsidiaries (including NWM N.V.).

As a result, the SRB assumes direct resolution responsibility for NWM N.V. Group, while DNB participates in the planning and execution of resolution measures in coordination with the SRB within the SRM framework. The N.V. Authorities have broad powers to implement resolution measures with respect to financial institutions incorporated in the Netherlands which meet the conditions for resolution, which may include (without limitation) measures analogous to the Resolution Stabilisation Tools (options set out at points (i) to (iv) above under the UK Banking Act). These powers and tools are designed to be used prior to the point at which any insolvency proceedings with respect to NWM N.V. could have been initiated.

In addition to the resolution powers of the N.V. Authorities described above, the Dutch Minister of Finance may, with immediate effect, take measures or expropriate assets and liabilities of, claims against or securities issued by or with the consent of NWM N.V., if in the Minister of Finance's opinion, the stability of the financial systems is in serious and immediate danger as a result of the situation in which the firm finds itself (the 'Minister of Finance Powers').

There remains uncertainty regarding the ultimate nature and scope of these powers, and any exercise of the resolution regime powers by the N.V. Authorities or the Minister of Finance Powers may adversely affect holders of NWM N.V.'s Eligible Liabilities that fall within the scope of such powers.

If NatWest Group is at or is approaching the point such that regulatory intervention is required, there may correspondingly be a material adverse effect on NWM N.V. 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 NWM N.V. 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. In June 2022 the Bank of England's assessment of NatWest Group's preparations did not identify any shortcomings, deficiencies or substantive impediments but did highlight two areas as requiring further enhancements. NatWest Group could be adversely affected should future Bank of England assessments deem NatWest Group's preparations to be inadequate.

If any future Bank of England assessment identifies 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 cost and the dedication of additional resources. These actions may have an impact on NatWest Group (and NWM N.V. Group) as, depending on the Bank of England's assessment, potential action may include, but is not limited to, resulting in restrictions on maximum individual and aggregate exposures, a requirement to dispose of specified assets, a requirement to change legal or operational structure, a requirement to cease carrying out certain activities and/or to maintain a specified amount of MREL. This may also impact NatWest Group's (and NWM N.V. Group's) strategic plans and may lead to a loss of investor confidence. Additionally, DNB and the SRB may exercise similar powers if the recovery and resolution plans of NWM N.V. Group are not satisfactory.

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

Climate and sustainability-related risks

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

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

Climate and sustainability-related risks may:

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

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

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

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

Climate-related risks represent a source of systemic risk in the global financial system. The financial impacts of climate-related risks are expected to be widespread and may disrupt the orderly functioning of financial markets and have an adverse effect on financial institutions, including NWM N.V. Group.

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

To meet the goals of the 2015 Paris Agreement, the EU's and the Netherlands' climate policy and the UK's Net Zero Strategy will require a net-zero transition across all sectors of the economy and markets in which NWM N.V. Group operates. The impacts of the extensive social, commercial, technological, policy and regulatory changes required to achieve this transition remain uncertain but are expected to be significant, subject to continuous changes and developments and may be disruptive across the global economy and markets, especially if these changes do not occur in an orderly or timely manner or are not effective in reducing emissions sufficiently in a timely manner, or at all. NWM N.V. Group's business and customers in some sectors, including but not limited to residential mortgages, commercial real estate, agriculture (primary farming), automotive manufacturing, aviation, shipping, land transport and logistics (freight road, passenger rail and road), electricity generation and oil and gas are expected to be particularly impacted. The timing and pace of the net-zero transition is also uncertain, will depend on many factors and uncertainties and may be near term, gradual and orderly, or delayed, rapid and disorderly, or a combination of these.

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

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

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

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

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

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

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

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

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

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

NatWest Group has an ambition to become a leading bank in the UK, helping to address the climate challenge. At NatWest Group's Annual General Meeting in April 2022, ordinary shareholders passed an advisory 'Say on Climate' resolution endorsing NatWest Group's previously announced strategic direction on climate change, including its ambitions to at least halve the climate impact of its financing activity by 2030, achieve alignment with the 2015 Paris Agreement and reach net zero across its financed emissions, assets under management and operational value chain by 2050. Further, in December 2022, NatWest Group published its science-based targets validated by Science Based Target Initiative for 79% of its lending book as at 31 December 2019 and 57% of debt securities and equity shares, excluding sovereign debt securities.

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

Making the changes necessary to contribute to achieving NatWest Group's strategic direction on climate change, including contributing to achieve NatWest Group's climate ambitions and targets and contributing to execute NatWest Group's transition plan, together with the active management of climate and sustainability-related risks and other regulatory, policy and market changes, is likely to necessitate material changes to NWM N.V. Group's business, operating model, its existing exposures and the products and services NWM N.V. Group provides to its customers (potentially on accelerated timescales). NWM N.V. Group may be required to (i) significantly reduce its financed emissions and its exposure to customers that do not align with a transition to net zero or do not have a credible transition plan in place and (ii) divest or discontinue certain activities for regulatory or legal reasons or in response to the transition to a less carbon-dependent economy. Increases in lending and financing activities may wholly or partially offset some or all these reductions, which may increase the extent of changes and reductions necessary.

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

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

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

NatWest Group (including NWM N.V. Group) has also stated that it plans to phase-out coal for UK and non-UK customers who have UK coal production, coal fired generation and coal related infrastructure by 1 October 2024, with a full global phase-out by 1 January 2030. Data challenges, particularly the lack of granular customer information, creates challenges in identifying customers with 'coal related infrastructure' (e.g. transportation and storage) and other customers with 'coal- related operations' within NatWest Group's (including NWM N.V. Group) large and diversified customer portfolios. Therefore, there is a risk that some customers with UK-based coal activities may not have been identified and that NatWest Group (including NWM N.V. Group) will not be able to identify all relevant activities to achieve these coal phase-out plans.

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

There are significant limitations related to accessing accurate, reliable, verifiable, auditable, consistent and comparable climate and other sustainability-related data that contribute to substantial uncertainties in accurately modelling and reporting on climate and sustainability information, as well as making appropriate important internal decisions.

Meaningful reporting of climate and sustainability-related risks and opportunities and their potential impacts and related metrics depends on access to accurate, reliable, verifiable, auditable, consistent and comparable climate and sustainability-related data from counterparties (including suppliers) or customers. Data may not be generally available or, if available, may not be accurate, reliable, verifiable, auditable, consistent, or comparable.

Any failure of NWM N.V. Group to proportionately collect or develop accurate, reliable, verifiable, auditable, consistent and comparable counterparty (including supplier) and customer data, may adversely affect NWM N.V. Group's ability to prepare meaningful reporting which is relevant, represented in an accurate, verifiable, comparable and understandable way of the climate and sustainability-related risks and opportunities, which may adversely affect NWM N.V. Group's ability to meet external disclosure obligations and its reputation, business and its competitive position.

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

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

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

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

As a result, NWM N.V. Group's climate and sustainability-related disclosures may be amended, updated or restated in the future as the quality and completeness of NWM N.V. Group's data and methodologies continue to improve. These data quality challenges, gaps and limitations may have a material impact on NWM N.V. Group's ability to make effective business decisions about climate and sustainability-related risks and opportunities, including risk management decisions, to comply with disclosure requirements and to monitor and report progress in meeting ambitions, targets and pathways.

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

The evaluation of climate-related risk exposure and the development of associated potential risk mitigation techniques largely depend on the choice of climate scenario modelling methodology and the assumptions made which involves a number of risks and uncertainties, for example:

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

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

Accordingly, these risks and uncertainties coupled with significantly long timeframes make the outputs of climate-related risk modelling, climate-related targets (including emission reduction targets) and pathways, inherently more uncertain than outputs modelled for traditional financial planning cycles based on historical financial information. Furthermore, there is a lack of scientific, industry and regulatory consensus regarding the appropriate metrics, methodologies, modelling and standardised reporting to enable the assessment of the location, acuteness, and severity of climate-related risks and the monitoring and mitigation of these risks in the economy and financial system. There is increasing industry concern (acknowledged by the Network for Greening the Financial System) that model scenarios, including those provided by central banks and supervisory bodies and are too benign and may not adequately capture: (i) the financial implications of increasing frequency and severity of acute physical risks as global temperatures increase; (ii) second and third order impacts such as disruptions to supply chains and increased geo-political risks; nor (iii) possible 'tipping points' that could lead to large, irreversible changes in the climate system (for example the melting of permafrost or the Greenland and Antarctic ice sheets).

Capabilities within NWM N.V. Group to appropriately assess, model, report and manage climate related risks and impacts and the suitability of the assumptions required to model and manage climate-related risks appropriately continue to develop. But such development is still in its early stages. Even when those capabilities are appropriately developed, the high level of uncertainty regarding any assumptions modelled, the highly subjective nature of risk measurement and mitigation techniques, incorrect or inadequate assumptions and judgements and data quality gaps and limitations may lead to inadequate risk management information and frameworks, or ineffective business adaptation or mitigation strategies or regulatory non-compliance all of which may have a material adverse effect on NWM N.V. Group's business, future results, financial condition, prospects, reputation and the price of its securities.

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

The UK's prudential regulation of climate-related risk management is an important driver in how NatWest Group (including NWM N.V. 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.

European Union and the Netherlands

NWM N.V. Group is subject to regulatory developments in the EU and the Netherlands.

In November 2020, the ECB published its 'Guide on climate-related and environmental risks' ('ECB Guide') which laid down the ECB's expectations for each supervised entity in relation to climate-related and environmental risks. In November 2022, the ECB published its 'Good practices for climate-related and environmental risk management' which shared observations and good practices illustrating the different ways that significant institutions could align their practices with the supervisory expectations set out in the ECB Guide.

In April 2023, the ECB published 'The importance of being transparent - A review of climate-related and environmental risks disclosures practices and trends', in which it assessed the state of adherence to the ECB Guide by institutions and shared best practices. On 23 January 2024, the ECB published the report 'Risks from misalignment of banks' financing with the EU climate objectives' focusing on the transition risks stemming from banks' credit portfolios.

The ECB expects institutions to have met its supervisory expectations for climate and environmental risks in governance, strategy and risk management (including on capital adequacy and stress testing by the end of 2024 and has set various intervening deadlines before the end of 2024. The ECB has expressed its readiness to enforce the abovementioned deadline with all the instruments at its disposal, including imposing periodic penalty payments or bank-specific capital add-ons.

In June 2021, the European Banking Authority ('EBA') published its 'Report on Environmental, Social and Governance risk management and supervision' in which it highlighted the prudential view and expectations regarding financial institutions' management of ESG risks as part of their strategy, governance, risk management and reporting practices.

In January 2022, the EBA published its final draft implementing technical standards on Pillar 3 disclosures on ESG risks which from 28 June 2022 apply to large institutions that have securities traded on a regulated market of an EU member state (including NWM N.V. Group) and require them to disclose information on their exposure to ESG-related risks and the actions they take to mitigate those risks, as well as metrics including their Green Asset Ratio (to be disclosed for the financial year ending 2023) and the Banking Book Taxonomy Alignment Ratio (to be disclosed for the financial year ending 2024). On 18 January 2024, the EBA launched a public consultation open until 18 April 2024 on draft guidelines on the management of ESG risks, which set out requirements for institutions for the identification, measurement, management and monitoring of ESG risks, including through plans aimed at addressing the risks arising from the transition towards an EU climate-neutral economy.

In March 2023, DNB, the Netherlands' central bank, published its 'Guide to managing climate and environmental risks' which provided financial undertakings with focal points and best practices for managing climate-related and environmental risks, including considerations for integrated risk management in areas such as business models, strategies, governance, risk management and information dissemination.

In June 2020, the Dutch Authority for the Financial Markets in the Netherlands (Stichting Autoriteit Financiële Markten ('AFM')) published its position paper on sustainability. In this position paper the AFM described what it expected from market parties when it comes to sustainability and how the AFM would be supervising this. The AFM confirmed, amongst others, that:

- a sustainable economy and society is a supervisory priority of the AFM and is increasingly becoming an integral part of its supervision strategy; and
- it expects market participants to integrate sustainability aspects in a responsible and careful manner in their financial products and services.

The UK

In the UK, the Bank of England's Supervisory Statement 3/19 on the management of climate-related financial risks, covering governance, risk management, scenario analysis and disclosure which sets out expectations that firms, such as NatWest Group (including NWM N.V. Group), take a strategic approach to managing climate-related financial risks, identifying current risks and those that can plausibly arise in the future, and appropriate actions to mitigate those risks. In March 2023 the Bank of England published a report setting out its latest thinking on climate-related risks and regulatory capital frameworks. It found there to be uncertainty over whether banks are sufficiently capitalised for future climate-related losses and it stated that it will undertake further analysis to explore whether changes to the regulatory capital frameworks may be required.

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

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

NWM N.V. Group may be subject to EU and Dutch climate and sustainability laws and regulations, such as the EU Taxonomy, the EU Corporate Sustainability Reporting Directive, the EU Green Bond Standard, the proposed EU Corporate Sustainability Due Diligence Directive and other legal, regulatory and supervisory expectations relating to climate-related and environmental risk management and disclosure. The ECB, AFM, and DNB are also increasingly focused on climate change and sustainability and have announced good practices and supervisory expectations relating to these topics. As a result, an increasing number of laws, regulations and legislative actions, including proposals, guidance, policy and regulatory initiatives many of which have been introduced or amended recently and are subject to further changes, is likely to affect the financial sector and the wider economy. A failure of NWM N.V. Group to comply with these regulations, whether through insufficient resources, expertise, support, customer and counterparty data challenges or otherwise may have an adverse effect on NWM N.V. 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 , Dutch and other climate and sustainability-related legal and regulatory requirements and their interpretation may increase the cost of doing business (including increased operating costs), may result in contentious regulatory and litigation risk, may require changes to NWM N.V. Group's business and may restrict NWM N.V. Group's access to the EU/EEA and US capital markets. Failure to comply with these divergent legal and regulatory requirements which are applicable to NWM N.V. Group may result in NWM N.V. Group and its subsidiaries not meeting applicable regulatory requirements or investors' expectations.

Compliance with these complex and evolving climate and sustainability-related legal and regulatory requirements and voluntary standards and initiatives is likely to require NWM N.V. Group to implement significant changes to its business models, IT systems, products, governance, internal controls over financial reporting, disclosure controls and procedures, modelling capability and risk management systems, which may increase the cost of doing business, result in higher capital requirements, and entail additional change risk and increased compliance, regulatory sanctions, conduct and litigation (including settlements) costs.

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

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

Misrepresenting or over-emphasising the extent to which an investment or other type of product takes into account 'green', 'environmentally friendly', 'sustainable' or 'ethical' features and concerns, using misleading labels and language in relation to such products and/or omitting material information about NWM N.V. 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 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 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. In June 2023, the European Supervisory Authorities (the EBA, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) published their Progress Reports on Greenwashing in the financial sector, in which they set out a common high-level understanding of greenwashing applicable to market participants across their respective remits (banking, insurance and pensions and financial markets). In the Netherlands, in October 2023 the AFM published its Guidelines on Sustainability Claims in which it provided tools to financial institutions and pension providers on how to make correct, clear and non-misleading sustainability claims.

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

Any failure of NWM N.V. Group to implement robust and effective climate and sustainability-related disclosure, communications and product governance policies, procedures and controls to make accurate public statements and claims about how environmentally friendly, sustainable or ethical NWM N.V. Group's products and services are and to apply these in line with applicable legal and regulatory requirements and expectations, may adversely affect NWM N.V. Group's regulatory compliance and/or reputation and could give rise to increased regulatory enforcement, investigation and litigation.

NWM N.V. Group may be subject to potential climate and other sustainability-related litigation, enforcement proceedings, investigations and conduct risk.

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

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

- failure to meet obligations, targets or commitments relating to, or to disclose accurately, or provide updates on material climate and/or sustainability-related risks, or otherwise provide appropriate, balanced, clear, complete, correct, fair, meaningful, understandable disclosure (which is capable of being substantiated) to investors, customers, counterparties (including suppliers) and other stakeholders;
- conduct, mis-selling and customer protection claims, including claims which may relate to alleged insufficient product understanding, unsuitable product offering and /or reliance upon information provided by NWM N.V. Group or claims alleging unfair pricing of climate-related products, for example in relation to products where limited liquidity or reliable market data exists for benchmarking purposes or which may be impacted by future climate policy uncertainty or other factors;
- marketing that portrays products, securities, activities or policies as having positive climate, nature-related or sustainable outcomes to an extent that may not be the case, or may not adequately be qualified and/or omits material information about NWM N.V. Group's contribution to the climate crisis and/or its direct / indirect contribution to greenhouse gas emissions or other sustainability-related issues;
- damages claims under various tort theories, including common law public nuisance claims, or negligent mismanagement of physical and/or transition risks;
- alleged violations of officers', directors' and other fiduciaries' duties, for example by financing various carbon-intensive, environmentally harmful or otherwise highly exposed assets, companies, and industries;
- changes in the understanding of what constitutes positive climate, nature-related or sustainable outcomes as a result of developing climate science, leading to discrepancy between current product offerings and investor and/or market and/or broader stakeholder expectations;
- any weaknesses or failures in specific systems or processes associated particularly with climate, nature-related or sustainability linked products, and/or human rights due diligence, including any failure in the timely implementation, onboarding and/or updating of such systems or processes;
- counterparties, collaborators, customers to whom NWM N.V. Group provides services and third parties in NWM N.V. Group's value chain who act, or fail to act, or undertake due diligence, or apply appropriate risk management and product governance in a manner that may adversely affect NWM N.V. Group's reputation or sustainability credentials; or
- NWM N.V. Group's or its customers', counterparties' (including suppliers') involvement in, or decision not to participate in, certain industries or projects associated with causing or exacerbating climate change and nature-related degradation.

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

There is an increase in the number of legal, conduct and regulatory claims, as well as an increase in the variety of legal bases being alleged, remedies sought and amount of damages awarded in legal, conduct and regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions for climate and sustainability matters. There is a risk that as climate, nature-related and environmental science develop and societal understanding of these issues increases and deepens, courts, regulators and enforcement authorities may apply the then current understandings of climate and the broader sustainability-related matters retrospectively when assessing claims about historical conduct or dealings of financial institutions, including NWM N.V. Group.

There is also an increase in enforcement and litigation focusing on challenging public and private sector sustainability policies and initiatives intended to address climate change and nature-related degradation. See also, '*NWM N.V. Group is exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group.*' In addition, supervisors and regulators are increasing their enforcement focus on climate and environmental matters. For example, the ECB has stated that enforcement measures in the form of periodic penalty payments may be imposed on banks that do not fully align with ECB supervisory expectations of sound practices for managing climate and environmental risks.

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

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

ESG ratings from agencies and data providers which rate how NatWest Group (including NWM N.V. Group) or NWM N.V. 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 NWM N.V. Group) or NWM N.V. Group by the relevant rating agency; and (v) may depend on many factors some of which are beyond NatWest Group's and NWM N.V. Group's control (e.g. any change in rating methodology). In addition, NWM N.V. Group and certain of its subsidiaries offer and sell products and services to customers and counterparties based exclusively or largely on a rating by an unregulated ESG rating agency or data providers. ESG rating agencies, at this stage, are not subject to any specific regulatory or other regime or oversight (although there are proposals by regulators in different jurisdictions to regulate rating agencies and data providers). Regulators have expressed concern that harm may arise from potential conflicts of interest within ESG rating and review or second party opinion providers and there is a lack of transparency in methodologies and data points, which renders ratings and reviews incomparable between agencies or providers. Any material reduction in the ESG ratings of NatWest Group (including NWM N.V. Group) or NWM N.V. Group may have a negative impact on NWM N.V. Group's reputation, could influence investors' risk appetite for NWM N.V. Group's and/or its subsidiaries' securities, particularly ESG securities, could potentially affect the pricing of securities issued by NWM N.V. Group and/or its subsidiaries and could affect a

customer's willingness to deal with NWM N.V. Group. A regulatory sanction or enforcement action involving an ESG rating agency used by a NWM N.V. Group entity could also have a negative impact on NWM N.V. Group's reputation.

Operational and IT resilience risk

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

Operational risk is the risk of loss or disruption resulting from inadequate or failed internal processes, procedures, people or systems, or from external events, including legal and regulatory risks, third party processes, procedures, people or systems. NWM N.V. Group operates in a number of countries, offering a diverse range of products and services supported directly or indirectly by third party suppliers. As a result, operational risks or losses can arise from a number of internal or external factors (including, for example, payment errors or financial crime and fraud), for which there is continued scrutiny by third parties on NWM Group's compliance with financial crime requirements; see '*NWM N.V. Group and NWM Plc are exposed to the risk of various litigation matters, regulatory and governmental actions and investigations as well as remedial undertakings, the outcomes of which are inherently difficult to predict, and which could have an adverse effect on NWM N.V. Group*').

These risks are also present when NWM N.V. Group relies on NatWest Group, NWM Group, critical service providers (suppliers) or vendors to provide services to it or its clients, as is increasingly the case as NWM N.V. Group outsources certain activities, including with respect to the implementation of technologies, innovation and responding to regulatory and market changes. Furthermore, NWM N.V. is subject to the EBA guidelines on outsourcing arrangements. If the systems and services provided by NatWest Group, NWM Group or any third party do not comply with such EBA requirements, there is a risk of increase in operational and compliance costs, which may negatively affect NWM N.V. Group's business continuity and reputation.

Operational risks continue to be heightened as a result of the implementation of NatWest Group's strategy, and the organisational and operational changes involved, including NatWest Group's phased withdrawal from RoI, NatWest Group's current cost-controlling measures, the progression towards working as One Bank across NatWest Group to serve customers and conditions affecting the financial services industry generally (including macroeconomic and other geopolitical developments) as well as the legal and regulatory uncertainty resulting from these conditions. It is unclear as to how the future ways of working may further evolve, including in respect of how working practices may develop, or how NWM N.V. Group will evolve to best serve its customers. Any of the above may place significant pressure on NWM N.V. Group's ability to maintain effective internal controls and governance frameworks.

In recent years, NWM Group (including NWM N.V. Group) has materially increased its dependence on NatWest Bank Plc for numerous critical services and operations, including without limitation, property, finance, accounting, treasury, legal, risk, regulatory compliance and reporting, financial crime, human resources, and certain other support and administrative functions. In addition, NWM N.V. Group has materially increased its dependence on NWM Plc for numerous critical services similar to those outlined above and for certain sales activities, which due to their complexities could potentially trigger regulatory, tax, reputational, financial crime and conduct risks. A failure by NatWest Bank Plc or NWM Plc to adequately supply these services may expose NWM N.V. Group to critical business failure risk, increased costs and other liabilities. These and any increases in the cost of these services may adversely affect NWM N.V. Group.

The effective management of operational risks is critical to meeting customer service expectations and retaining and attracting client business. Although NWM N.V. Group has implemented risk controls and mitigation actions, with resources and planning having been devoted to mitigate operational risk, such measures may not be effective in controlling each of the operational risks faced by NWM N.V. Group. Ineffective management of such risks may adversely affect NWM N.V. Group.

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

NWM N.V. Group is subject to sophisticated and frequent cyberattacks.

NWM N.V. Group experiences a constant threat from cyberattacks across the entire NatWest Group (including NWM N.V. Group) and against NatWest Group and NWM N.V. Group's supply chain, reinforcing the importance of due diligence of close working relationship with, the third parties on which NWM N.V. Group relies. NWM N.V. Group is reliant on technology, against which there is a constantly evolving series of attacks, that are increasing in terms of frequency, sophistication, impact and severity. As cyberattacks evolve and become more sophisticated, NWM N.V. Group is required to continue to invest in additional capability designed to defend against emerging threats. In 2023, NatWest Group and its supply chain were subjected to a small number of Distributed Denial of Service and ransomware attacks, which are a pervasive threat to the financial services industry (including NWM N.V. Group). The focus is to manage the impact of the attacks and sustain availability of services for NWM N.V. Group's customers. Consequently, NWM N.V. Group continues to invest significant resources in developing and evolving of cybersecurity controls that are designed to minimise the potential effect of such attacks.

Third parties continue to make hostile attempts to gain access to, introduce malware (including ransomware) into and exploit potential vulnerabilities of NWM N.V. Group's IT systems. NWM N.V. 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 any attack from occurring. See also, '— '*NWM N.V. Group's operations are highly dependent on its complex IT systems, and any IT failure could adversely affect NWM N.V. Group*'.

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

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

Group's clients or employees. Cybersecurity and information security events can derive from groups or factors such as: internal or external threat actors, human error, fraud or malice on the part of NWM N.V. Group's employees or third parties, including third party providers, or may result from technological failure.

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

In accordance with the Data Protection Act 2018 and the European Union Withdrawal Act 2018, the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2019, as amended by the Data Protection, Privacy and Electronic Communications (Amendments Etc.) (EU Exit) Regulations 2020 ('UK Data Protection Framework'), and the EU General Data Protection Regulation ('EU GDPR'), NWM N.V. Group is required to ensure it implements timely appropriate and effective organisational and technological safeguards against unauthorised or unlawful access to the data of NWM N.V. Group, its clients and its employees. In order to meet this requirement, NWM N.V. Group relies on the effectiveness of its internal policies, controls and procedures to protect the confidentiality, integrity and availability of information held on its IT systems, networks and devices as well as with third parties with whom NWM N.V. Group interacts.

A failure to monitor and manage data in accordance with the UK Data Protection Framework, the EU GDPR and EBA requirements of the applicable legislation may result in financial losses, regulatory fines and investigations and associated reputational damage.

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

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

NWM N.V. Group relies on the effective use of accurate data to support, monitor, evaluate, manage and enhance its operations, innovate its products offering, meet its regulatory obligations, and deliver its strategy. Investment is being made in data tools and analytics, including raising awareness around ethical data usage (for example, in relation to the use of artificial intelligence) and privacy across NWM N.V. Group. The availability and accessibility of current, complete, detailed, accurate and, wherever possible, machine-readable customer segment and sub-sector data, together with appropriate governance and accountability for data, is fast becoming a critical strategic asset, which is subject to increased regulatory focus. Failure to have or be able to access that data or the ineffective use or governance of that data could result in a failure to manage and report important risks and opportunities or satisfy customers' expectations including the inability to deliver products and services. This could also result in a failure to deliver NWM N.V. Group's strategy and could place NWM N.V. Group at a competitive disadvantage by increasing its costs, inhibiting its efforts to reduce costs or its ability to improve its systems, controls and processes which could result in a failure to deliver NWM N.V. 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 NWM N.V. Group's future results, financial condition, prospects, and/or reputation.

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

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

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

This increases the cost of hiring, training and retaining diverse skilled personnel. In addition, certain economic, market and regulatory conditions and political developments may reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or may increase the number of departures of existing employees. Moreover, a failure to foster a diverse and inclusive workforce may adversely affect NWM N.V. Group's employee engagement and the formulation and execution of its strategy and could also have a negative effect on its reputation with customers, investors and regulators.

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

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

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

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

Individually or collectively, any system failure, loss of service availability or breach of data security could potentially cause significant damage to (i) important business services across NWM N.V. Group and (ii) NWM N.V. Group's ability to provide services

to its clients, which could result in reputational damage, significant compensation costs and regulatory sanctions (including fines resulting from regulatory investigations) or a breach of applicable regulations and could affect NWM N.V. Group's regulatory approvals, competitive position, business and brands, which could undermine its ability to attract and retain customers and talent. NWM N.V. Group outsources certain functions as it innovates and offers new digital solutions to its clients to meet the demand for online and mobile banking. Outsourcing, alongside hybrid working patterns of NWM N.V. Group employees heighten the above risks.

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

In 2023, NWM N.V. Group made considerable investments to further simplify, upgrade and improve its IT and technology capabilities (including migration of certain services to cloud platforms). As part of NWM's strategy, NWM Group, including NWM N.V. Group, also continues to develop and enhance digital services for its customers and seeks to improve its competitive position through enhancing controls and procedures and strengthening the resilience of services including cyber security.

Any failure of these investment and rationalisation initiatives to achieve the expected results, due to cost challenges or otherwise, may adversely affect NWM Group's operations, its reputation and ability to retain or grow its client business or adversely affect its competitive position, thereby negatively impacting NWM N.V. Group. See also, '*— NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's strategy and NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change*'.

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

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

Risk management is an integral part of all of NWM N.V. Group's activities and integral to the delivery of its long-term strategy. NatWest Group's Enterprise- Wide Risk Management Framework sets out NWM Group's (including NWM N.V. Group) approach for managing risk within NWM N.V. 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, may adversely affect NWM N.V. Group's financial condition and strategic delivery including in relation to operating within agreed risk appetite statements and accurate reporting on risk exposures.

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

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

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

NWM N.V. Group's businesses are also exposed to risks from employee, contractor or services provider misconduct including non-compliance with policies and regulations, negligence or fraud (including financial crimes and fraud), any of which could result in regulatory fines or sanctions and serious reputational or financial harm to NWM N.V. Group. Hybrid working arrangements for NWM N.V. Group employees place heavy reliance on the IT systems that enable remote working and may place additional pressure on NWM N.V. Group's ability to maintain effective internal controls, 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.

NWM N.V. Group seeks to embed a risk awareness culture across the organisation and has implemented policies and allocated new resources across all levels of the organisation to manage and mitigate conduct risk and expects to continue to invest in risk management, including the ongoing development of a NatWest Group risk management strategy in line with regulatory expectations. However, such efforts may not insulate NWM N.V. Group from instances of misconduct and no assurance can be given that NWM N.V. Group's strategy and control framework will be effective. See also, '*— NWM Group (including NWM N.V. Group) has been in a period of significant structural and other change, including as a result of NatWest Group's strategy and*

NatWest Group's recent creation of its C&I business segment (of which NWM Group forms part) and may continue to be subject to significant structural and other change'. Any failure in NWM N.V. Group's risk management framework may adversely affect NWM N.V. Group and its financial condition through reputational and financial harm and may result in the inability to achieve its strategic objectives for its clients, employees and wider stakeholders.

There is also the risk that the risk management frameworks, as developed by NatWest Group and NWM Group, may not be properly adapted for NMW N.V.'s specific circumstances. Ahead of a regulatory audit a self-identified governance shortfall has been identified related to regulatory reporting process management. Furthermore, NWM N.V. has policies and controls in place to prevent and detect financial crime and has invested in technology and capability to enhance financial crime controls. Although NWM N.V. head office is located in Amsterdam (where NWM N.V. risk management function is based), it also operates branches in France, Germany, Italy, and Sweden. Should such risk policies and controls be inadequate to combat financial crime, particularly in NWM N.V., branches (where there is less direct supervision) there could be an adverse impact on NWM N.V.

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

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

Reputational risk relates to stakeholder and public perceptions of NWM N.V. Group arising from an actual or perceived failure to meet stakeholder or the public's expectations, including with respect to NatWest Group's strategy and related targets, NWM Group's strategy, the progression towards working as One Bank across the NatWest Group to serve customers, or due to any events, behaviour, action or inaction by NWM N.V. Group, its employees or those with whom NWM N.V. Group is associated. See also, *'NWM N.V. Group's businesses are subject to substantial regulation and oversight, which are constantly evolving and may adversely affect NWM N.V. Group.'* This includes harm to its brand, which may be detrimental to NWM N.V. Group's business, including its ability to build or sustain business relationships with clients, stakeholders and regulators, and may cause low employee morale, regulatory censure or reduced access to, or an increase in the cost of, funding.

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

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

Although NWM N.V. Group has implemented a Reputational Risk Policy identify, measure and manage material reputational risk exposures, NWM N.V. Group cannot be certain that it will be successful in avoiding damage to its business from reputational risk.

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

Legal, regulatory and conduct risk

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

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

In particular, NWM N.V. Group is subject to (i) direct prudential supervision by DNB and the ECB; (ii) direct market conduct supervision by the AFM and indirect market conduct supervision by the ESMA; and (iii) supervision by DNB, as home state supervisor, in respect of NWM N.V. Group's branch offices in France, Germany, Italy, and Sweden, and to supervision by local regulators in these jurisdictions, as host state supervisors, in respect of certain regulatory aspects of NWM N.V. Group's branch offices' operations that are subject to host state supervision (e.g. anti-money laundering laws). NWM N.V. Group expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Prudential regulatory requirements: 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 Netherlands, the EU proposed reform of bank crisis management and deposit insurance framework, 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. This has resulted in NWM N.V. Group facing greater regulation and scrutiny in the Netherlands and the other countries in which it operates.

In addition, there is significant oversight by competition authorities of the jurisdictions in which NWM N.V. Group operates. The competitive landscape for banks and other financial institutions in Europe, the UK and the US is rapidly changing. Recent regulatory and legal changes have and may continue to result in new market participants and changed competitive dynamics in certain key areas. Regulatory and competition authorities, including the CMA,

are also looking at and focusing more on how they can support competition and innovation in digital and other markets.

Recent regulatory changes and heightened levels of public and regulatory scrutiny in Europe, the UK, Asia 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.

Regulatory requirements:

Recent regulatory changes and heightened levels of public and regulatory scrutiny in the EU 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 offering and business models. For example, NWM N.V. Group is required to ensure operational continuity in resolution; the steps required to ensure such compliance entail significant costs, and also impose significant operational, legal and execution risk. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

On 1 January 2024 the ECB replaced DNB as the regulator of NWM N.V. due to NWM N.V. becoming a 'significant institution' as defined by the ECB and more oversight from the ECB is anticipated going forward. This may result in changes to supervision and regulations applicable to NWM N.V. Should NWM N.V. not meet certain supervisory criteria, remedial action or changes to the business may be required. Any such actions or changes may harm the reputation of NWM N.V. Group and may also require additional resources and funds which may need to be diverted from other parts of the business which may, in turn, adversely affect NWM N.V. Group.

Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

Other areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny may adversely affect (some of which could be material) on NWM N.V. Group include, but are not limited to, the following:

- general changes in government, central bank, regulatory or competition policy, or changes in regulatory regimes that may influence investor decisions in the jurisdictions in which NWM N.V. Group operates;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation or appropriation of assets;
- new or increased regulations relating to customer data protection as well as IT controls and resilience, such as the proposed UK Data Protection and Digital Information Bill (No 2) and in India, the Digital Personal Data Protection Bill 2022;
- the introduction of, and changes to, taxes, levies or fees applicable to NWM N.V. Group's operations, which may require increased payments of tax, such as the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*), the introduction of global minimum tax rules, changes in the scope and administration of the Dutch Bank Levy (*bankenbelasting*), changes in tax rates, 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 may reduce the value of deferred tax for certain years;
- 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 banks including NatWest Group (including impact on NWM N.V. Group);
- recent or proposed US regulations around cybersecurity incidents, climate disclosures, and other climate and sustainability-related rules;
- new or increased regulations relating to financial crime (including the new criminal offence of failure to prevent fraud), and
- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act).

Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM N.V. Group's authorisations and licences, the products and services that NWM N.V. Group may offer, its reputation and the value of its assets, NWM N.V. Group's operations or legal entity structure, and the manner in which NWM N.V. Group conducts its business. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

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

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

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

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

- recent or proposed US regulations around cybersecurity incidents, climate disclosures, and other climate and sustainability-related rules;
- new or increased regulations relating to financial crime (including the new criminal offence of failure to prevent fraud), and
- any regulatory requirements relating to the use of artificial intelligence and large language models across the financial services industry (such as the European Union Artificial Intelligence Act).

Any of these developments (including any failure to comply with new rules and regulations) could also have a significant impact on NWM N.V. Group's authorisations and licences, the products and services that NWM N.V. Group may offer, its reputation and the value of its assets, NWM N.V. Group's operations or legal entity structure, and the manner in which NWM N.V. Group conducts its business. Material consequences could arise should NWM N.V. Group be found to be non-compliant with these regulatory requirements.

Regulatory developments may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to NWM N.V. Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required.

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

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

The resolution of significant investigations include NWM Plc's December 2021 spoofing-related guilty plea in the United States, which involves a three-year period of probation, an independent corporate monitor, and commitments to compliance programme reviews and improvements and reporting obligations. Significant ongoing matters include the implementation of recommendations made by the independent corporate monitor aforementioned. For additional information relating to this and other legal and regulatory proceedings and matters to which NWM Group is exposed, see '*Litigation and regulatory matters*' at Note 25 to the NWM Group consolidated accounts.

Recently resolved matters or adverse outcomes or resolution of current or future legal or regulatory actions, could increase the risk of greater regulatory and third-party scrutiny and could have material collateral consequences for NWM Group's (including NWM N.V. Group's) business and result in restrictions or limitations on NWM Group's (including NWM N.V. Group's) operations.

These may include the effective or actual disqualification from carrying on certain regulated activities and consequences resulting from the need to reapply for various important licences or obtain waivers to conduct certain existing activities of NWM N.V. Group, particularly but not solely in the US, which may take a significant period of time and the results and implications of which are uncertain. Disqualification from carrying on any activities, whether automatically as a result of the resolution of a particular matter or as a result of the failure to obtain such licences or waivers could adversely affect NWM N.V. Group's business, in particular in the US. This in turn and/or any fines, settlement payments or penalties may adversely affect NWM N.V. Group's reputation, future results, financial condition and/or prospects. Similar consequences could result from legal or regulatory actions relating to other parts of NatWest Group.

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

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

Other information

Major shareholders

NatWest Markets N.V. is 100% owned by RBS Holdings N.V. In turn, RBS Holdings N.V. is a 100% subsidiary of NatWest Markets Plc.

Stock exchange listings

None of the shares in the NatWest Markets N.V. Group are listed.

Issued share capital

The issued share capital of NWM N.V. consists of 11,112 ordinary shares with a nominal value of €4.50 each.

Dividends

The NatWest Markets N.V. Group's policy is to pay dividends on ordinary shares taking account the capital position and prospects. For further information on the payment of dividends, refer to Note 18 to the consolidated financial statements.

Off-balance sheet arrangements

NatWest Markets N.V. Group has no off-balance sheet arrangements that have or are reasonably likely to have an adverse effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

For further information on off-balance sheet commitments and contingent liabilities see Note 22 to the consolidated financial statements.